

From:	Chairman Kent Pension Board Interim Corporate Director - Finance
To:	Kent Pension Board – 25 November 2025
Subject:	Investment Update (30 September 2025)
Classification:	Unrestricted

Executive Summary:

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

Section 2 of the report provides an overview of the Fund's current asset allocation compared to the target range and notes that no rebalancing is required given all allocations are within range.

The Fund has outperformed its quarterly benchmark and a detailed commentary on the performance by asset class and manager for the quarter as well as longer term is included in sections 3 and 4 of the report.

Finally, the report also includes an update on the Fund's responsible investment activity, namely the work officers are undertaking with the Fund's new pooling partner, Border to Coast Pensions Partnership (BCPP).

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 on responsible investment developments that have taken place since the Board's last meeting.

2 Fund value and asset allocation

- 2.1 As of 30 September 2025 (the latest available data), the Fund's value was £9.1bn compared to £8.7bn as at 30 June 2025, the position previously reported to the Board. 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	58.4	5.4	In range
UK Equities	10	+/- 2.5	11.4	1.4	In range
Global Equities	38	+/- 5	41.4	3.4	In range
Emerging Market Equities	5	+/- 2.5	5.6	0.6	In range
Fixed Income	22	+/- 5	17.8	-4.2	In range
Credit	15	+/- 5	14.8	-0.2	In range
RMF (Index Linked Gilts)	7	-	3.0	-4.0	N/A
Alternatives	25	+/- 10	22.5	-2.5	In range
Absolute Return	5	-	4.9	-0.1	N/A
Infrastructure	5	-	4.6	-0.4	N/A
Private Equity	5	-	4.6	-0.4	N/A
Property	10	-	8.4	-1.6	N/A
Cash	0	5	1.3	1.3	In range
Total	100		100		

- 2.2 The current asset allocation is broadly aligned with the new strategic asset allocation, allowing for approved tolerance bands. Global, UK and emerging market equities are overweight and conversely private equity, infrastructure, property and the risk management framework are underweight. Some excess cash is being held to meet liquidity requirements for the Fund's alternatives portfolio including private equity and infrastructure drawdowns. On the basis that the current asset allocation remains within tolerance, no rebalancing is required at this stage.

3 Investment performance: quarter to 30 September 2025

- 3.1 The Fund's investments returned 4.7% in the three months to 30 September 2025, compared to the benchmark return of 4.4%.
- 3.2 **UK equities** delivered strong gains over the quarter, with the FTSE All Share Index rising 6.9%. The market showed an increased focus on fiscal and political risks this quarter, and with cautious trading updates from several UK corporates, domestically oriented small and mid-caps underperformed. However, large cap stocks with significant overseas earnings benefitted from a weaker sterling early in the quarter. The Fund's UK equity manager, Schroders, returned 5.5% over the quarter, underperforming the 6.9% benchmark due to the increased allocation to small and mid-caps.
- 3.3 **Global equities** rose strongly over the quarter as investor optimism was supported by resilient economic data and expectations of interest rate cuts in early 2026. However, geopolitical tensions and mixed corporate earnings limited gains in some regions. The MSCI ACWI returned 9.5% in sterling terms and 7.6% in local currency during the three months to 30 September 2025. The

Fund's global equity mandates collectively returned 6.9%, underperforming the benchmark.

- 3.4 Amongst the Fund's global equity managers, all except the Schroders Global Active Value portfolio underperformed their respective benchmarks. Baillie Gifford returned 4.4% against its fixed weight regional benchmark of 8.1%, while M&G, Impax and Robeco delivered returns of 6.7%, 6.8% and 8.0% respectively, compared with the MSCI ACWI benchmark of 9.5%. The Schroders Global Active Value Fund outperformed, returning 10.8% over the quarter due to strong positioning and stock selection.
- 3.5 After taking into account the impact of the Risk Management Framework, overall global equities performance increased slightly to 7.1%, though this was still below the 80% MSCI ACWI benchmark of 7.6%.
- 3.6 **Emerging market equities** delivered strong gains over the quarter, supported by improving economic data, easing inflation pressures, and renewed investor confidence following the extension of the US-China trade truce and strong optimism in AI and technology. The MSCI Emerging Markets Index rose 12.6% in sterling terms for the three months to 30 September 2025.
- 3.7 The Fund's emerging market equity portfolio outperformed the benchmark with an overall return of 15.1%. Both of the Fund's managers added value of this period, with Robeco returning 16.7% and Columbia Threadneedle returning 13.4%. Outperformance was driven by strong stock selection in Asian markets and an overweight to technology and consumer sectors.
- 3.8 **Fixed income** markets delivered modest positive returns over the quarter due to a supported environment for credit. High yield outperformed investment grade credit in the quarter, reflecting the ongoing investor demand for yield. US investment grade credit spreads declined, helped by resilient consumer sector and lower interest rates following the weakening in the US labour market. Corporate bonds also outperformed government debt, supported by improving risk sentiment. The Fund's credit mandates returned 1.9% in the three months to 30 September 2025, outperforming the composite benchmark return of 1.0%. All of the Fund's fixed income managers outperformed their respective benchmarks. CQS and M&G delivered returns of 2.4% and 1.5%, respectively, against their cash benchmarks of 1.0%. The Schroders Strategic Bond Portfolio returned 2.7% vs a benchmark of 1.1%, while Goldman Sachs achieved 1.4% against a 0.9% benchmark.
- 3.9 The Index Linked Gilts portfolio, which is a buy and hold portfolio and is part of the Risk Management Framework (RMF) managed by Insight, returned -3.5% in the quarter as real yields rose sharply and affected our buy and hold portfolio.
- 3.10 **Property** total returns were 1.4% in the quarter, below the MSCI UK All Property index return of 1.7%. In the wider market, all major sectors delivered positive total returns, supported by stabilising valuations and renewed investor interest, particularly within the industrial and residential sectors. The office sector continued to face structural challenges but showed signs of improvement as rental growth remained resilient in prime locations. Within the Fund's property portfolio, the direct property portfolio returned 1.2% against the benchmark. Fidelity outperformed with a return of 1.6% compared to the Balanced Property Index return of 1.2%. The M&G Residential Property Fund also performed strongly, posting a return of 1.4% in the quarter. The UK Active

Value Property Fund (formerly Kames) underperformed with a return of -1.2% against the same benchmark.

- 3.11 Amongst the two **absolute return** mandates, Pyrford and Ruffer achieved absolute returns of 1.9% and 3.4%, respectively - outperforming the RPI benchmark of 0.4%.
- 3.12 All three of the **private equity** and **infrastructure** managers outperformed their cash benchmark of 1.0% in the quarter. HarbourVest showed the greatest outperformance with a return of 5.2%, whilst YFM had a strong return of 3.6%, followed by Partners Group who returned 2.8%.

4 Longer term performance

- 4.1 For the year ended 30 September 2025, the Fund achieved an overall return of 8.8%, outperforming the benchmark return of 8.5%. All asset classes excluding property, UK and global equities outperformed their respective benchmarks during the year.
- 4.2 Fixed income delivered strong results, supported by stable yields and tightening credit spreads. All of the Fund's credit managers outperformed their benchmarks, with CQS posting the highest return of 8.1% against a 4.4% benchmark. Collectively, the Fund's credit mandates returned 6.7%, outperforming the composite benchmark return of 4.1%.
- 4.3 Equities produced robust absolute returns but underperformed their benchmarks. Global equities returned 12.7% overall against the MSCI ACWI benchmark of 16.7%, while UK equities returned 13.7% against the FTSE benchmark of 16.2%. Within global equities, Schroders Global Active Value was the only manager to outperform, delivering 19.9% for the year. Emerging market equities were the strongest performer during the year, returning 24.6% against a benchmark of 16.9%, with both managers producing strong results.
- 4.4 Absolute return strategies also contributed positively during the year, with both Ruffer and Pyrford outperforming the cash benchmark of 4.5%. Ruffer returned 6.6% and Pyrford 5.7% over the year.
- 4.5 Within alternatives, Partners Group was the best performer, achieving 19.1% against the SONIA benchmark of 4.6%, while private equity also generated a positive return of 7.5% against the same benchmark.
- 4.6 For the three-year period, the Fund returned 6.0%, below the benchmark of 8.5%. The main detractors from performance over this period were global and UK equities, as well as some underperformance from absolute return and private equity managers.
- 4.7 Global equities returned 12.9% against the 15.7% MSCI ACWI benchmark, with the M&G Global Dividend Fund being the only mandate to perform in line with the benchmark. Impax remained the largest detractor from performance within the global equity portfolio. The Fund's fixed income portfolios continued to provide consistent outperformance, however, with the credit mandates returning 8.9% collectively against a benchmark of 5.3%.
- 4.8 Alternatives produced mixed results during this period, with Partners Group again recording strong outperformance within the infrastructure asset class,

returning 11.9% compared to the benchmark of 4.7%, while pooled property and private equity underperformed over the same period.

5 Responsible Investment Update

- 5.1 In preparation of our transition to Border to Coast from the ACCESS Pool, we will be working closely with the new pool to implement and discharge the Fund's stewardship responsibilities. We are currently in the process of familiarising and integrating our policies and procedures with BCPP in preparation for formal onboarding.
- 5.2 Officers were invited to a meeting with a representative from Border to Coast to discuss the Fund's Responsible Investment views and policy. This information is being gathered from all of the Border to Coast partner funds to infer their new Responsible Investment Strategy that is in the process of being reviewed.
- 5.3 Officers have been provided with dates for upcoming Responsible Investment Officer Operations Group (RI OOG) meetings and further updates will be provided in due course.

Appendices

Appendix 1 – Quarterly Performance Report (30 September 2025)

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