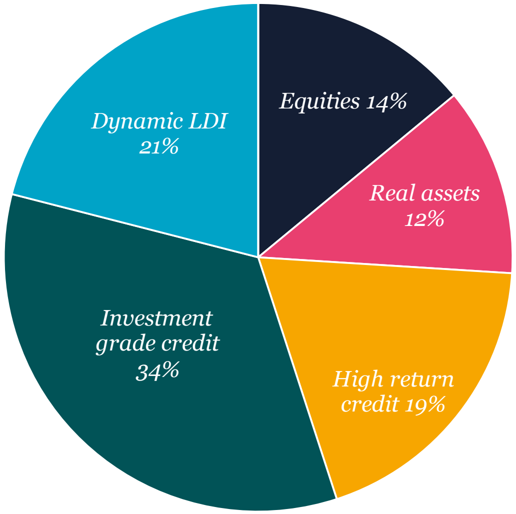
Update on the LCP strategic portfolios

January 2024

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.



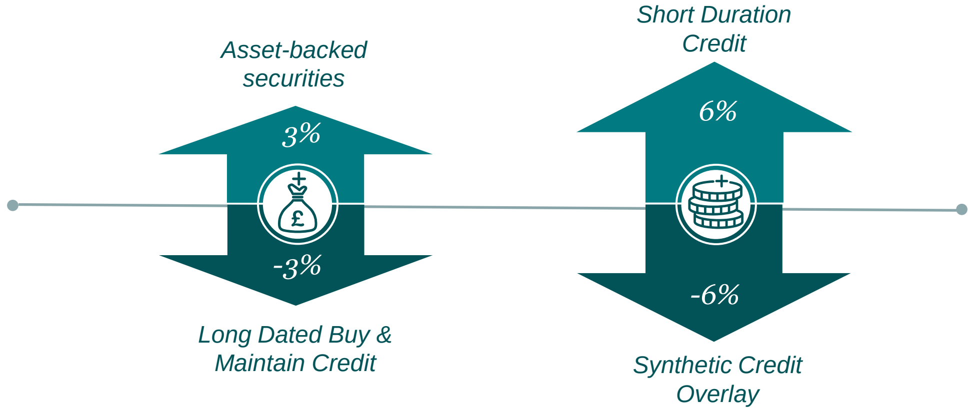
Portfolio	%
Equities	**14**
Synthetic equity protection[1]	10
Low carbon global equities	2
Emerging market equities	2
Real assets	**12**
Unlisted infrastructure	3
Listed infrastructure	5
Listed global property	4
High return credit	**19**
Opportunistic credit	8
Private credit	5
Infrastructure debt	3
Emerging market debt	3
Investment grade credit	**34**
Enhanced ESG long dated buy & maintain credit[1]	3
Asset-backed securities[1]	13
Net-zero transition short duration credit	6
Synthetic credit overlay[1]	12
Dynamic LDI[1]	**21**
The yield rise to exhaustion that the LDI portfolio can withstand is 6.5% (taking account of other assets within collateral waterfall).	

Expected return:	Gilts + 2.0% pa
Liability hedge ratio:	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.

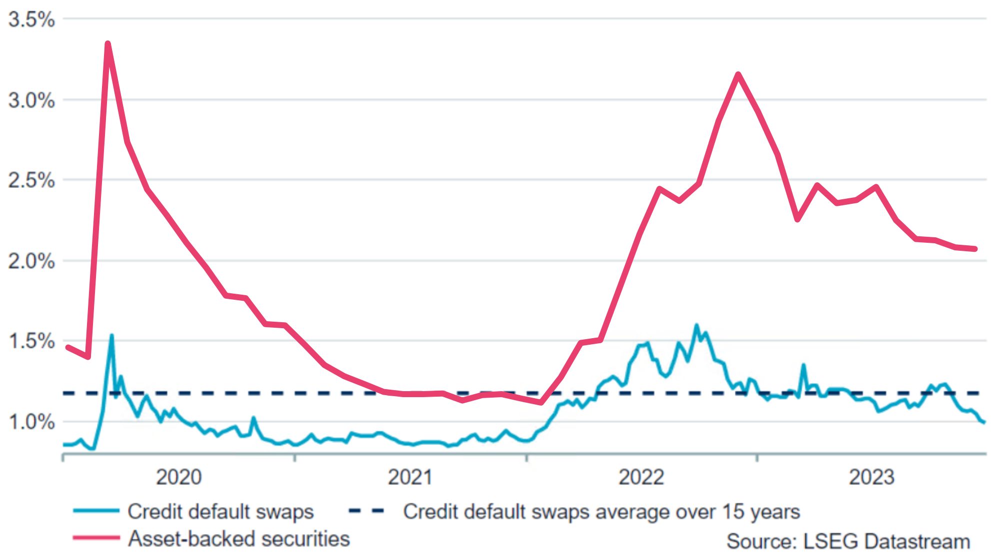
Expected return based on LCP's latest asset class assumptions, which are available upon request.

Changes over the quarter



Credit Default Swap spreads are lower than their long-term average while asset-backed securities still offer attractive spreads

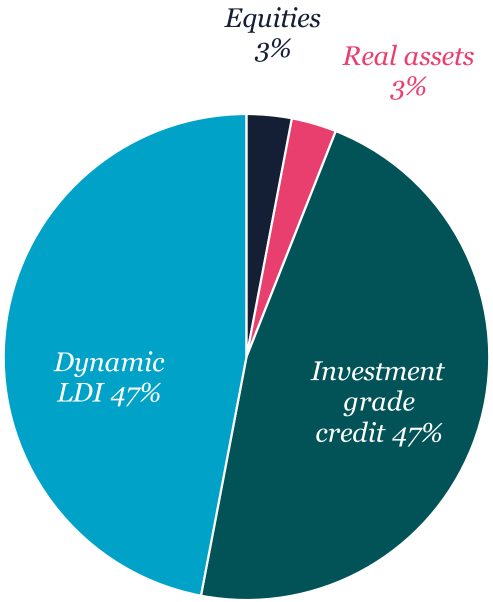
10-year credit default swaps have recently rallied and are now more expensive versus history. Physical shorter dated credit provides a higher spread, with significantly less spread duration. Asset-backed securities still offer good entry pricing with high yields.



Source: LSEG Datastream

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 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.



Portfolio	%
Equities	**3**
Low carbon global equities	3
Real assets	**3**
Listed infrastructure	3
Investment grade credit	**47**
Enhanced ESG long dated buy & maintain credit[1]	26
Asset-backed securities[1]	15
Net-zero transition short duration credit[1]	6
Dynamic LDI[1]	**47**
The yield rise to exhaustion that the LDI portfolio can withstand is c.9%.	

Expected return: Gilts + 1.0% pa

Liability hedge ratio: 100% of assets

Minimal unhedged currency exposure

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

What's on the horizon for DB trustees in 2024?:

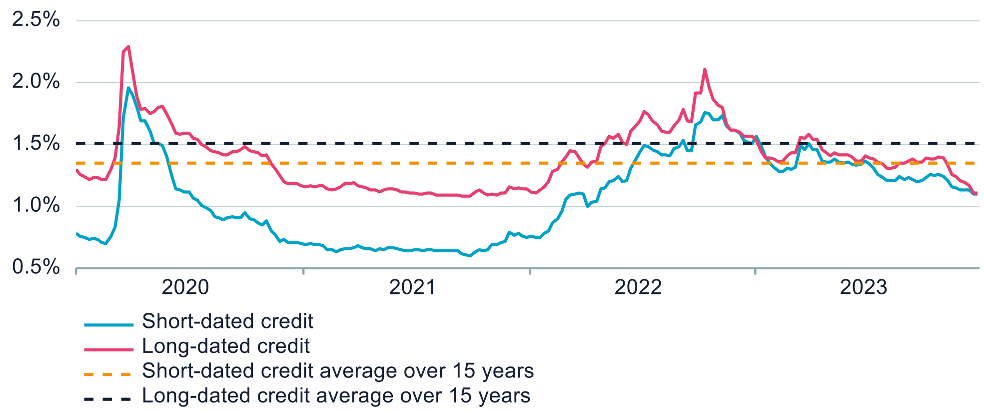
This blog by Laura Amin looks at whether it is a time for a rethink on strategy for DB pension schemes and what Trustees should be prioritising for 2024.

Changes over the quarter

We have switched 6% of the allocation from long dated credit into short duration credit.

On a relative basis, shorter dated credit appears more attractive than longer-dated credit

Given the current political uncertainties, we prefer shorter-dated credit for its defensive qualities, offering additional protection against potential spread volatility. In addition, we think it's more attractively priced relative to historical spreads than longer-dated credit – and therefore, has a more attractive entry point.



Source: LSEG Datastream

Source: Refinitiv. ICE BoA Sterling non-gilt indices used. Curves created by interpolating underlying index OAS and duration data. Data as at 29 January 2024.

Ask your consultant

- Should we be **reviewing our credit portfolio** in light of the lower credit spreads? How should we be positioned between **longer vs shorter** dated credit and **ABS vs corporate bonds**? Should we be dynamic and set triggers should credit spreads revert?
- How could **geopolitical uncertainty** affect the Scheme's portfolio? Is now the time to be fearful or greedy?
- Should I consider lowering my allocation to equities, or adding protection, markets are at or near **all-time highs**?
- What is our **end-game** and how do we consider the full range of options? How does choice of end-game influence our asset allocation and hedging approach?

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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