

*Update on the LCP
strategic portfolios*

April 2026



Run-on strategic portfolio

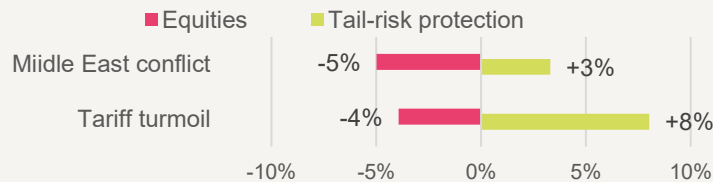


Ask your consultant – How can I make my portfolio more resilient to shocks?

Renewed conflict in the Middle East has increased market uncertainty and strengthened the case for portfolio protection. While stock markets and credit spreads remain largely unchanged, they may be vulnerable to escalation and knock-on effects—making protection strategies increasingly important. This quarter, we highlight two approaches we use to limit drawdowns: equity protection through options, and an allocation to a tail-risk protection fund.

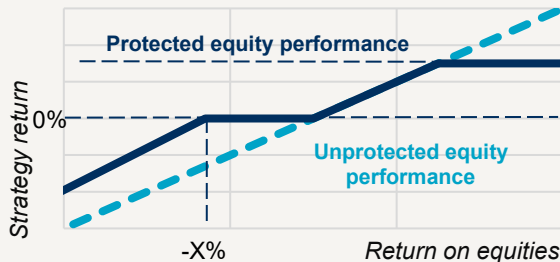
1. Tail-risk protection

The tail-risk hedging strategy has demonstrated its value during recent market sell-offs, including the tariff shocks (March–April 2025) and renewed Middle East tensions (March 2026). We expect it to provide even greater asymmetric upside in a more severe downturn.



2. Consider equity protection

The Run-on portfolio uses synthetic equity protection, implemented via a zero-cost set of options (illustrated below), to limit losses in market drawdowns without requiring upfront cost. This approach reshapes equity exposure to better align with the overall portfolio strategy.

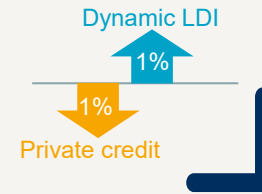


Equity upside “given up” beyond this level (in practice other assets likely to have performed well)

Layer of downside protection provided (and even if equity losses are beyond this level, then protection applies, and also an opportunity to buy equities at cheaper levels)

Changes over the quarter

Proceeds from private credit run-off were reinvested into LDI to reflect our cautious outlook



Equities	%
Synthetic equity protection ¹	10
Small cap equities	2
Emerging market equities	4

Alternatives	%
Tail-risk protection	3

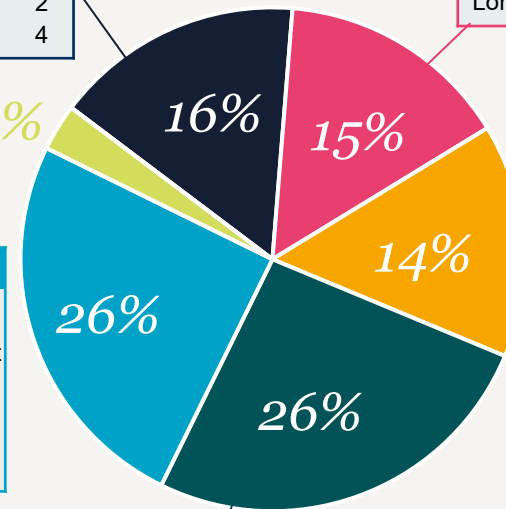
Dynamic LDI	%
Dynamic LDI ¹	26

The yield rise to exhaustion that the LDI portfolio can withstand is about 6% (taking account of other assets within the collateral waterfall³).

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

Real assets	%
Unlisted infrastructure	3
Listed infrastructure	2
Energy transition infrastructure	3
UK core property	2
Long-lease property	5

Higher return credit	%
Opportunistic credit	5
Private credit	3
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:	20% of assets

Our strategic portfolio brings together the latest insights from LCP’s investment strategy and research teams to create an efficient, diversified asset allocation. It is designed for schemes in a range of situations, particularly those seeking to run on and generate additional value in a risk-controlled way.

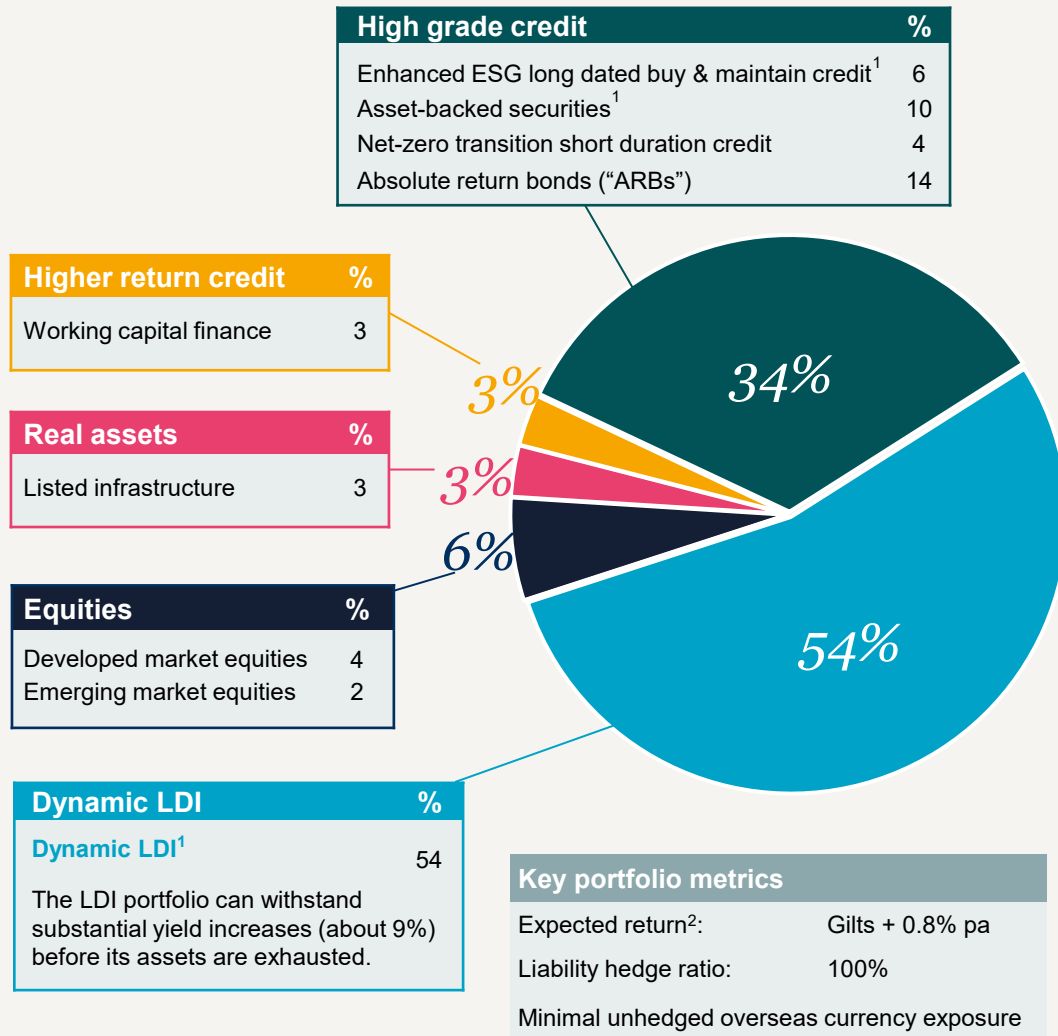
Numbered superscripts (1,2,3) are explained in the footnotes on the following page.



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.

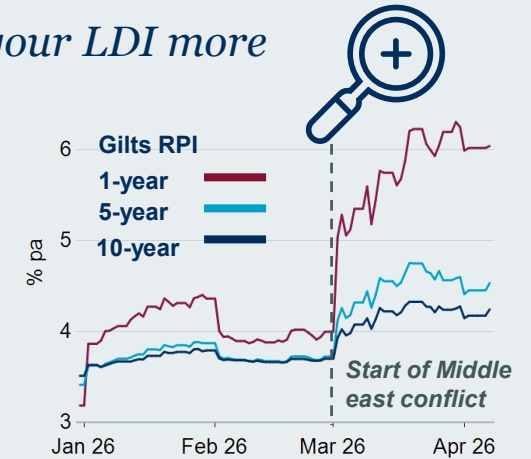
There are no changes over the quarter



How can you make your LDI more resilient?

1) Review inflation hedges

Recent conflict in the Middle East has pushed up energy prices, raising inflation expectations. This warrants a review of your LDI portfolio's inflation sensitivity to ensure hedge ratios remain appropriate, particularly as inflation caps on pension increases are now more likely to be reached.

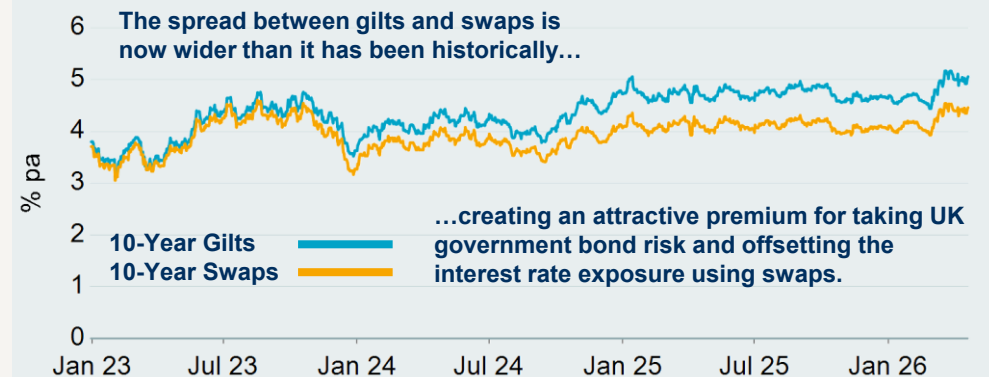


2) Assess your credit exposure

With credit spreads still historically tight, the extra return from corporate bonds over gilts is limited. Gilts arguably offer better value, providing relatively high yields without the asymmetric downside risk of long-dated credit exposure. For LDI, we recommend reviewing whether some corporate bond exposure should be rotated into gilts. Alternatively, consider rotating into shorter dated bonds, asset-backed securities or absolute return bonds.

3) Capture opportunities for increasing gilt exposure

The gap between swap rates and gilt yields is historically wide. This creates an opportunity for LDI managers to add value by increasing gilt exposure and offsetting the interest rate exposure using swaps. Schemes should assess whether taking on additional UK government credit risk offers an attractive risk-return trade-off - particularly relative to the low spreads available on other assets.



Source: Bloomberg

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.

The information contained within this generic presentation is for information purposes and does not constitute investment advice. It refers to past performance, which is not a reliable indicator of future results. This information should not be relied upon for detailed advice, nor taken as an authoritative statement of law.

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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