

From:	Chairman Pension Fund Committee Interim Corporate Director - Finance
To:	Pension Fund Committee – 23 September 2025
Subject:	Investment Performance and Asset Allocation Update
Classification:	Unrestricted

Executive Summary:

This report provides a summary of the Fund's investment strategy, asset allocation, performance, cashflow position and responsible investment activity. Detailed performance information is provided in the *Quarterly Fund Performance Report* found in Appendices 1 and 2.

Recommendation:

The Committee is asked to:

- a) note the report; and
- b) to agree that no rebalancing is undertaking (para 1.3)

FOR DECISION

1. FUND VALUE AND ASSET ALLOCATION

- 1.1 As of 31 July 2025 (the latest available data), the Fund's value was £8.9bn compared to £8.4bn as at 31 March 2025 and £8.7bn as at 31 January 2025, the position previously reported to the Committee. 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	57.7	4.0	In range
UK Equities	10	+/- 2.5	11.4	1.4	In range
Global Equities	38	+/- 5	41.1	3.1	In range
Emerging Market Equities	5	+/- 2.5	5.2	0.2	In range
Fixed Income	22	+/- 5	18.3	-3.7	In range
Credit	15	+/- 5	15.0	0.0	In range
RMF (Index Linked Gilts)	7	-	3.3	-3.7	N/A
Alternatives	25	+/- 10	22.2	-2.8	In range

Absolute Return	5	-	5.0	0.0	N/A
Infrastructure	5	-	4.7	-0.3	N/A
Private Equity	5	-	4.6	-0.4	N/A
Property	10	-	7.9	-2.1	N/A
Cash	0	5	1.8	1.8	In range
Total	100		100		

- 1.2 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 the partial sale of the Fidelity Property Fund earlier this year, which is awaiting being reinvested into property as well as being held for additional collateral required in the risk management framework.
- 1.3 Given the current asset allocation remains within range of the Fund's approved tolerance bands, no rebalancing is recommended at the current time.

2. INVESTMENT PERFORMANCE

- 2.1 In addition to the summary of quarterly and longer-term performance as of 30 June 2025 shown below, a summary of performance as at 31 March 2025 has also been included to provide the update that was missed during June's scheduled Committee meeting. Further detail on both quarters is provided in the *Quarterly Fund Performance Report* within Appendices 1 and 2.

Investment performance: quarter to 31 March 2025

- 2.2 In the quarter to 31 March 2025, the Fund delivered a return of -1.5% against a benchmark of -0.5%.
- 2.3 The Fund's UK equities underperformed during Q1 due to the strategic focus on small and mid-sized companies during a period when large-cap stocks outperformed. Global equities fell sharply during the period, particularly in the US, which resulted in a -4.2% return for the Fund's global equity mandates. Emerging market equities were mixed, rising in local terms but falling in sterling due to a stronger pound. Fixed income delivered positive returns of 1.6% after benefitting from falling yields and a decline in interest rates, while the opposite was true for the Index Linked Gilts mandate which fell to -3.7% in the quarter. Property markets showed modest recovery during Q1, although the Fund's allocation still lagged the benchmark slightly. Within the alternative allocation, both absolute return portfolios delivered strong gains, supported by protective assets, as well as strong outperformance from infrastructure. In contrast, the private equity managers posted small losses following strong performances previously.

Investment performance: quarter to 30 June 2025

- 2.4 The Fund's investments performed well during the second quarter of 2025, collectively returning 3.1% which was marginally above the 2.9% benchmark. As highlighted in the section above, this was a marked improvement on Q1 results and reflects a reversal in market sentiment across asset classes, most notably in global equities.

- 2.5 **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.
- 2.6 **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.
- 2.7 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.
- 2.8 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.
- 2.9 **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%.
- 2.10 **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. Schroders 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%.
- 2.11 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.
- 2.12 **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%.
- 2.13 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.

- 2.14 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.

3. LONGER TERM PERFORMANCE

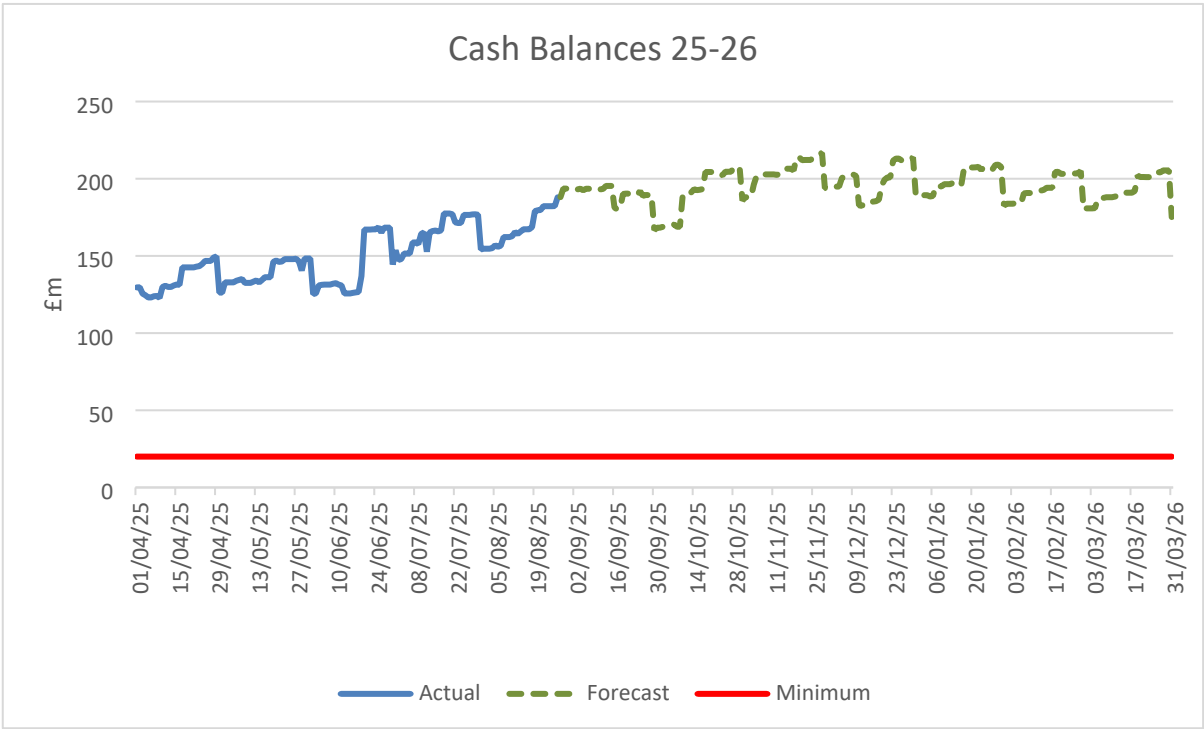
- 3.1 For the year ended 30 June 2025, the Fund outperformed its benchmark of 5.1%, achieving an overall return of 5.4%. Whilst this outperformance of 0.3% looks small, it is important to note that it equates to circa £25M additional on the total fund value.
- 3.2 Fixed income markets delivered positive 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%.
- 3.3 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.
- 3.4 Both absolute return managers, Ruffer and Pyrford, outperformed the cash benchmark of 4.4% by 2.4%.
- 3.5 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.
- 3.6 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%.
- 3.7 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%.

4. CASH FLOW

4.1 The cash balance as of 30 June 2025 was £144.4m, up from £128.8m at the end of the previous quarter. This figure excludes £108.5m of cash currently held within Insight arising from the sale of assets from the Pyrford Total Return Fund in 2024, under the Committee’s strategic asset allocation implementation plan. This additional liquidity source is available for use to meet investment requirements both for existing commitments, future asset class rebalancing, as well as any additional collateral under the Risk Management Framework.

Actual Cash Flow Experience and In-Year Forecast (2025-26)

- 4.2 The chart below shows the Fund’s actual cash flow experience from 1 April to 28 August 2025 (the date of writing this report) as well as forecast of cash flows to 31 March 2026. The chart shows that operational (non-investment) cash flows occur within a fairly repetitive cycle from one month to the next, which reflects standardised timing for contribution receipts and payroll payments.
- 4.3 Actual cash flow experience in the year to date has been largely influenced by the timing of transaction activity within the alternatives allocation, particularly the private equity and infrastructure mandates. The forecast shown is relatively flat through to the end of 2025/26, reflecting significant net distributions expected from Partners Group, which are anticipated to offset larger drawdowns from HarbourVest.



Cash Flow Forecast (2025-2028)

4.4 Officers maintain a forecast of the Fund’s cash flows over the medium term to ensure that liquidity requirements are identified and managed in an orderly fashion. The 3-year cash flow forecast for the Fund based on existing investment commitments is summarised in the table below.

	2025-26 Q2, Q3,Q4 £m	2026-27 Full Year £m	2027-28 Full Year £m
Opening cash balance	153.6	174.3	341.9
Revenue			
Pensions contributions	243.8	326.0	339.0
Property income	13.0	18.0	18.6
Total inflows	256.7	344.0	357.6
Pensions payments	-233.3	-328.0	-337.6
Admin, governance and oversight	-7.3	-7.7	-7.9
Investment management fees	-2.9	-4.0	-4.2
Total outflows	-243.4	-339.8	-349.7
Net revenue cashflow	13.3	4.2	7.9
Investments			
YFM	-4.4	45.9	38.2
Partners Group	63.0	106.0	95.0
HarbourVest	-36.2	11.5	77.4
Property investments net of redemptions	-15.0	0.0	0.0
Net investment cashflow	7.4	163.4	210.6
Closing internal cash balance	174.3	341.9	560.5
Cash held with Insight	108.5	108.5	108.5
Total cash balance (internal + Insight)	282.8	450.4	669.0

- 4.5 The table shows that the Fund's cashflow from pension contributions and property income is currently sufficient for meeting its ongoing pension liabilities, albeit only slightly net positive. This situation looks to continue over the medium term with net revenue cashflow remaining positive for both 2026-27 and 2027-28. One thing worth noting is that 31 March 2025 is the date of the latest triennial valuation exercise and the results of the which may require changes to contribution rates. These changes will, in turn, impact upon cash flow. As such, officers will continue to monitor progress of the triennial valuation into their forecasts and will update when new contribution rates are known.
- 4.6 The table also shows significant investment activity within the alternatives allocation, specifically private equity and infrastructure, which is expected to result in a net inflow of £7.4m by the end of the year. This is thanks to the large projected distributions from Partners Group helping to mitigate the impact of some larger drawdowns from HarbourVest. In addition, 2026-27 and 2027-28, net investment cash flows are expected to result in large inflows as a result of the alternatives allocation being mostly fully drawn. As such, the portfolios are now starting to distribute funds back to the Fund, resulting in a forecasted net investment cashflow of £163.4m in 2026-27 and £210.6m in 2027-28.
- 4.7 The size and timing of the investment cash flows relating to the alternative investment allocations cannot be precisely predicted, and capital calls can be issued at relatively short notice (two weeks). Therefore, it is important that the Fund has adequate liquidity to manage this inherent uncertainty.

- 4.8 In addition to current and forecast cash levels and given the buffer cash available within the Insight Liquidity Fund, as outlined above, officers have no concerns over liquidity.
- 4.9 Whilst it is not ideal to hold significant cash balances, they will support the Fund in its future transitions to the new pooling arrangements considered elsewhere on today's agenda.

5. RESPONSIBLE INVESTMENT UPDATE

- 5.1 Officers have submitted the Funds Principles for Responsible Investment (PRI) Assessment in August and await the results which will be reported in the next committee meeting
- 5.2 Officers are collating information from fund managers in order to complete the annual Net Zero progress monitoring as at 30 June 2025.

6. Voting Activity for the 6 months to 30 June 2025

- 6.1 The Fund regards the exercise of ownership rights, including voting rights, as a critically important activity that enhances value and supports the maintenance of a sustainable financial system in which the interests of the Fund's beneficiaries are effectively accounted for when companies make important strategic decisions
- 6.2 Asset managers are required to conduct all voting decisions at company meetings on behalf of the Fund. For pooled assets, voting should be conducted in accordance with the ACCESS voting guidelines on a comply or explain basis. For non-pooled assets with voting rights, asset managers should adhere to their own voting policies.
- 6.3 Asset managers are required to provide feedback information on voting decisions on a quarterly basis. A summary of the voting activity of the managers for the quarter to 31 March 2025 is shown in the table below:

Manager	Fund Name	Number of Meetings	No. of votes for	No. of votes Against, Abstained or Withheld
ACCESS POOL				
Baillie Gifford	WS ACCESS Global Equity Core Fund	21	197	10
Schroders	WS ACCESS UK Equity Fund	0	0	0
Schroders GAV	WS ACCESS Global Active Value Fund	79	812	80
M&G	WS ACCESS Global Dividend Fund	9	112	26
Robeco	WS ACCESS Global Stars Equity	3	70	4
Robeco	WS ACCESS EM Equity Fund	12	113	28
Columbia Threadneedle	WS ACCESS Emerging Markets Equity Fund	20	83	9
Ruffer	WS ACCESS Absolute Return Fund	6	45	5

NON-POOLED				
Impax	Impax Environmental Markets (Ireland) Fund	6	67	5
Pyrford	Global Total Return	7	106	7

- 6.4 A summary of the voting activity of the managers for the quarter to 30 June 2025 is shown in the table below:

Manager	Fund Name	Number of Meetings	No. of votes for	No. of votes Against, Abstained or Withheld
ACCESS POOL				
Baillie Gifford	WS ACCESS Global Equity Core Fund	129	1755	100
Schroders	WS ACCESS UK Equity Fund	31	685	14
Schroders GAV	WS ACCESS Global Active Value Fund	478	6491	840
M&G	WS ACCESS Global Dividend Fund	27	325	91
Robeco	WS ACCESS EM Equity Fund	23	347	62
Columbia Threadneedle	WS ACCESS Emerging Markets Equity Fund	58	492	109
Ruffer	WS ACCESS Absolute Return Fund	99	1121	292
NON-POOLED				
Impax	Impax Environmental Markets (Ireland) Fund	47	584	35
Pyrford	Global Total Return	47	644	29

- 6.5 Officers also review the voting alerts received from LAPFF from time to time and share with the asset managers if it is identified that the portfolio holds the relevant shares. The voting alerts are intended to provide additional information on ESG issues related to upcoming voting opportunities and enable the Fund to discuss potentially important stewardship events with asset managers on a timely basis.

7. Engagement Activity

- 7.1 The Fund expects the investment managers who hold shares on its behalf to fully comply with the UK Stewardship Code 2020 (the Code) and to be a signatory to the UN supported Principles for Responsible Investment. Asset managers are expected to actively engage with companies to monitor and develop their management of material ESG issues to protect and enhance the value of the Fund's investments
- 7.2 Managers regularly report on engagements carried out with companies in the Fund's portfolio. An example of an engagement reported by Columbia Threadneedle can be found in Appendix 4.

8. Securities Lending

- 8.1 The ACCESS pool has a common policy for securities lending. All the sub-funds participate in the programme, which is operated by Northern Trust, the Pool's custodian.
- 8.2 The Kent Pension Fund also has a securities lending programme with Northern Trust for the directly held segregated assets not yet in the pool.
- 8.3 Standard guidelines have been agreed in both the programmes to provide maximum protection for assets which include borrower/market restrictions as well as adequacy and type of collateral (cash) backing the loaned assets.
- 8.4 The programmes afford the managers the ability to recall shares for voting to meet their stewardship obligations. NTRS also operate a buffer management system which restricts a portion of lendable stocks to allow for representative voting
- 8.5 As well as increasing returns for shareholders, stock lending (and borrowing) provides liquidity to capital markets enabling more efficient pricing and supporting the viability of the capital markets in which investors such as the Kent Pension Fund participate on a long-term basis.
- 8.6 The Securities Lending performance for the quarter ending 31 March 2025 is set out in the table below:

Fund	Manager	Average Stock on Loan	% On Loan	Net Earnings
		£m		£m
WS ACCESS Global Equity Core	Baillie Gifford	103.385	10.6	0.101
WS ACCESS Global Dividend	M&G	185.066	13.0	0.047
WS ACCESS Absolute Return	Ruffer	84.180	11.0	0.028
WS ACCESS UK Equity	Schroders	27.731	3.2	0.010
WS ACCESS Global Active Value Fund	Schroders	17.858	4.0	0.006
WS ACCESS EM Equity Fund	Robeco	16.961	6.6	0.008
WS ACCESS Emerging Markets Equity Fund	Columbia Threadneedle	5.333	2.1	0.002
Total		440.514		0.202

- 8.7 Baillie Gifford Global Equity Core, M&G Global Dividend Fund and Schroders Global Active Value lent a total of four of the top ten revenue earning stocks, which included: Tempus AI Inc, V F Corp Com, Rivian Automotive INC & AMCOR PLC.
- 8.8 The Securities Lending performance for the quarter ending 30 June 2025 is set out in the table below:

Fund	Manager	Average Stock on Loan	% On Loan	Net Earnings
		£m		£m
WS ACCESS Global Equity Core	Baillie Gifford	73.543	8.3	0.073
WS ACCESS Global Dividend	M&G	144.161	10.8	0.038
WS ACCESS Absolute Return	Ruffer	70.149	17.9	0.035
WS ACCESS UK Equity	Schroders	35.549	4.2	0.011
WS ACCESS Global Active Value Fund	Schroders	19.195	4.6	0.014
WS ACCESS EM Equity Fund	Robeco	23.138	9.7	0.009
WS ACCESS Emerging Markets Equity Fund	Columbia Threadneedle	7.426	3.2	0.003
Total		373.161		0.183

8.9 Baillie Gifford Global Equity Core and Ruffer Absolute Return lent a total of four of the top ten revenue earning stocks, which included: Tempus AI Inc, Rivian Automotive Inc, United States TREAS NTS & ADR Sociedad Qumica Y Minera De Chile

Appendices

Appendix 1 – Quarterly Performance Report (30 June 2025)

Appendix 2 - Quarterly Performance Report (31 March 2025)

Appendix 3 – Columbia Threadneedle Engagement

Connor Steensel (Investments Accountant)
Jessica Cunningham (Investments Accountant)

T: 03000 416738 / 03000 423231 / 03000 417248

E: sangeeta.surana@kent.gov.uk / connor.steensel@kent.gov.uk / jessica.edkins@kent.gov.uk

September 2025
