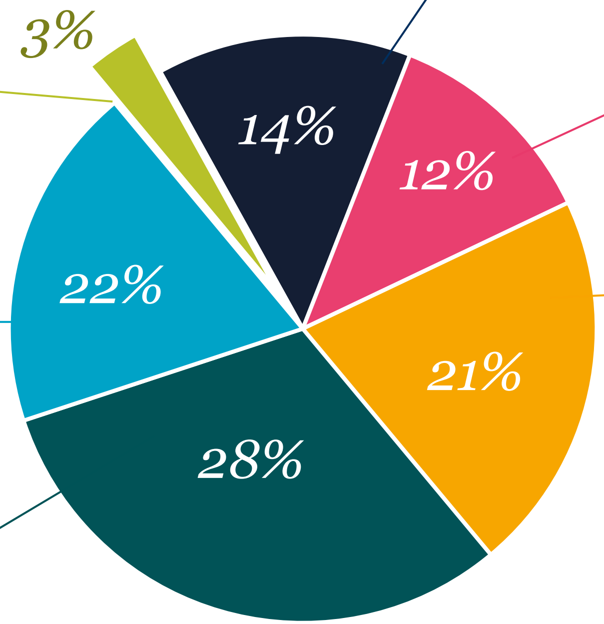
Update on the LCP strategic portfolios

July 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 significant additional value in a diversified, risk-controlled way.



Alternatives	%
Tail-risk protection	3

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	2
UK core property	2

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).	

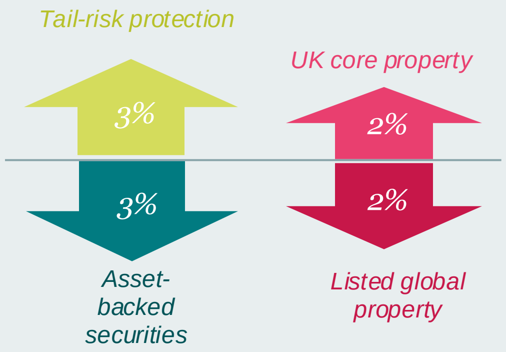
Higher return credit	%
Opportunistic credit	8
Private credit	5
Infrastructure debt	3
Emerging market debt	3
Multi asset credit	2

Investment grade credit	%
Asset-backed securities[1]	10
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.

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

*Based on LCP's latest asset class assumptions, which are available upon request.



Changes over the quarter

This quarter, we banked some gains and reduced our allocation to **asset-backed securities** by 3%. We have replaced it with a 3% allocation to **tail-risk protection strategy**. We also rotated 2% from **listed global property** to **UK core property**, with current market conditions representing an attractive entry point for UK property.

We are conscious of the risk of a significant shock to asset prices in 2024 potentially from any one of a number of major geopolitical events. To mitigate this, we introduced a new allocation to a tail-risk protection strategy this quarter. This strategy is designed to deliver substantial investment returns during market downturns, cushioning our overall portfolio during periods of significant volatility.

Ask your consultant if tail-risk protection is right for your Scheme

LCP powering possibility

Low-dependency strategic portfolio

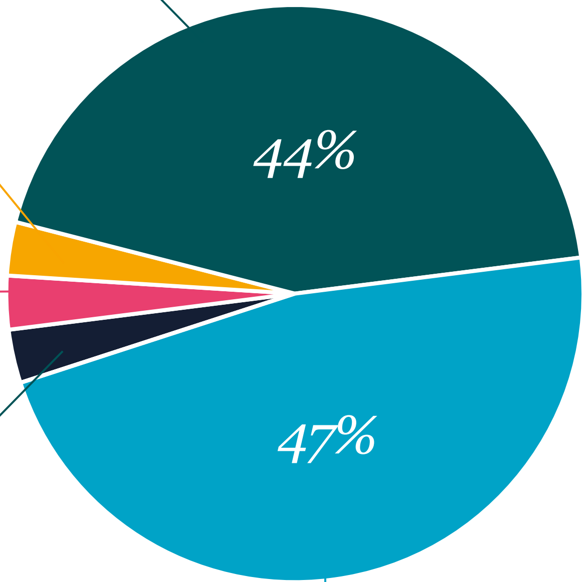
Our low-dependency portfolio is appropriate for well-funded and/or significantly mature schemes and has also been designed to provide flexibility to run-on for a period and/or take advantage of insurance opportunities.

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

Higher return credit	%
Emerging market debt	3

Real assets	%
Listed infrastructure	3

Equities	%
Low carbon global equities	3



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.

Dynamic LDI	%
Dynamic LDI[1]	47

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

A closer look at…

Synthetic credit

Why do we include it in the Run-on strategic portfolio?

Synthetic credit involves investing in a type of derivative linked to a company's or basket of companies' credit risk. By taking on this exposure, you are rewarded with income, at a similar level to the additional return on corporate bonds over their government bond counterparts – also known as the credit spread. Similar to investing in corporate bonds, losses then occur if underlying companies default on payments and/or suffer insolvencies.

Capital efficiency

Investing in synthetic credit allows investors to gain access to credit markets while retaining their capital for other purposes. An example of this is to support LDI portfolios in the case of Defined Benefit pension schemes, where capital requirements for LDI have increased following the gilt market events in 2022.

Having part of the credit portfolio invested synthetically can allow for more capital to be allocated to LDI, reduced leverage and reduced risks of having to force-sell other assets or unwind hedges.

Stable prices

Synthetic credit isn't exposed to movements in interest rates / gilt yields in the same way as corporate bonds and gilts holdings are.

As a result, pricing tends to be relatively stable, and therefore, ongoing capital requirements to support the exposures tend to be limited compared to those associated with maintaining a leveraged LDI portfolio.

An added benefit of synthetic credit is that it has historically experienced lower mark-to-market volatility in the case of rising credit spreads.

Quick to trade

The synthetic credit market is large and actively traded, meaning it is quick and low-cost to add or remove exposures.

In contrast, selling a portfolio of corporate bonds would typically take an extended period of time and also incur potentially material transaction costs.

This can make synthetic credit a helpful tool for investors looking to hedge the credit-linkage within the cost of bulk annuity policies ("buy-ins").

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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