

From:	Chairman Kent Pension Board Interim Corporate Director - Finance
To:	Kent Pension Board – 4 September 2025
Subject:	Investment Update (30 June 2025)
Classification:	Unrestricted

Executive Summary:

This report provides a summary of the Fund's investment strategy, asset allocation, performance, and responsible investment activity.

In addition, the report also includes a short update regarding the implementation of investment decisions following the completion of the intra asset class review which has taken place since the Board's last meeting in November 2024.

Recommendation:

The Board is asked to note the report.

FOR INFORMATION

1. Introduction

- 1.1 This report provides the Board with an update on the Fund's investment activity and performance, as well as responsible investment and an update on the implementation of the intra asset class decisions that were made following the Board's last meeting.

2. Intra Asset Class Implementation Update

- 2.1 Since the Board's last meeting in November 2024, work on the equity and fixed income review had been completed by Mercer with their recommendations taken to the December Committee meeting for decision, where they were agreed.
- 2.2 As a result of Mercer's work, the Committee made the following decisions in relation to the Fund's equity and fixed income mandates:
- 2.2.1 Invest 20% of the Fund's global equity allocation in the WS ACCESS Quality Stars Equity Fund (managed by Robeco);
 - 2.2.2 To disinvest entirely from the Sarasin Global Equity mandate, using the proceeds to facilitate the recommendation above;
 - 2.2.3 To redeem a sufficient amount from the WS ACCESS Global Equity Core Fund (managed by Baillie Gifford) to fund the residual investment required arising from recommendation 2.2.1 after taking account of recommendation 2.2.2.

- 2.2.4 To invest 50% of the Fund's UK Equity exposure in the UBS Life UK Equity Tracker Fund;
 - 2.2.5 To redeem a sufficient amount from the WS ACCESS UK Equity Fund (managed by Schroders) to achieve recommendation 2.2.4.
 - 2.2.6 To terminate the Fund's fixed income mandates with Goldman Sachs, Schroders and CQS;
 - 2.2.7 To increase the Fund's existing investment in the M&G Alpha Opportunities strategy to 5% of the total Fund value;
 - 2.2.8 To invest 5% of the Fund in the WS ACCESS Total Return Credit Fund (managed by BlueBay);
 - 2.2.9 To invest 5% of the Fund in the WS ACCESS Asset Backed Securities Fund (managed by 24 Asset Management).
- 2.3 The decisions made with regard to the global equities allocation have since been fully implemented with a 20% global equity allocation being made to the WS ACCESS Quality Stars Fund (Robeco). This was funded by the 100% divestment from the Sarasin Global Equity portfolio, which was transitioned in specie with the help of Northern Trust. In addition, a cash top-up of £230m from the WS ACCESS Global Equity Core Fund (Baillie Gifford) was undertaken in two tranches to mitigate market timing risk.
- 2.4 As all the decisions involved moving investments into funds in the ACCESS pool, the implementation of the other decisions had since been paused to await the outcome of the government's pooling review consultation. Following the Government's response to the review and consultation, Funds in the ACCESS pool have been directed to select a new pool and therefore the Fund is now focussing on selection and transitioning of assets to the new pool.

3. Fund value and asset allocation

- 3.1 As of 30 June 2025 (the latest available data), the Fund's value was £8.7bn compared to £8.4bn as at 31 March 2025 and £8.5bn on 31 December 2024. The table below sets out the current asset allocation versus the Fund's strategic asset allocation and its rebalancing policy.

Asset Class	Strategic Asset Allocation (%)	Tolerance Band (%)	Current Asset Allocation (%)	Variance	Status
Equities	53	+/- 10	57.0	4.0	In range
UK Equities	10	+/- 2.5	11.4	1.4	In range
Global Equities	38	+/- 5	40.6	2.6	In range
Emerging Market Equities	5	+/- 2.5	5.1	0.1	In range
Fixed Income	22	+/- 5	18.7	-3.3	In range
Credit	15	+/- 5	15.2	0.2	In range
RMF (Index Linked Gilts)	7	-	3.5	-3.5	N/A
Alternatives	25	+/- 10	22.4	-2.6	In range
Absolute Return	5	-	5.1	0.1	N/A
Infrastructure	5	-	4.8	-0.2	N/A

Private Equity	5	-	4.5	-0.5	N/A
Property	10	-	8.1	-1.9	N/A
Cash	0	5	1.9	1.9	In range
Total	100		100		

3.2 The current asset allocation is broadly aligned with the strategic asset allocation, and within approved tolerance bands. UK and global equities are marginally overweight whilst the alternatives assets (excluding absolute return) and the risk management framework are underweight. Some excess cash of around £70m was generated from part sale of the Fidelity Property Fund which is awaiting being reinvested into property as well as being held for additional collateral required in the risk management framework. Given the current asset allocation is within tolerance, officers will not be recommending to the Committee that any rebalancing is undertaken at its meeting in September.

4. Investment performance: quarter to 30 June 2025

4.1 The Fund's performance improved significantly during the quarter to 30 June 2025, achieving a return of 3.1% against a benchmark of 2.9%, compared to the negative return of 1.5% achieved in Q1. This improvement reflects a reversal in market sentiment across asset classes, most notably in global equities, between the two quarters.

4.2 Across asset classes, performance in Q2 contrasted significantly with weakness experience in Q1. UK equities rebounded strongly, returning 6.1% against a 4.4% benchmark, compared to 2.1% against 4.1% in the prior quarter. Global equities also moved from a loss of -3.6% in Q1 to a gain of 5.8% in Q2, ahead of the benchmark position. Emerging market equities were the strongest contributor, producing 8.5% against a 5.5% benchmark, following flat returns in Q1 of -0.1%. Credit mandates continued to provide steady outperformance returning 2.3% in Q2 vs the Q1 return of 1.6%. Similar returns were seen across both quarters within the alternatives allocation, with the exception of Partners Group, who increased from a positive return of 1.3% in Q1 to 2.5% more recently.

4.3 **UK equities:** As outlined above, strong performance was achieved by the Fund's sole UK equities manager, Schroders, who posted a return of 6.1%, a relative outperformance of 1.7%. Key factors for the outperformance in the quarter to June were exposure to small and mid-cap companies, as well as cyclical exposures; all areas which harmed performance during the earlier period.

4.4 **Global equities:** Q2 2025 saw strong returns for global equities, with the Fund delivering a performance of 5.8%, outperforming the benchmark return of 5.1%. Outperformance was driven by overweight positions in US technology and industrials, which captured the rally in growth and cyclical sectors.

4.5 Performance was mixed for the Fund's global equity managers during Q2, with Baillie Gifford significantly outperforming their regional benchmark of 5.4%, achieving a return of 10.3%. On the other hand, M&G Global Dividend Fund posted a relative underperformance of 2.0% with a return of 3.1%. Schroders Global Active Value has performed well in the first half of 2025, posting strong outperformance with a return of 5.4% this quarter vs the same 5.1%

benchmark. Both Impax and the Fund's newest global equities mandate, Robeco Global Stars, have struggled year-to-date, with underperformance in both periods, achieving returns of 4.9% and 2.3% most recently.

- 4.6 After considering the impact of the risk management framework (RMF), performance decreased slightly in Q2 to 4.2%. Strong performance from the global equities market resulted in decreases to the value of the options, resulting in the detraction.
- 4.7 **Emerging market equities:** Emerging market equities performed strongly during the second quarter of 2025 collectively returning 8.5% vs a 5.5% benchmark, mostly driven by both country and sector positioning. The Robeco Emerging Market mandate was the strongest performer, with a returning 9.4% against that benchmark although Columbia Threadneedle were not far behind, achieving a return of 7.6%.
- 4.8 **Fixed income:** the Fund's fixed income mandates delivered strong returns again during Q2, achieving a return of 2.3% - a relative outperformance of 1.3%. Performance was broad based on a sectorial basis, with the lower end of credit quality generally outperforming. Schrodgers and GSAM posted particularly strong results in Q2 against their benchmarks of 1.1% and 0.9%, with returns of 2.8% and 2.7%, respectively. CQS and M&G also had strong returns of 2.0% and 1.3% against the benchmark of 1.1%.
- 4.9 The **Index Linked Gilts** portfolio, which is part of the Risk Management Framework (RMF) managed by Insight, showed improvement in Q2 with a return of 0.5%. This performance was driven by an easing monetary policy stance, as well as continued inflation pressures.
- 4.10 **Property:** The Fund's property investments struggled to outperform the benchmark during Q2, achieving an overall return of 1.0% against the benchmark of 1.7%; a relative underperformance of 0.7%.
- 4.11 Both of the Fund's **absolute return** mandates, Pyrford and Ruffer, marginally outperformed their RPI benchmark of 2.3% this quarter, posting returns of 2.4% and 2.5%, respectively, as a result of the more protective assets, including commodities and precious metals exposures during the period of uncertainty caused by the tariffs.
- 4.12 In **private equity**, HarbourVest continued to struggle in Q2 as firms grappled with geopolitical uncertainty and a challenging macroeconomic environment, posting returns of -5.6% against a benchmark of 1.1%. Whilst YFM also underperformed the benchmark, their return was only slightly lagging. For **infrastructure**, Partners Group had a strong quarter achieving a return of 2.5% which was a relative return of 1.4% against the same benchmark.

5. Longer term performance

- 5.1 For the year ended 30 June 2025, the Fund slightly outperformed its benchmark of 5.1%, achieving an overall return of 5.4%.
- 5.2 Fixed income markets delivered positive returns over the year to 30 June 2025, with all the Fund's bond mandates outperforming their respective benchmarks. Monetary policy adjustments including interest rate cuts contributed to a decline

in government bond yields which enhanced coupon income and supported positive returns. Together, the fixed income portfolios returned 7.9% against their benchmark of 4.5%.

- 5.3 The Fund's equity managers delivered strong performance across all regions. UK equities returned 11.9%, outperforming the FTSE All Share benchmark of 11.2%, supported by positive stock selection in the financials and energy sectors. Global equities achieved a combined return of 7.5%, modestly ahead of the 7.2% benchmark. Impax was the only detractor from global equities performance, being the only equities manager to not outperform their benchmark. Emerging market equities posted the strongest relative performance, returning 8.8% compared to 6.4% for their benchmark.
- 5.4 Both absolute return managers, Ruffer and Pyrford, outperformed the cash benchmark of 4.4% by 2.4%.
- 5.5 Over the three-year period, the Fund returned 4.7%, below the combined benchmark of 6.7%. The main detractors from performance over the period were the Fund's global and UK equity allocations, alongside the absolute return mandates.
- 5.6 Overall, the Fund's global equities delivered 10.4% against a benchmark of 12.7% with Impax remaining the largest detractor over the period, returning 0.3%. The Fund's UK equities also performed well returning 9.6%, although they were unable to match the FTSE All Share benchmark of 10.7%, posting a relative underperformance of 1.1%. The Fund's credit managers were consistent across this period, with all managers outperforming their benchmark, the fixed income allocation collectively posted a return of 7.7%, against the benchmark of 5.5%.
- 5.7 The alternative's allocation has produced mixed returns across the period, though significant outperformance has been seen from the Fund's infrastructure manager, Partners Group, who posted a return of 12.0% and across private equity with YFM posting a return of 13.9% against the cash benchmark of 4.5%.

6. Responsible Investment Update

- 6.1 The Responsible Investment Working Group last met on 28 November 2024, as further work was paused as a result of a focus on pooling changes.
- 6.2 The meeting focused on local investment and the Government's *Fit for the Future* consultation, as mentioned above.
- 6.3 The government believes that, as an institutional investor, the LGPS can make a distinctive contribution to UK and local growth, building on its local role and networks, through increasing its long-term investment in local communities.
- 6.4 Administering authorities (AAs) are already committed investors in projects which support growth in their local area, however, identifying and assessing the suitability of local investments requires resource intensive due diligence which they may not have the capacity to undertake. There is also a concern for reputation and concentration risks and conflicts of interest if there is a link between the employer authorities and investments selected, which may limit local investment.

- 6.5 As a result, the government view is that pools are in a position to provide a central source of investment expertise to assess, commit to and manage local investments and to not face the same potential conflict of interest as their role is serving the admin authorities. Therefore, creating a degree of separation between Admin Authorities and their investments which reduces reputational risk.
- 6.6 In addition, pools invest over a wider geographical area reducing risks from under-performing assets.
- 6.7 Proposals relating to Local Investment include:
- a. Proposal 5: Requirement on AAs to set out their approach to local investment, including a target range for investment, in their Investment Strategy Statement, and to have regard to local growth plans and local economic priorities in setting their investment strategy.
 - b. Proposal 6: Requirement on AAs to work with Combined Authorities, Mayoral Combines Authorities, Combined Country Authorities, and local authorities in other areas to identify suitable local investment opportunities,
 - c. Proposal 7: Requirement for the pools to develop the capability to carry out due diligence on local investment opportunities.
 - d. Proposal 8: Requirement on AAs to include in their annual report a report on the extent and impact of their local investments.
- 6.8 The group was also attended by representatives from Clywd Pension Fund and Schrodgers to provide the view of another LGPS Fund and Fund Manager on how local investment could be implemented.

7. Principles for Responsible Investment (PRI) Update

- 7.1 Following the previous Board meeting, the Fund has also received its results of the PRI Assessment for 2024.
- 7.2 The PRI is the world's leading proponent of responsible investment of which Kent Pension Fund has been a signatory for several years.

What are the six Principles for Responsible Investment?

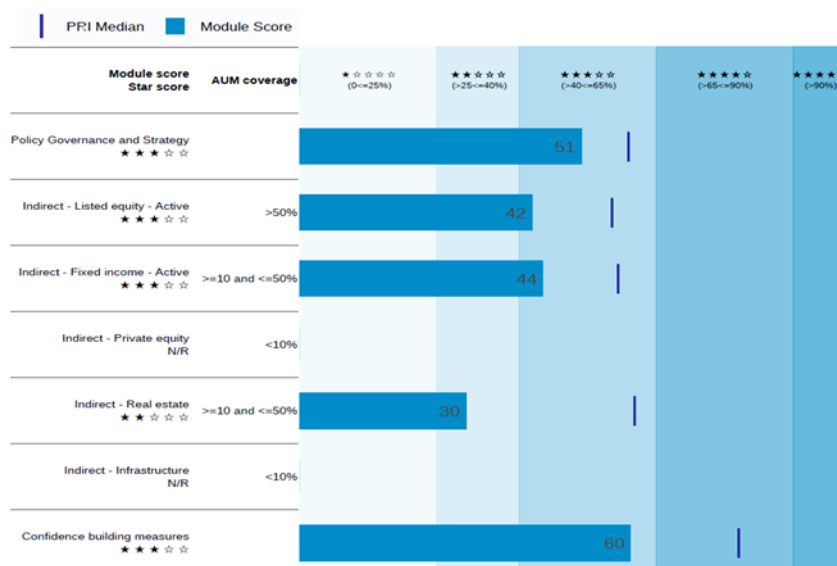
- 7.3 The six Principles for Responsible Investment offer a menu of possible actions for incorporating ESG issues into investment practice.
- 7.4 The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system. They have attracted a global signatory base representing a majority of the world's professionally managed investments.
- 7.4.1 Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.

- 7.4.2 Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.
- 7.4.3 Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- 7.4.4 Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.
- 7.4.5 Principle 5: We will work together to enhance our effectiveness in implementing the Principles.
- 7.4.6 Principle 6: We will each report on our activities and progress towards implementing the Principles.

Results

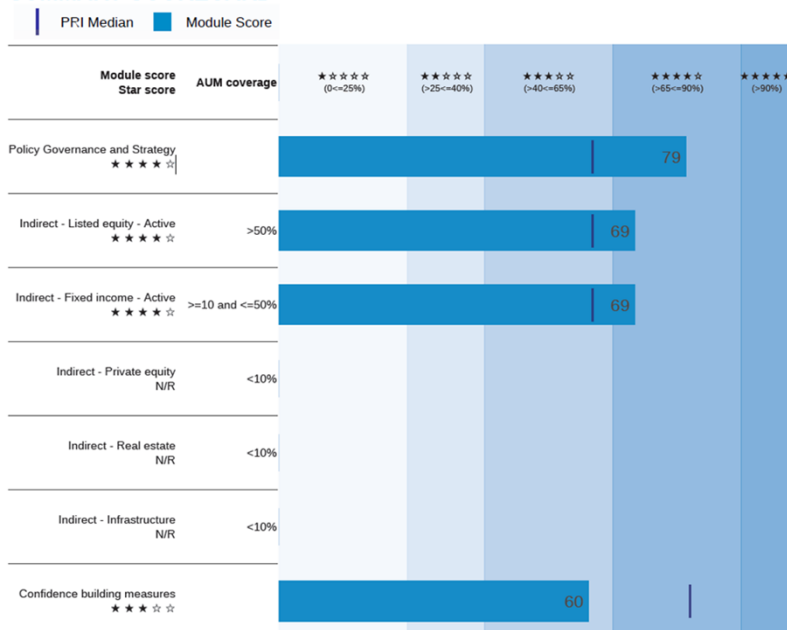
- 7.5 As signatories, we submit information to the PRI on an annual basis. Our results for 2023 were as follows:

SUMMARY SCORECARD



- 7.6 The most recent results for the 2024 reporting period are shown below:

SUMMARY SCORECARD



7.7 The improved scores in policy, governance strategy, listed equity and fixed income are an indicator of the efforts of officers to improve the Fund's RI reporting.

8. ACCESS Update

8.1 The ACCESS Pool have been approved by the Financial Reporting Council (FRC) as a signatory to the UK Stewardship Code 2020.

8.2 To become a signatory to the Code, organisations must submit to the FRC a Stewardship Report demonstrating how they have applied the Code's 12 Principles in the previous 12 months. The Stewardship Report prepared by ACCESS meets the requirements of the UK Stewardship Code and details how the Pool's collective beliefs and policies are translated into investment decisions the Pool makes for the benefit of Administering Authority members.

8.3 No further activity has occurred on the ACCESS RI group due to a pause in the pool activities due to the proposals in the Government's Fit For Future pooling consultation and subsequent fallout from the response from government.

Appendices

Appendix 1 – Quarterly Performance Report (30 June 2025)

Appendix 2 - Quarterly Performance Report (31 March 2025)

Appendix 3 – ACCESS Pool Stewardship Report 2024

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15 August 2025
