Update on the LCP strategic portfolios

April 2025

Strategic portfolios

Run on strategic portfolio

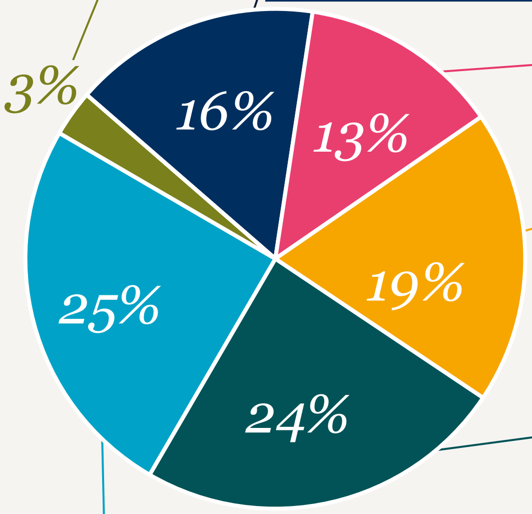
This quarter, we've made no changes to our strategic portfolios (other than a 1% move from opportunistic credit to LDI due to the rolling down of this mandate). In a world that feels increasingly eventful, it can be tempting to respond quickly to headlines. But reacting to the news cycle is rarely a sound basis for long-term decision-making.

One day's headline often becomes yesterday's forgotten story, and we believe it's important to cut through the noise and maintain focus on long-term outcomes. Our portfolios are designed to be robust to market shocks so, given this and the uncertainty that continues to loom, we don't believe now is the time for wholesale strategy changes or knee-jerk investment decisions.

Alternatives	%
Tail-risk protection	3

Equities	%
Synthetic equity protection[1]	10
Low carbon global equities	2
Small cap equities	2
Emerging market equities	2

Real assets	%
Unlisted infrastructure	3
Listed infrastructure	2
Energy transition infrastructure	3
UK core property	2
Long-lease property	3



Higher return credit	%
Opportunistic credit	6
Private credit	5
Infrastructure debt	3
Emerging market debt	3
Multi asset credit	2

Investment grade credit	%
Asset-backed securities	10
Net-zero transition short duration credit	6
Synthetic credit overlay[1]	8

Dynamic LDI	%
Dynamic LDI[1]	25

The yield rise to exhaustion that the LDI portfolio can withstand is about 6% (taking account of other assets within the collateral waterfall[3]).

Key portfolio metrics	
Expected return[2]:	Gilts + 2% pa
Liability hedge ratio:	100% of assets
Unhedged currency exposure:	25% of assets

Low-dependency strategic portfolio

Our low-dependency portfolio is appropriate for well-funded and/or significantly mature schemes and has also been designed to provide flexibility to run-on for a period and/or take advantage of insurance opportunities.

Investment grade credit	%
Enhanced ESG long dated buy & maintain credit[1]	17
Asset-backed securities[1]	15
Net-zero transition short duration credit	9

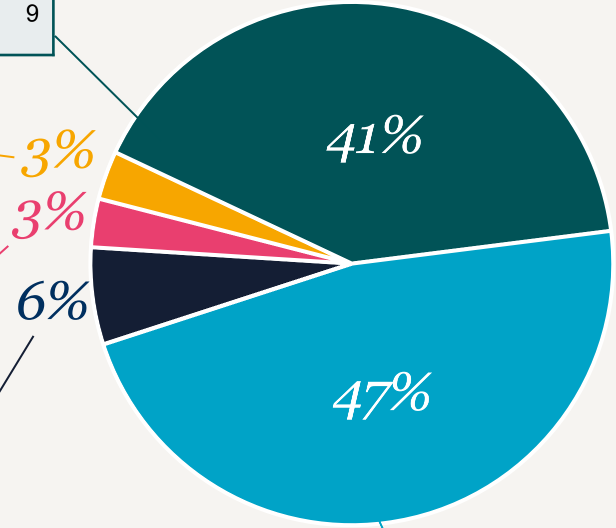
[1]Assets all held within a single bespoke fund and used to support the hedging exposures.

[2]Expected return based on LCP's latest asset class assumptions, which are available upon request.

[3]Current collateral waterfall assets include the bespoke LDI fund and the short duration credit allocation.

Higher return credit	%
Emerging market debt	3

Real assets	%
Listed infrastructure	3



Equities	%
Low carbon global equities	3
UK equities	3

Key portfolio metrics	
Expected return[2]:	Gilts + 1% pa
Liability hedge ratio[3]:	100% of assets
Minimal unhedged overseas currency exposure	

Dynamic LDI	%
Dynamic LDI[1]	47

The LDI portfolio can withstand substantial yield increases (about 9%) before its assets are exhausted.

Our strategic portfolio highlights the latest ideas from LCP's investment strategy and research teams, and how these ideas can be brought together to construct an efficient asset portfolio. This portfolio is relevant for schemes in a number of circumstances, including those that wish to actively run-on and generate significant additional value in a diversified, risk-controlled way.

Strategic portfolio

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How have we positioned our portfolios over the last year?

Run on strategic portfolio	Dec 23	Δ
Synthetic equity protection	10%	-
Low carbon global equities	2%	-
Small cap equities	-	+2%
Emerging market equities	2%	-
Unlisted infrastructure	3%	-
Listed infrastructure	5%	-3%
Energy transition infrastructure	-	+3%
Listed global property	4%	-4%
UK core property	-	+2%
Long-lease property	-	+3%
Opportunistic credit	8%	-2%
Private credit	5%	-
Infrastructure debt	3%	-
Emerging market debt	3%	-
Multi-asset credit	-	+2%
Long dated buy & maintain credit	3%	-3%
Asset-backed securities	13%	-3%
Short duration credit	6%	-
Synthetic credit overlay	12%	-4%
Dynamic LDI	21%	+4%
Tail risk protection – see right for spotlight on this strategy	-	+3%

Introduced an allocation to small cap equities and went underweight to the US in our global portfolio to better diversify the exposure amid high concentration and valuations in large cap equities

Diversified our infrastructure allocation by incorporating an energy transition focus, where we anticipate significant financing needs over the coming years

Rotated from listed global property, locking in strong gains, into UK core property and long-lease property, which had much more attractive entry points

Introduced an allocation to multi-asset credit given spreads on loans had widened whilst valuations for investment grade credit remained expensive

Reduced our allocations to longer-dated credit as we believed spreads offered poor value for money, with the performance outlook skewed to the downside, whilst shorter-dated credit provides better protection against potential spread widening

LDI allocation increased to maintain collateral sufficiency and reflected the reduction in the synthetic credit allocation

As market conditions have tightened and new risks emerged, we have rotated our asset allocation to provide more protection or take advantage of new opportunities

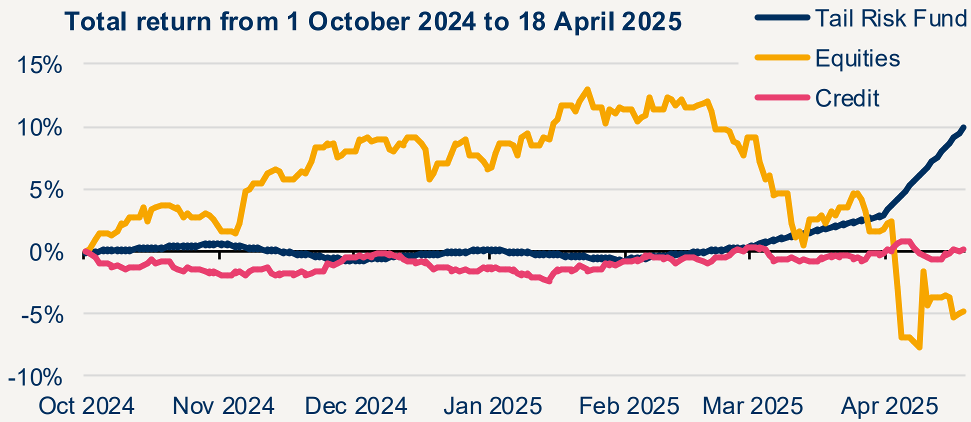
Spotlight on tail-risk protection strategies

During the more benign market conditions in 2023 and 2024, we designed a tail risk hedging strategy, noting that many markets seemed expensive, and there were geopolitical risks on the radar that could spark a risk-off market event.

We didn't know what the catalyst would be, nor when it might occur, so constructed an actively managed strategy designed to hedge against a broad range of market sell-off events. Important within the design was for the "cost" of this "insurance" to be not be excessive and sought to minimise any drag on returns during the normal course of events.

We didn't have to wait very long following the strategy's launch on 1 October 2024: March and April 2025 provided a stern first test. Through to 18 April 2025 the tail risk fund had produced strong positive performance (around +10% after fees).

In the chart we compare the profile of returns versus those for global equity and credit markets.



- The strategy delivered flat returns following President Trump's election win through to February 2025, which implies the cost of insurance was perhaps quite reasonable during a good period for equities.
- As equities fell following the tariff announcements, the fund delivered strong positive returns. Pleasingly, we saw a varying range of positive returns from the underlying sub-strategies reflecting their area of focus, with more modest returns from the credit and foreign exchange focused strategies.
- Managers also showed evidence of "locking-in" gains, with the biggest winners scaling back their risk exposures after seeing strong positive returns.

Source: Stenham Asset Management, Bloomberg. Indices shown are MSCI World Net GBP Index (equities) and Bloomberg Global Aggregate Bond Index GBP Hedged (credit).

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At LCP, our experts help to power possibility by navigating you through complexity to make decisions that matter to your business and to our wider society. We are powered by our desire to solve important problems to create a brighter future. We have market leading capabilities across pensions and financial services, energy, health and analytics.

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