

*Update on the LCP
strategic portfolios*

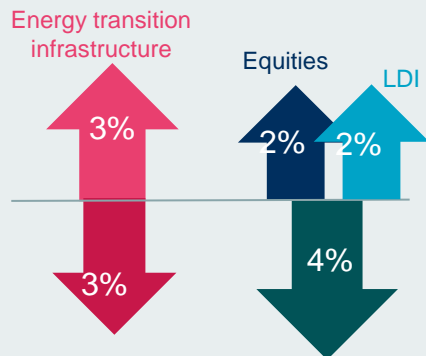
January 2025



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

Changes over the quarter



Listed infrastructure **Synthetic credit**

We responded to shrinking credit spreads by reducing the synthetic credit exposure and replacing the return with equity exposure.

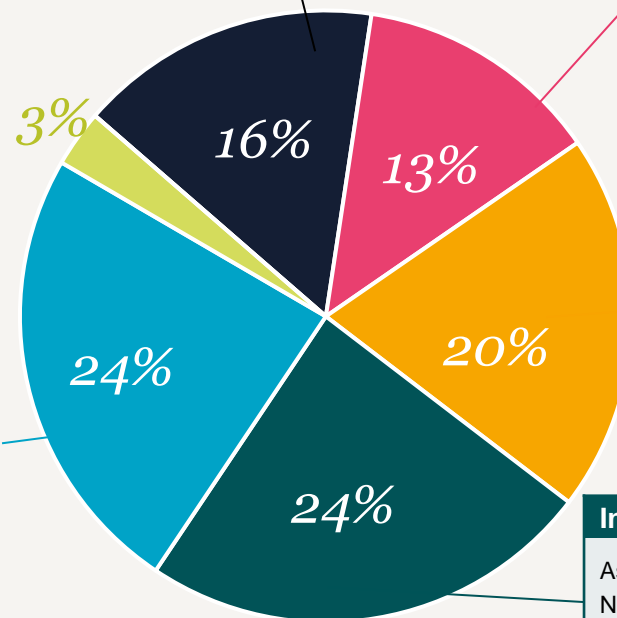
We have also diversified our infrastructure allocation to incorporate an energy transition focus, where (regardless of President Trump's policies) we anticipate significant financing needs over the coming years.

Alternatives	%
Tail-risk protection	3

Dynamic LDI	%
Dynamic LDI ¹	24
The yield rise to exhaustion that the LDI portfolio can withstand is about 6% (taking account of other assets within the collateral waterfall ⁴).	

Equities	%
Synthetic equity protection ¹	10
Low carbon global equities	2
Emerging market equities	2
Small cap 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	7
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

What to do about allocations to long-dated corporate bonds?

Within the strategic portfolio we have a **zero allocation to long-dated corporate bonds**, as we believe current credit spreads offer poor value for money, with the performance outlook skewed to the downside. Over the last few quarters, we've reduced our exposure to both synthetic and physical long-dated credit, which we have redeployed into:

- **Short-dated credit**, given spreads are less compressed compared to history than for longer dated credit and, more importantly, capital values are less exposed should credit spreads increase. We have split the allocation between both short-dated corporate bonds and asset backed securities.
- **Equities and a diverse range of growth assets**, given a more balanced performance outlook for these assets. However, we're careful to consider regional splits when adding more to equities given the concentration to a small number of highly valued US stocks with global indices.

Key portfolio metrics	
Expected return ² :	Gilts + 2% pa
Liability hedge ratio ³ :	100% of assets
Unhedged currency exposure:	25% of assets

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 Capped at the value of liabilities

⁴ Current collateral waterfall assets include the bespoke LDI fund and the Net-zero transition short duration credit allocation.

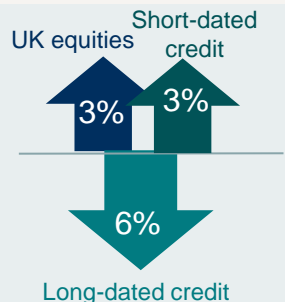


Low-dependency strategic portfolio

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.

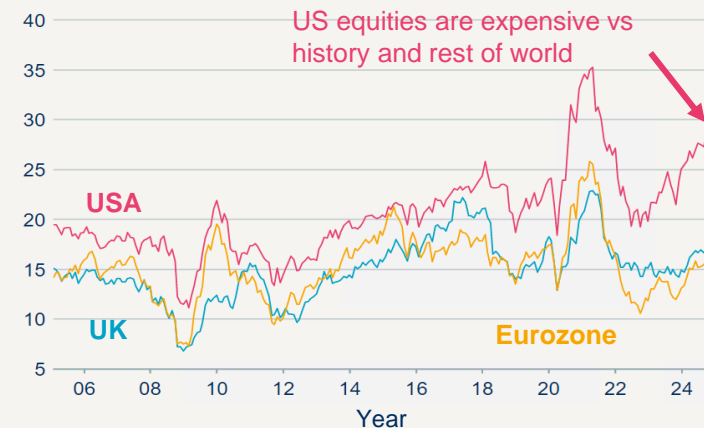
Changes over the quarter

This quarter, with credit spreads at historic lows, we reduced our allocation to **long-dated credit** and split the proceeds equally between **short-dated credit** and **UK equities**.



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

Price/Earnings ratio by region

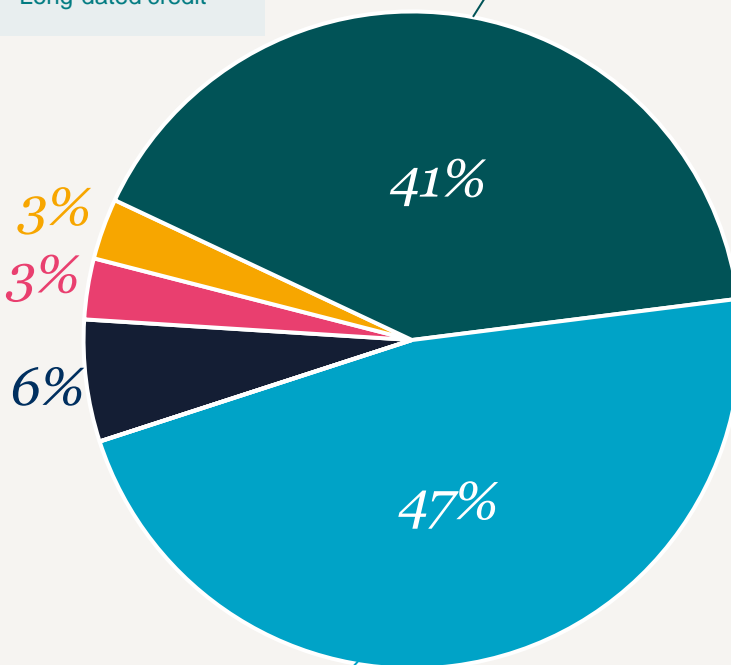


Source: LSEG DataStream

Higher return credit	%
Emerging market debt	3

Real assets	%
Listed infrastructure	3

Equities	%
Low carbon global equities	3
UK equities	3



Dynamic LDI	%
Dynamic LDI ¹	47
The LDI portfolio can withstand substantial yield increases (about 9%) before its assets are exhausted.	

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



How are your equities allocated?

This quarter, we've rebalanced the regional split of our synthetic equities in our run-on portfolio and made an allocation to **UK equities** in our low-dependency portfolio.

Why? This is partly based on the fact that global equities currently have a historically high weighting towards the US (and within that, to a handful of tech stocks). Whilst the growth potential of these stocks may well support their high valuations, they also pose a degree of specific risk (since you'll be overexposed to the idiosyncratic risks that affect those individual stocks) and so we see merit in reducing portfolio concentration and diversifying, especially given this can be done whilst banking significant relative gains.

Looking for opportunities elsewhere, we note the somewhat defensive nature of the UK equity market and relatively high levels of income (although there's value to be had in Europe and emerging markets too).

Ask your consultant to revisit your equity allocation.

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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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