

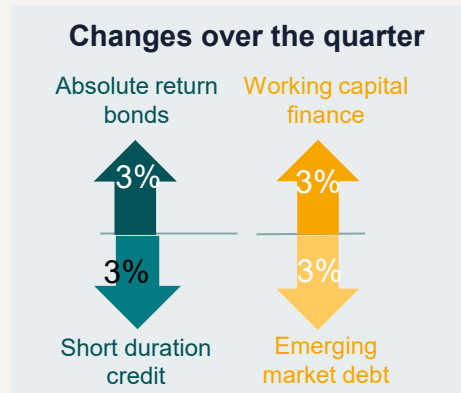
*Update on the LCP
strategic portfolios*

July 2025



Run-on strategic portfolio

We've made the same changes this quarter across both the run-on and low-dependency portfolios, adding absolute return bonds and working capital finance by reducing allocations to short duration credit and emerging market debt respectively.



Alternatives	%
Tail-risk protection	3

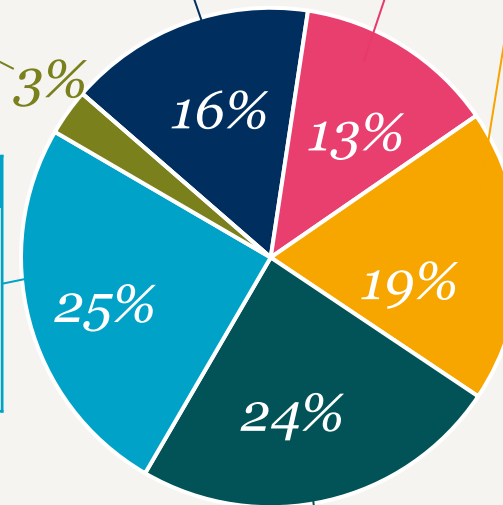
Dynamic LDI	%
Dynamic LDI ¹	25
The yield rise to exhaustion that the LDI portfolio can withstand is about 6% (taking account of other assets within the collateral waterfall ³).	

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
Multi asset credit	2
Emerging market debt	0
Working capital finance	3

This quarter, we removed our allocation to emerging market debt. emerging market debt has benefited from a rally since we added it in Q4 2023 and we are now crystallising these gains, given the potential for US tariff policy to significantly impact emerging markets.



Time to reconsider active bonds?

Yields remain volatile, credit spreads are tight, and the outlook is uncertain. In response, we've been reassessing how best to position our investment grade credit allocation to manage downside risk while remaining ready to take advantage of opportunities, such as a sudden widening of spreads.

We've introduced more active management by switching some of our B&M short duration credit into absolute return bonds. These shorter-dated strategies are typically more actively managed and give managers scope to add value by swiftly dialling up and down portfolio risk in volatile market environments. These managers can take advantage of market dislocations that may be challenging for some investors to take advantage of. See page 6 for our latest credit views.

Investment grade credit	%
Asset-backed securities	10
Net-zero transition short duration credit	3
Synthetic credit overlay ¹	8
Absolute return bonds	3

Key portfolio metrics

Expected return ² :	Gilts + 2% pa
Liability hedge ratio:	100% of assets
Unhedged currency exposure:	25% of assets

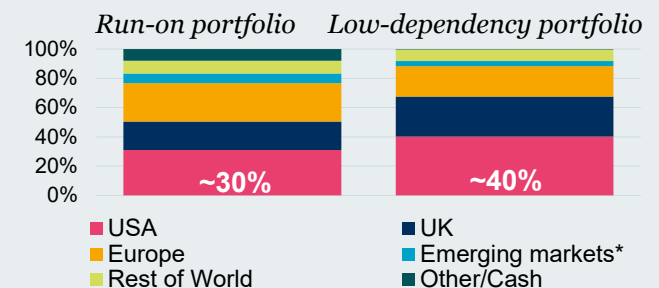
Highlighting US concentration risk

Concentration risk in US assets is increasingly on investors' minds amid uncertainty driven by tariffs and high valuations.

Global equities (and some other asset classes) have a high exposure to the US, and a high exposure to a small number of (mostly tech-focused) stocks. This means increased specific risk to that geography, those sectors and those companies.

We have ensured our growth assets in both our portfolios (ie excluding LDI and investment grade credit) are well diversified across regions, by rebalancing our regional weightings within our synthetic equity, and making an explicit allocation to UK equities in the low-dependency portfolio.

Our US exposure is 30% and 40% - well below the 60%+ weighting typical of a global equity index.



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.

*includes emerging markets, frontier markets, and some standalone markets

Ask your consultant

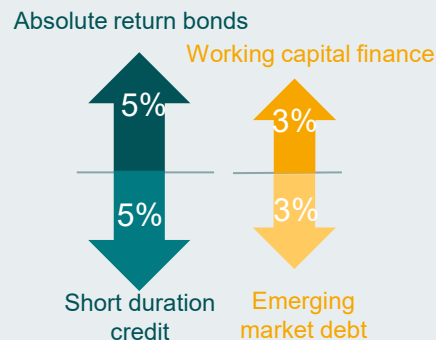
- What is your Scheme's exposure to the US and US \$?



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.

Changes over the quarter



Higher return credit	%
Working capital finance	3

Real assets	%
Listed infrastructure	3

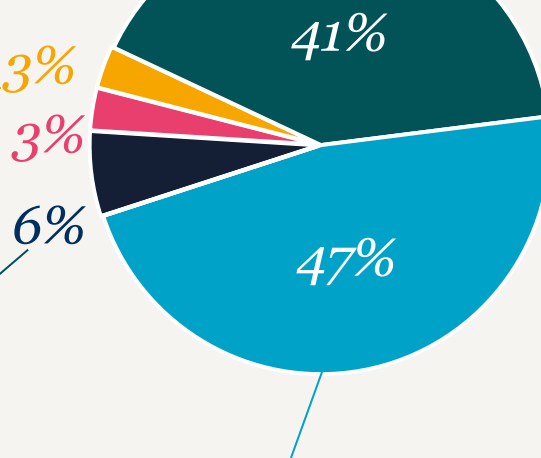
Equities	%
Low carbon global equities	3
UK equities	3

Key portfolio metrics

Expected return ² :	Gilts + 1% pa
Liability hedge ratio:	100%
Minimal unhedged overseas currency exposure	

High grade credit	%
Enhanced ESG long dated buy & maintain credit ¹	17
Asset-backed securities ¹	15
Net-zero transition short duration credit	4
Absolute return bonds	5

Dynamic LDI	%
Dynamic LDI ¹	47
The LDI portfolio can withstand substantial yield increases (about 8%) before its assets are exhausted.	



A new allocation

Working capital finance

Working capital finance is the **financing of goods or services in a transaction**, from a seller through to the buyer.

It bridges the time lag between when a product is sold and when it is paid for...

The **seller typically wants a faster payment**, and the **buyer wants a slower payment** schedule...

Working capital finance bridges this by providing a **faster payment to the seller (at a discount)**, secured on the **future payment of the buyer**.

It's not a new market. This is a well-established credit market historically dominated by multinational banks. However, regulation has prompted banks to take a step back from areas of the market, opening the opportunity to institutional investors.

Our chosen managers have only a **small allocation to international trade**, insulating them from current tariff uncertainty.

Our buy-rated managers have successfully navigated past supply-chain and trade disruptions, such as during the pandemic, and we expect demand for working capital to stay high even amid macroeconomic unrest.

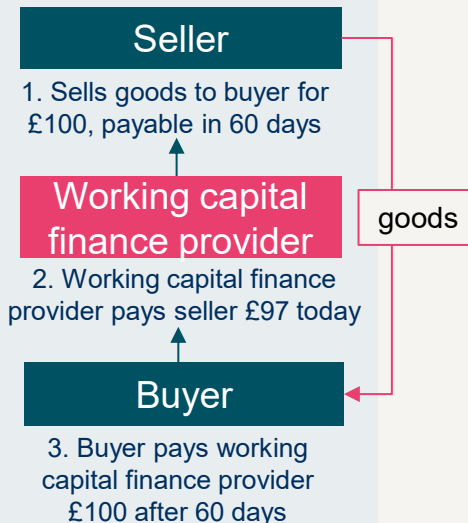
We consider working capital finance to be a good fit for our portfolio as we search for additional returns in an environment where spreads on corporate credit are exceptionally tight, and we wish to improve diversification vs our already sizeable allocation to ABS.

- ✓ Working capital offers **investors additional return compared to equivalently rated corporate credit**, where spreads remain historically tight.
- ✓ Working capital loans **ranks highly versus other debt** in the order of priority for a company. If a business cannot pay its suppliers, it might indicate significant financial distress, so a company will always strive to meet its working capital finance obligations.
- ✓ The short duration (typically 3-6 months) further reduces default risk.
- ✓ Working capital instruments have historically achieved higher recovery rates than bonds of the same credit rating.

Ask your consultant

Is an allocation to working capital finance right for our portfolio?

Transaction example



In this example the finance provider accepts credit risk of the buyer of 60 days and earns £3, reflecting a return of 3.1%

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, cash supporting our synthetic exposures, and the ABS and the net-zero transition short duration credit allocations.

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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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