Update on the LCP strategic portfolios

April 2024

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 additional value in a diversified, risk controlled way.

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

Expected return based on LCP's latest asset class assumptions, which are available upon request.

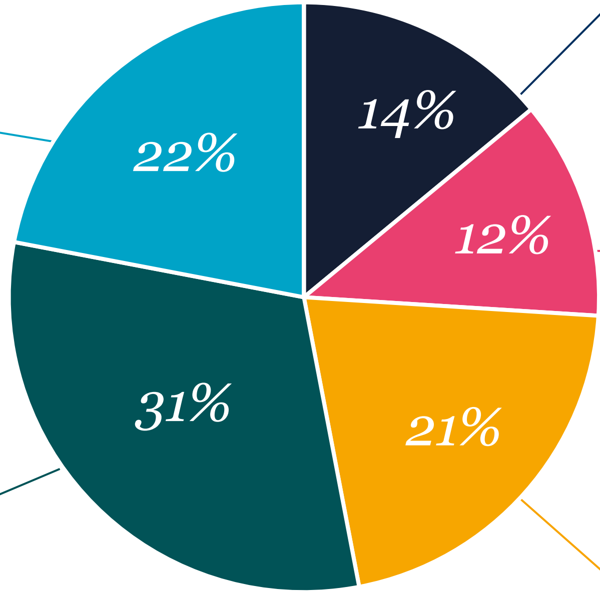
Changes over the quarter

This quarter, we removed our 3% allocation to **enhanced ESG long dated buy & maintain credit** and replaced it with a 2% allocation to **multi asset credit** and 1% allocation to **Dynamic LDI** (so overall level of risk in the portfolio and collateral sufficiency is broadly unchanged).

Multi-asset credit provides low governance and dynamic access to listed high yield debt, including leveraged loans, which we have a more positive view on. Whereas valuations for investment grade credit appear expensive relative to history, particularly at longer maturities. We retain an allocation to short-dated credit, which we see as more attractive and a credit overlay, which can be easily adjusted with changes in credit spreads.

Dynamic LDI	%
Dynamic LDI[1]	22

The yield rise to exhaustion that the LDI portfolio can withstand is c.6.5% (taking account of other assets within collateral waterfall).



Equities	%
Synthetic equity protection[1]	10
Low carbon global equities	2
Emerging market equities	2

Real assets	%
Unlisted infrastructure	3
Listed infrastructure	5
Listed global property	4

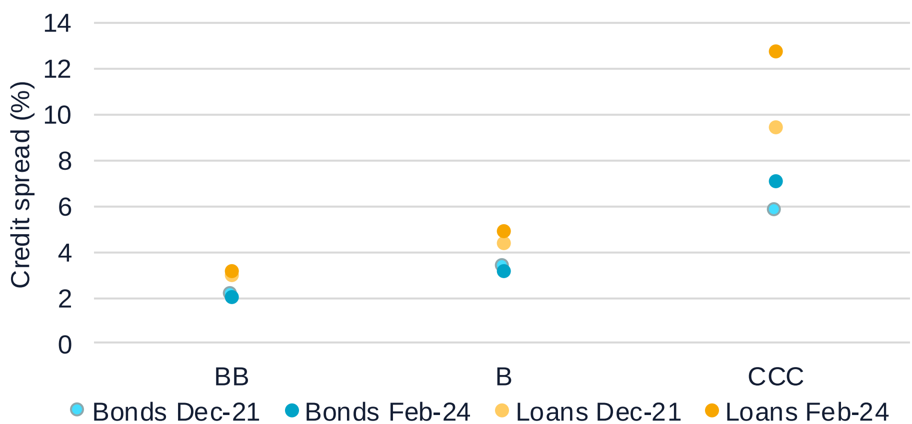
Investment grade credit	%
Asset-backed securities[1]	13
Net-zero transition short duration credit	6
Synthetic credit overlay[1]	12

[1]Assets all held within a single bespoke fund and used to support the hedging exposures.

Higher return credit	%
Opportunistic credit	8
Private credit	5
Infrastructure debt	3
Emerging market debt	3
Multi asset credit	2

Over the last two years, spreads on both high yield bonds and leveraged loans have widened and offer a relatively attractive return when compared to the relative richness of other asset classes.

Credit spreads for leveraged loans vs high yield bonds



Source: ICG, at February 2024. Bonds: ICE BofA CCC and Lower US High Yield Constrained Index, ICE BofA Single-B US High Yield Constrained Index, ICE BofA BB US High Yield Constrained Index. Loans: Credit Suisse Leveraged Loan Index CCC/split CCCrated 3yr DM, B-rated 3yr DM, BB-rated 3yr DM.

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. This portfolio is designed to be consistent with the low dependency investment allocation, and in particular "Fast Track", as outlined in TPR's draft new funding code.

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

Expected return based on LCP's latest asset class assumptions, which are available upon request. [1]Assets all held within a single bespoke fund and used to support the hedging exposures.

Changes over the quarter

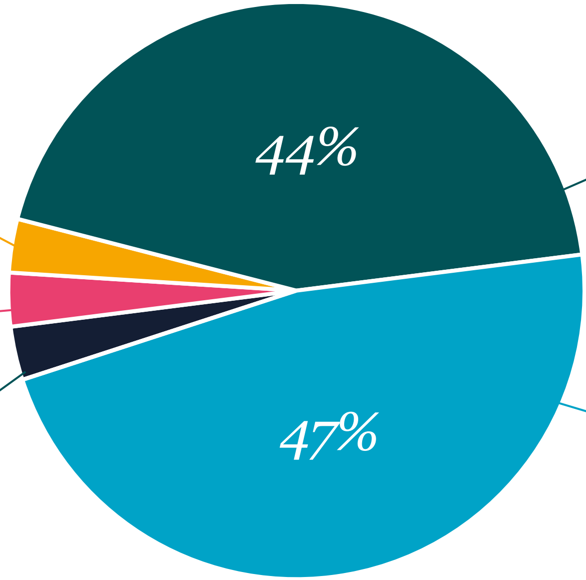
This quarter, we added a 3% allocation to **emerging market debt**, which is funded from the **enhanced ESG long dated buy & maintain credit** allocation.

Developed market spreads remain tight, which has refocussed attention on the relative attractiveness of emerging market debt. This asset also offers diversification benefits, without materially impacting liquidity, and a small allocation provides some matching to insurer pricing.

Higher return credit	%
Emerging market debt	3

Real assets	%
Listed infrastructure	3

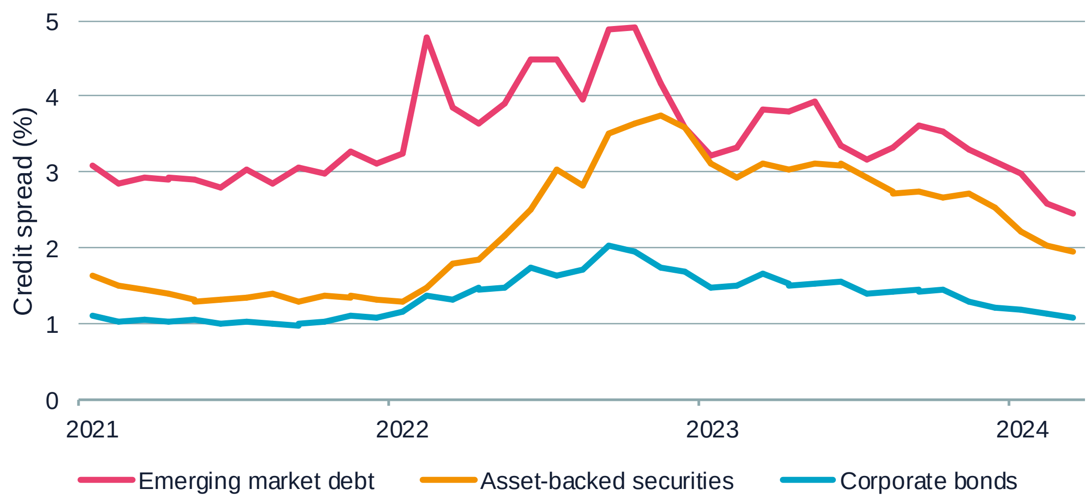
Equities	%
Low carbon global equities	3



Investment grade credit	%
Enhanced ESG long dated buy & maintain credit[1]	23
Asset-backed securities[1]	15
Net-zero transition short duration credit	6

Dynamic LDI	%
Dynamic LDI[1]	47
The yield rise to exhaustion that the LDI portfolio can withstand is c9%	

Credit spread for emerging market debt vs global bonds and ABS



Ask your consultant

- What changes should I consider making to my portfolio given the current level of credit spreads?
- What are leveraged loans and how can I access them in my strategy?
- How does the outlook for interest rates affect my portfolio?
- What is the end game for my scheme and how is my investment strategy aligned with this objective?

Source: Asset-backed securities: Aegon ABS Fund as at 31 March 2024. Emerging market debt: JPM CEMBI broad diversified IG index as at 31 March 2024. Corporate bonds: iBoxx non-gilts index as at 31 March 2024.

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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