LCP powering possibility

# *Update on the LCP strategic portfolios*

October 2025

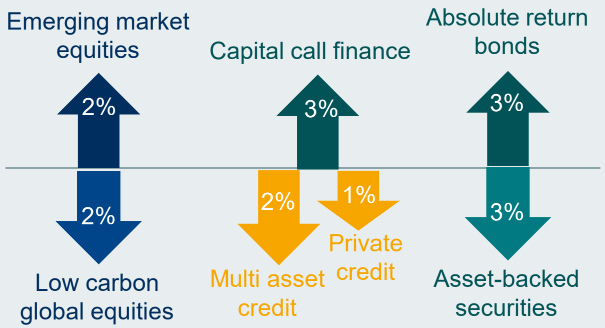
LCP powering possibility

# *Run-on strategic portfolio*

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 investor circumstances, including those that wish to actively run-on and generate significant additional value in a diversified, risk-controlled way.

## Changes over the quarter

- Introduced **Capital call finance**, funded by reducing **Multi asset credit** and reinvesting capital from **Private credit** as it runs off.
- Diversified our sources of collateral for our LDI portfolio by reducing the allocation to **Asset-backed securities** and increasing our allocation to **Absolute return bonds**, reflecting our more positive view on active bond management amid a tight credit spread environment as well as a way of addressing the importance of diversifying collateral.
- Rebalanced regional equity exposure, crystalising gains from **Low carbon global equities** after a strong performance and increasing the allocation to **Emerging market equities**, where valuations are more attractive.

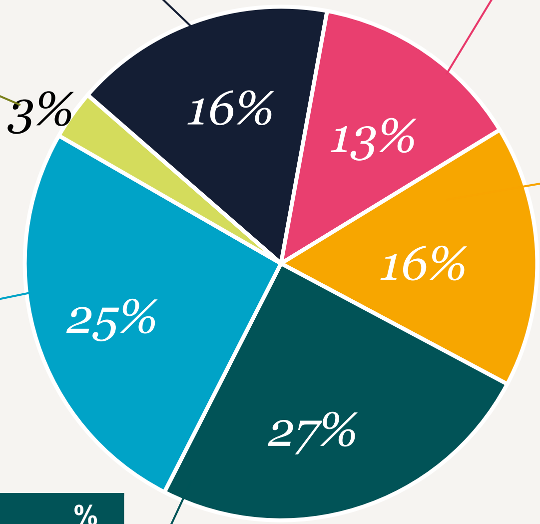



**Contact us to explore why we switched 2% into emerging market equities**

| Equities | % |
|---|---|
| Synthetic equity protection[1] | 10 |
| Small cap equities | 2 |
| Emerging market equities | 4 |

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

| 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]).

| Higher return credit | % |
|---|---|
| Opportunistic credit | 6 |
| Private credit | 4 |
| Infrastructure debt | 3 |
| Working capital finance | 3 |

| Key portfolio metrics | |
|---|---|
| Expected return[2]: | Gilts + 1.8% pa |
| Liability hedge ratio: | 100% of assets |
| Unhedged currency exposure: | 19% of assets |

| Investment grade credit | % |
|---|---|
| Asset-backed securities | 7 |
| Net-zero transition short duration credit | 3 |
| Synthetic credit overlay[1] | 8 |
| Absolute return bonds | 6 |
| Capital call finance | 3 |

**Contact us for the latest outlook on asset-backed securities**

Our current expected return is about **1.8% pa above gilts**, which is below our long-term target return. This reflects the fact that **many major asset classes appear relatively expensive**, limiting the opportunities to achieve higher returns without taking on significantly more risk.

**Periods like this are a normal part of long-term investing**. Over the lifetime of the portfolio, there will naturally be phases of lower and higher expected returns as market conditions evolve. Maintaining discipline in the current environment helps avoid taking on unrewarded / insufficiently rewarded risk and preserves flexibility to allocate capital more profitably when valuations improve. This is consistent with our objective of delivering strong risk-adjusted returns over the long term.

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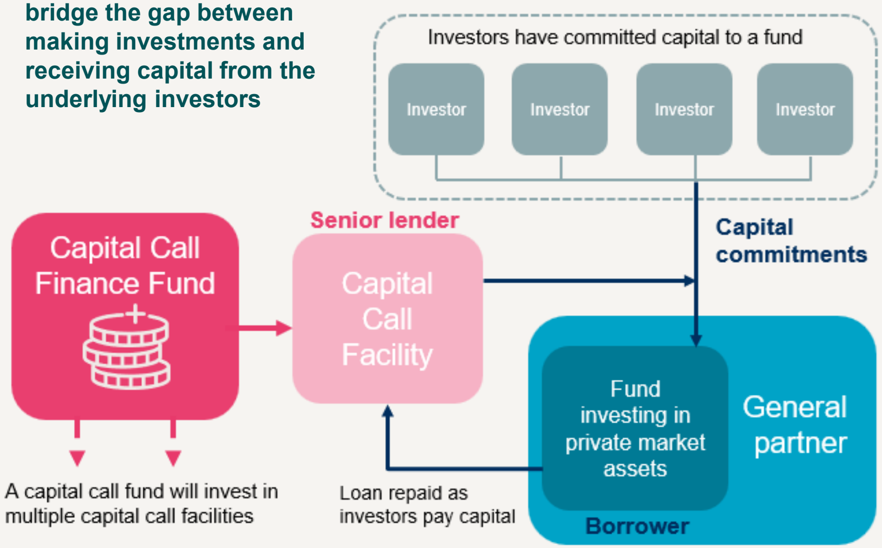
## A new allocation to

# *Capital call finance*

This quarter we made a new allocation in our main portfolio to **capital call finance** which diversifies our high-grade credit allocation and helps support our expected return in a risk-managed way.

Capital call finance provides short-term loans (typically 12-18 months) to private market funds. These loans bridge the period between an investment being made and investors funding their capital commitments. They are secured against those undrawn commitments, offering lenders high-quality credit ratings and a historically low default rate. For investors, this asset class offers low-volatility, floating-rate exposure with attractive risk-adjusted returns, reliable income, and diversification away from public credit markets.

**The capital call facility allows private funds to bridge the gap between making investments and receiving capital from the underlying investors**

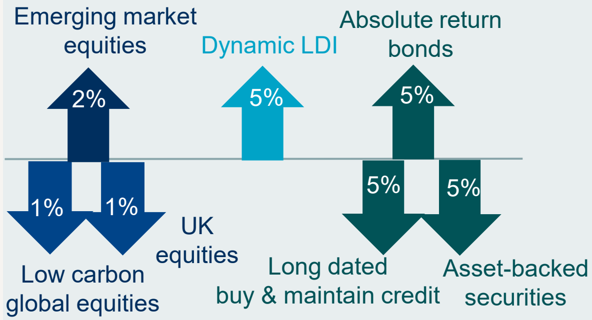



## *Ask your consultant*

- Is an allocation to capital call finance right for our portfolio?

# *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.



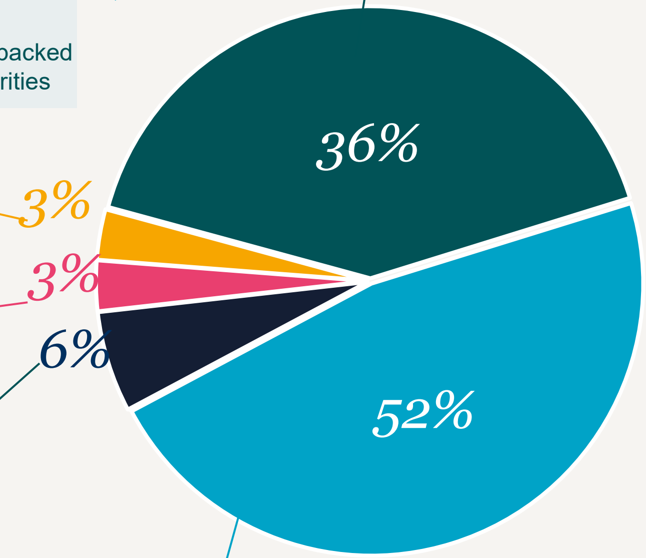

See previous page for the rationale for these changes

| High grade credit | % |
|---|---|
| Enhanced ESG long dated buy & maintain credit[1] | 12 |
| Asset-backed securities[1] | 10 |
| Net-zero transition short duration credit | 4 |
| Absolute return bonds | 10 |

| Higher return credit | % |
|---|---|
| Working capital finance | 3 |

| Real assets | % |
|---|---|
| Listed infrastructure | 3 |

| Equities | % |
|---|---|
| Low carbon global equities | 2 |
| UK equities | 2 |
| Emerging market equities | 2 |




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

| Dynamic LDI | % |
|---|---|
| Dynamic LDI[1] | 52 |

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

We top up collateral in our LDI portfolio as we crystallise gains from our long-dated buy & maintain credit.

Strategic portfolio

[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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