Update on the LCP strategic portfolios

January 2026

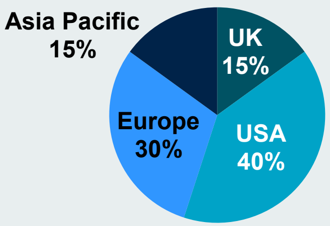
LCP powering possibility

Run-on strategic portfolio

Reducing US concentration risk across our equity portfolio

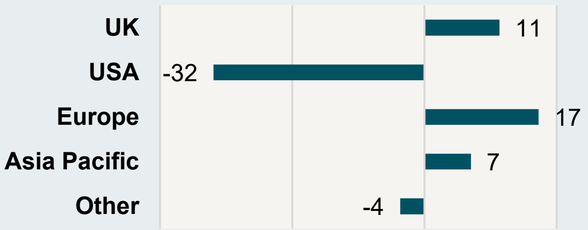
US equities now account for around 70% of the global equity market and carry a heavy weighting to technology and AI-related stocks. To address this concentration risk, we weight our developed geographical exposure as follows:

Developed equities exposure



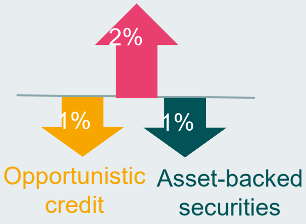
We hold a 40% allocation to the US, compared with a global market-capitalisation weight of approximately 70%.

Weight difference % v MSCI World



We overweighted UK equities in our global equity exposure, reflecting our improved conviction in the region

Changes over the quarter

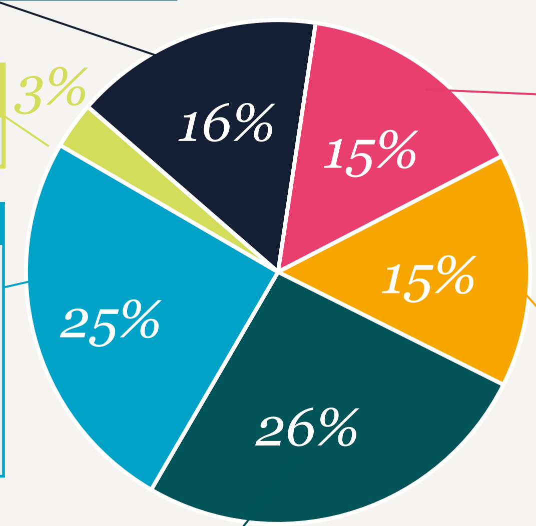


Tilting towards real assets

Against a backdrop of historically expensive equity and bond markets, we increased our allocation to real assets by 2%, funded by reducing ABS and the natural run-off of opportunistic credit assets.

Within real assets, UK long-lease property stands out for its long-dated, inflation-linked cashflows, attractive spreads versus corporate bonds, and its ability to support the scheme's liability hedge. An additional benefit of the asset class is the potential to acquire units at a discount and mitigate the stamp duty costs typically associated with property investments.

While manager selection remains important for specialist mandates, implementation has become increasingly front of mind, with the secondary market enabling faster access to real asset exposure.



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

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]).

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	4
Infrastructure debt	3
Working capital finance	3

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

Key portfolio metrics	
Expected return[2]:	Gilts + 1.8% pa
Liability hedge ratio:	100% of assets
Unhedged currency exposure:	23% of assets

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.

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

Strategic 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.

High grade credit	%
Enhanced ESG long dated buy & maintain credit[1]	6
Asset-backed securities[1]	10
Net-zero transition short duration credit	4
Absolute return bonds	14

Higher return credit	%
Working capital finance	3

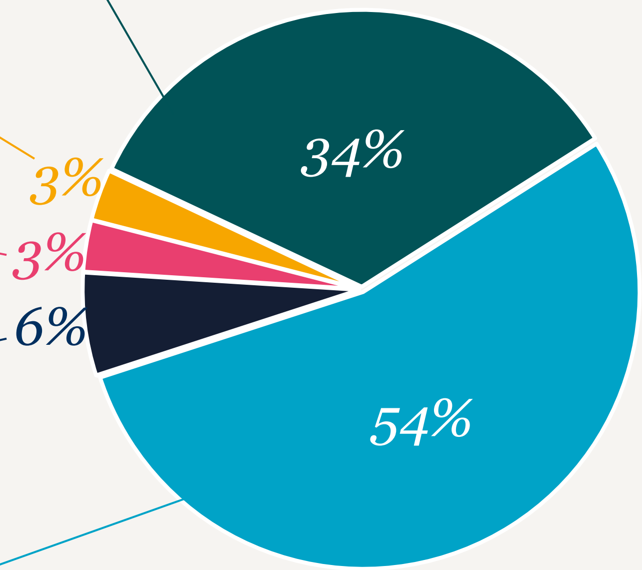
Real assets	%
Listed infrastructure	3

Equities	%
Developed market equities	4
Emerging market equities	2

Dynamic LDI	%
Dynamic LDI[1]	54

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



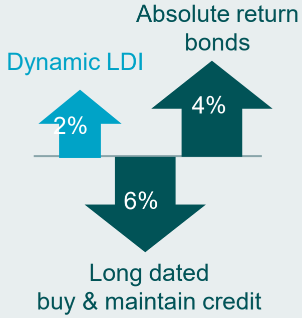
Key portfolio metrics

Expected return[2]:	Gilts + 0.8% pa
Liability hedge ratio:	100%
Minimal unhedged overseas currency exposure	

Changes over the quarter

As credit spreads continue to grind tighter, we have reduced exposure to long-dated buy and maintain credit. We see better relative value in shorter-dated credit and, given the uncertain market environment, have increased our allocation to absolute-return bond strategies – where active managers have greater flexibility to generate returns and respond to changing conditions.

Given our positive view of UK gilts, we have rebalanced the split between the high-grade credit and the LDI portfolio. We believe that in a tight spread environment, there is little justification for chasing returns by overweighting credit – as shown by the analysis below. In this way, we keep dry powder to redeploy when valuations become more attractive.



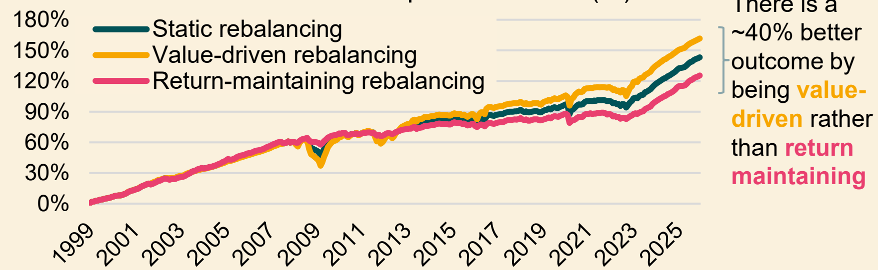
Analysis: chasing returns in expensive markets leads to underperformance in the long term

Pension schemes often target a “gilt +” return, which is often achieved by allocating significantly to credit relative to gilts. When spreads are tight, as they are now, lower prospective returns can pressure schemes to increase risk to maintain this targeted gilt outperformance.

To test whether this is sensible, we look at how three alternative rebalancing approaches for a credit and gilts portfolio would have performed over history:

- **Static rebalancing** maintains a fixed allocation to credit and gilts regardless of market conditions.
- **Return-maintaining rebalancing** adjusts credit exposure to help maintain a fixed return objective (for example, a gilts + x% assumption).
- **Value-driven rebalancing** increases exposure to credit when spreads are wider and prospective returns are more attractive, and reduces exposure when spreads are tight.

Cumulative total portfolio return (%)



Rather than targeting a constant return, the focus should be on flexibility and being ready to act when valuations improve.

[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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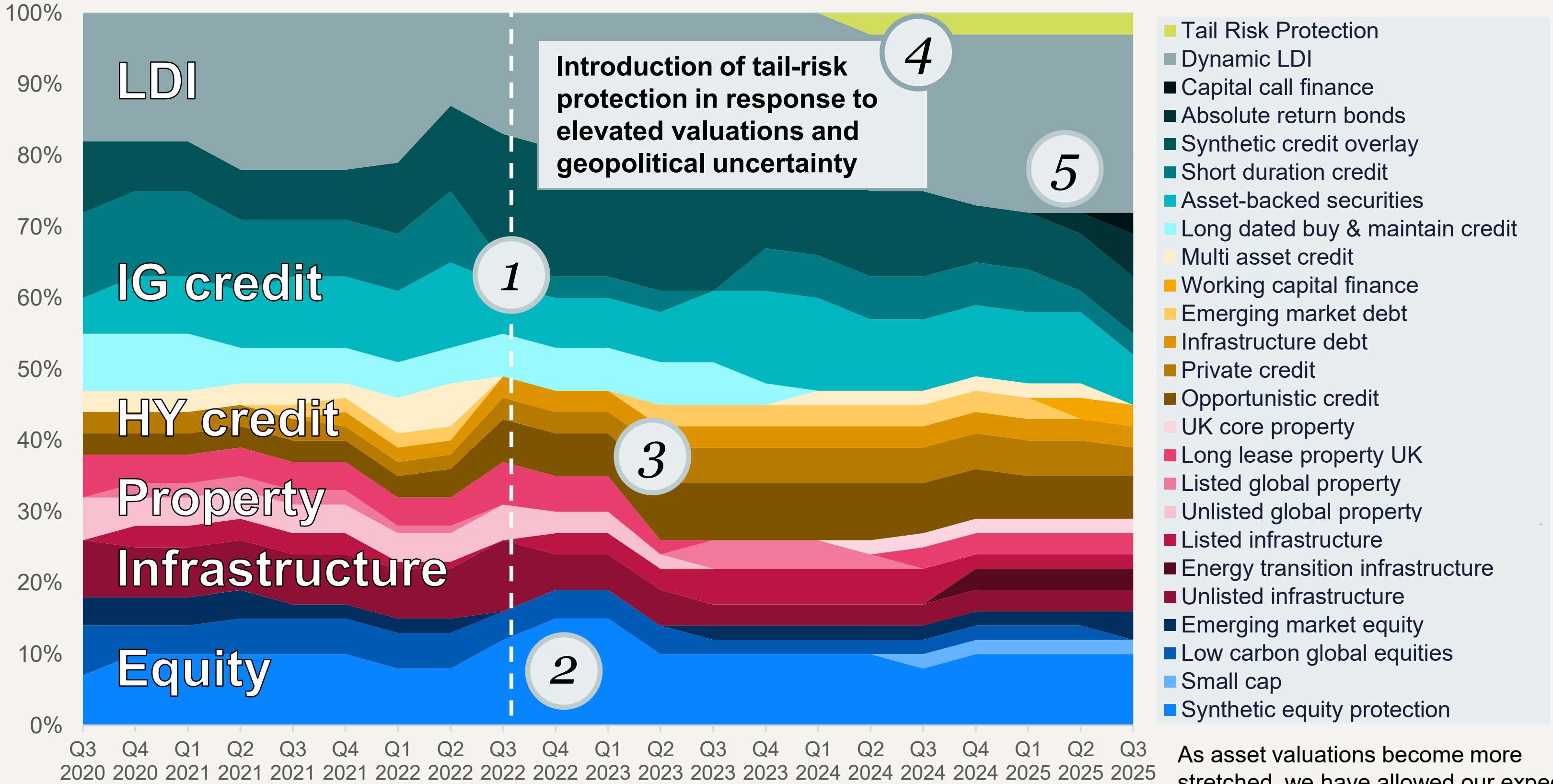
Evolution of the LCP Strategic Portfolio

We created our LCP Strategic portfolio back in 2020 to showcase our strategic thinking and to demonstrate how our best ideas can be brought together to build a complete asset portfolio. The chart below shows how our "run-on" portfolio has evolved over time. We have highlighted some key points in the portfolio's history and our thinking behind them.

In this portfolio we have maintained a relatively stable asset allocation.

However, we have often refined allocations within asset class buckets, responding to market conditions and reflecting our new and best ideas.



Expected return (gilts + pa) 3 | 2.5 | 2.4 | 2.3 | 2.1 | 2.0 | 1.9 | 1.8

As asset valuations become more stretched, we have allowed our expected return to fall rather than taking on more and more risk

1 Following the sharp rise in gilt yields in Q3 2022, we maintained LDI hedging by drawing on liquid collateral assets and put in place a plan to rebalance away from illiquid holdings to improve resilience to future gilt volatility.

2 We have managed the equity allocation carefully over time, gradually increasing the use of synthetic exposure for capital efficiency and downside protection. This quarter, we rebalanced regionally, moving further underweight the US and overweight the UK, Europe and Asia.

3 In Q2 2023, we banked gains from equities and real assets and redeployed capital into credit, beginning a measured rebuild of illiquid exposure, including through secondaries, as portfolio resilience improved.

5 In recent quarters, we have introduced new credit strategies, including capital call finance, working capital finance, and absolute return bonds to enhance returns.

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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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