Update on the LCP strategic portfolios

October 2024

Run-on strategic portfolio

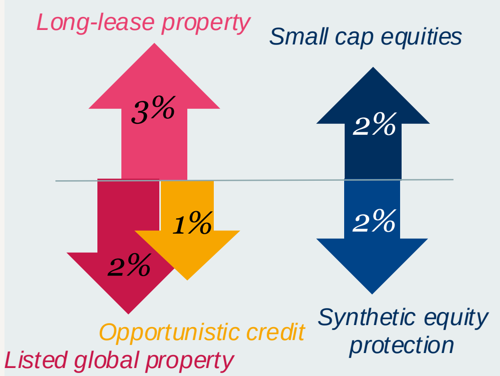
Our strategic portfolio highlights the latest ideas from LCP's investment strategy and research teams and how these ideas can be brought together to construct an efficient asset portfolio. This portfolio is relevant for schemes in a number of circumstances, including those that wish to run-on and generate significant additional value in a diversified, risk-controlled way.

Changes over the quarter

This quarter, we switched 2% from our global large-cap **synthetic equity protection** allocation into a new small-cap equity allocation to diversify equity exposure amid increased concentration risk and historically expensive valuations.

We also decided to allocate to **long-lease property**, as its long-term inflation-linked cashflows make it attractive to a DB pension scheme planning to run on. This allocation was largely funded by a 2% switch out of **listed global property**, locking in strong returns made over the past year. In addition, we allocated proceeds (1%) from the gradual run-off of our **opportunistic credit** fund, which is returning capital as it starts its wind down.

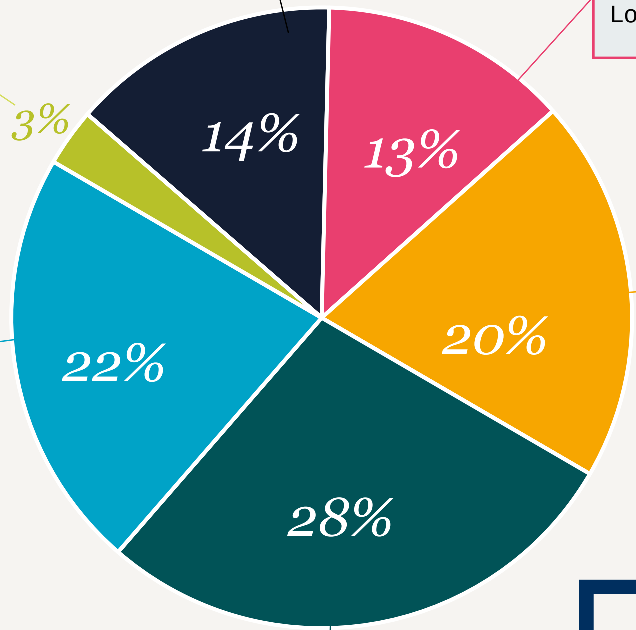
Read more about long-lease property on the next page.



Equities	%
Synthetic equity protection[1]	8
Low carbon global equities	2
Emerging market equities	2
Small cap equities	2

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

Alternatives	%
Tail-risk protection	3



Higher return credit	%
Opportunistic credit	7
Private credit	5
Infrastructure debt	3
Emerging market debt	3
Multi asset credit	2

Dynamic LDI	%
Dynamic LDI[1]	22

The yield rise to exhaustion that the LDI portfolio can withstand is c.5.8% pa (taking account of other assets within collateral waterfall).

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

Investment grade credit	%
Asset-backed securities[1]	10
Net-zero transition short duration credit	6
Synthetic credit overlay[1]	12

Small cap equities are a new allocation to our portfolio

Strategic portfolio

[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

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.

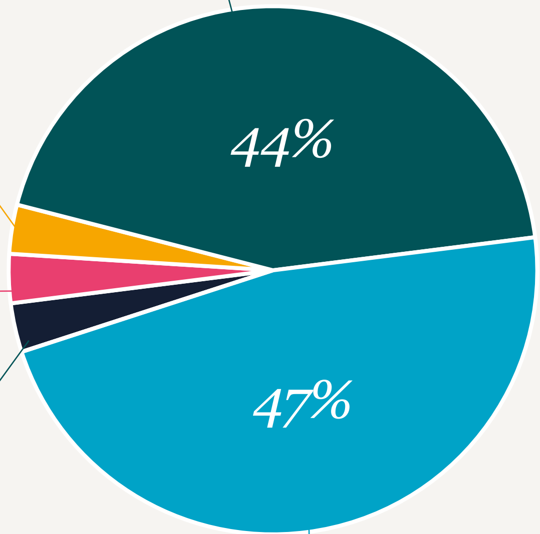
We made no changes to the low-dependency portfolio this quarter.

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



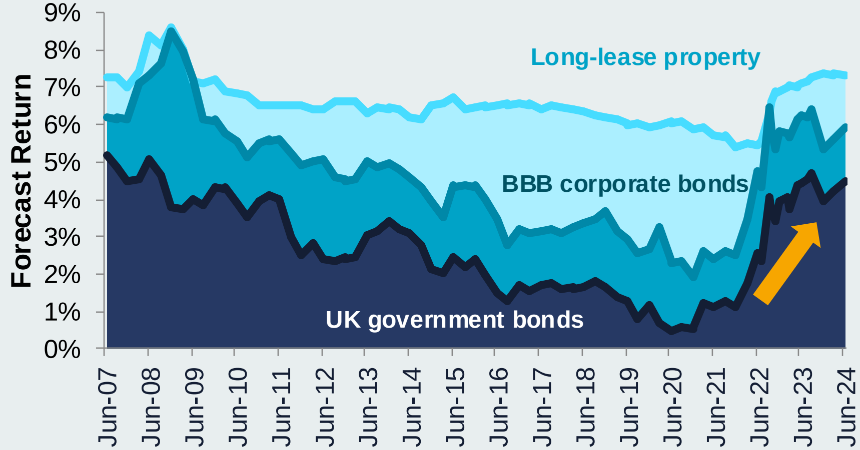
Dynamic LDI	%
Dynamic LDI[1]	47

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

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

[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.

Running on? Consider long-lease property.



Long-lease property funds currently offer returns of 1-2% above equivalently rated corporate bonds

Compared to investing in corporate bonds, long-lease property offers both a higher return and inflation-linkage, which makes it an ideal asset (alongside gilts and corporate bonds) to include within a liability matching portfolio.

Long-lease property funds offer long-term cashflows based on rental income. These cashflows often contractually increase with inflation – subject to similar caps and floors as typical pension scheme liabilities - which makes them suitable for matching future pension scheme cashflows.

- ✓ **High credit quality**, equivalent to BBB rated corporate debt (or A rated in the case of income strips), with additional return compared to equivalent rated corporate bonds
- ✓ **Inflation-linked** income, including matching typical caps and floors (and in turn protecting pension schemes against deflation risks)
- ✓ **Reduced need for LDI and leveraged exposures** given long lease property can match long-dated inflation-linked pension liabilities (although adjustment may be appropriate to move away from a fully gilts-based liability valuation to maximise the benefits)
- ✓ **Current attractive pricing** and strong expected rental growth

However, given the relative illiquidity of this asset class, it may not be suitable for pension schemes looking to enter into a buy-in contract with an insurer in the short-term.

Ask your consultant if allocating to a long lease property fund, or similar alternative, is the right move to enhance your scheme.

Chart source: M&G, iBoxx. Long-lease property forecast return is IRR for M&G SPIF, allowing for inflation-linked uplifts, excluding appreciation of capital value. Corporate bond returns based on yield to maturity of Iboxx BBB corp non Financial 10+. Government bond returns 10-year gilt YTM.

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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