

From:	Chairman Pension Fund Committee Interim Corporate Director - Finance
To:	Pension Fund Committee – 26 March 2026
Subject:	Investments Update
Classification:	Unrestricted

Executive Summary:

This report provides an update on 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 Appendix 1. This report also outlines the timeline for the strategy review, with proposals for the updated strategic asset allocation and investment objectives.

Recommendation:

The Committee is asked to note the report.

FOR INFORMATION

1 FUND VALUE AND ASSET ALLOCATION

1.1 As of 31 January 2026 (the latest available data), the Fund’s value was £9.48bn compared to £9.40bn as at 31 October 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	58.1	5.1	In range
UK Equities	10	+/- 2.5	11.9	1.9	In range
Global Equities	38	+/- 5	40.0	2.0	In range
Emerging Market Equities	5	+/- 2.5	6.2	1.2	In range
Fixed Income	22	+/- 5	16.4	-5.6	In range
Credit	15	+/- 5	14.5	-0.5	In range
RMF (Index Linked Gilts)	7	-	1.9	-5.1	N/A
Alternatives	25	+/- 10	23.8	-1.2	In range
Absolute Return	5	-	4.9	-0.1	N/A
Infrastructure	5	-	4.3	-0.7	N/A

Private Equity	5	-	4.4	-0.6	N/A
Property	10	-	10.1	0.1	N/A
Cash	0	5	1.7	1.7	In range
Total	100		100		

- 1.1 The current asset allocation is broadly aligned with the strategic asset allocation, and within approved tolerance bands. UK and emerging market equities are overweight and conversely private equity, infrastructure and credit are slightly underweight. Fixed income as a whole is largely underweight, mostly as a result of the allocation to the Risk Management Framework. The underweight position primarily reflects the underperformance of the gilt portfolio and the effects of the Risk Management Framework. Some excess cash is being held to meet liquidity requirements for the Fund's alternatives portfolio including private equity and infrastructure drawdowns.
- 1.2 Whilst the current asset allocation of fixed income at the asset class level is underweight and sits outside of the Fund's approved tolerance bands, Officers are not recommending that Committee agree to a rebalancing given the forthcoming transition to the new pool, Border to Coast Pensions Partnership, and given a strategy review is now taking place.

2 INVESTMENT STRATEGY REVIEW

- 2.1 The Fund is undertaking a full review of its investment strategy, following the results of the triennial valuation as at 31 March 2025, to ensure that the Fund's strategic asset allocation is positioned to produce a return assumed in the actuarial valuation to maintain and improve the funding position.
- 2.2 Members of the Committee attended a training and strategy away day on 10 February 2026, where they received an overview of the strategy development process. They also received the results of the recent Responsible Investment Beliefs Survey and discussed how these should inform the strategy review and the updated Investment Strategy Statement (ISS).
- 2.3 The Government's Pensions Bill following its Fit for Future review expects Administering Authorities to set the Fund's strategic asset allocation and its underpinning investment beliefs. In December 2025 MHCLG issued draft guidance which requires administering authorities to produce and publish a detailed Investment Strategy Statement outlining the investment beliefs, investment objectives and risk tolerances that have informed its Strategic Asset Allocation.
- 2.4 Determining the investment beliefs and risk and return objectives will require working with members and it was agreed at the meeting that an Investment Subgroup of members will be formed outside of the formal committee meetings to discuss and agree these matters in detail with the help of officers and advisors as appropriate. The group will meet from time to time and will also discuss other investment related matters such as Risk Management and Responsible Investment.
- 2.5 It is planned that the Investment Sub-Group (ISG) will meet a couple of times in the coming months to receive training and discuss and agree investment

objectives and a draft strategic asset allocation. The intention is to bring proposals for the updated draft strategic asset allocation (SAA) and investment strategy statement (ISS) to the Committee meeting on 23 June 2026 for approval for consultation with other stakeholders.

- 2.6 Following the June meeting, the next scheduled Committee meeting will be asked to approve the updated ISS and any associated supplementary documents, including the Investment Policy Statement (IPS).
- 2.7 By 30 September 2026, the Fund will be required to formally agree and publish the revised ISS. Throughout the process, officers will be working closely with Mercer, as well as ensuring the Border to Coast are effectively sighted on any proposals and decisions to ensure that the agreed strategy can be effectively implemented using their current and future investment propositions.

3 INVESTMENT PERFORMANCE: QUARTER TO 31 DECEMBER 2025

- 3.1 The Fund's investments returned 2.7% in the three months to 31 December 2025, marginally behind the strategic benchmark return of 2.8%.
- 3.2 **UK equities** returned 5.9% in the quarter vs the FTSE All-Share index return of 6.4%. The Fund's only UK equities manager, Schroders, delivered a weaker return than benchmark due to a challenging environment for their style, which focusses on small and mid-caps.
- 3.3 **Global equities** returned 2.5% against the MSCI ACWI benchmark of 3.4%. Performance was largely driven by a weaker US dollar and regional rotations out of America, with a focus on value and quality stocks. Of the Fund's global equity managers, Baillie Gifford and Impax underperformed with returns of -1.2% and -3.2% against their respective benchmarks of 4.3% and 3.4%. Their growth-oriented and sustainable investment styles struggled during the rotation. On the other hand, Schroders Global Active Value Fund, M&G Global Dividend Fund and Robeco Global Stars Fund all performed well, returning of 6.1%, 5.0% and 3.5% respectively, benefitting from value and dividend tilts in a rotation away from growth and tech.
- 3.4 The Fund has implemented a risk management framework for global equities which aims to mitigate downside risk, but which also means that the asset class is aimed to achieve 80% of MSCI returns. Taking into account the impact of the Risk Management Framework, overall global equities performance remained at 2.5%, which was only marginally below 2.7% being 80% MSCI ACWI return of 3.4%.
- 3.5 **Emerging market equities** outperformed the broader market, returning 6.2% in the quarter against the MSCI Emerging Markets benchmark of 4.8%. This was supported by a weaker US dollar and renewed interest in Asian technology stocks.
- 3.6 Robeco had the stronger performance of the two managers, returning 7.7% whilst Columbia Threadneedle returned 4.7%. Robeco's performance was driven primarily by positive country allocation, with overweight to Korea, whilst underweights to China, Greece and India all contributing. For Columbia Threadneedle, stock selection and sector allocation both weighed on returns,

although choices in technology added some alpha to result in only a marginal underperformance.

- 3.7 **Fixed income** returned 1.4% in the quarter, outperforming the composite benchmark of 0.9%. The environment for credit remained supportive as spreads tightened amid a soft-landing economic narrative. CQS, Schroders Strategic Bond Fund and Goldman Sachs all outperformed slightly with returns of 1.5%, 1.5% and 1.8% respectively. M&G Alpha Opportunities slightly underperformed with a return of 0.8% against the 1.0% 1-month SONIA benchmark.
- 3.8 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 7.6% in the quarter, benefitting from a decline in UK real yields.
- 3.9 **Property** total returns were 0.3% in the quarter, below the MSCI UK All Property index return of 1.3%. Within the asset class, direct property underperformed with a return of 0.4% against the same benchmark, though this underperformance was largely led by transaction costs from the large purchases in December, as reported at the previous Committee meeting. M&G residential property returned 0.4% against MSCI UK All Balanced Property index of 0.8%. Fidelity returned -2.0% and Kames returned 1.1% against the same benchmark.
- 3.10 Amongst the two **absolute return** mandates, both Pyrford and Ruffer outperformed the RPI benchmark of 0.6%, posting returns of 2.5% and 2.1% respectively, resulting in an overall performance of 2.3%. Exposure to gold and precious metals, as well as equities, all contributed positively to performance in Q4. Additionally, heavy bond allocations led to outperformance from Pyrford, with falling yields boosting returns.
- 3.11 **Private equity** and **infrastructure** showed mixed results. Private equity returned 0.7% against the SONIA benchmark of 1.0%. HarbourVest was the largest detractor for private equity, returning 0.1%, whereas YFM performed better with a return of 3.1%. Partners Group returned -2.1% for infrastructure.

4 LONGER TERM PERFORMANCE

- 4.1 For the year ended 31 December 2025, the Fund achieved an overall return of 9.8%, which was in line with the benchmark return.
- 4.2 Equities produced strong absolute returns but underperformed on a relative basis over the 12-month period. Global equities returned 11.1% (vs 13.9% benchmark) and UK equities returned 20.9% (vs 24.0% benchmark). Within global equities, Schroders Global Active Value was the only manager to outperform, returning 24.0%.
- 4.3 Emerging market equities were the strongest performing asset class over the year, with both managers producing very strong absolute returns. Columbia Threadneedle returned 23.9% against a benchmark of 24.4%, a marginal relative underperformance. Robeco, however, posted a significant relative return of 17.2%, with returns of 41.6% in the year. This led to an overall performance of 32.3% for emerging markets over the year to December 2025. This performance is largely as a result of country allocation, highlighting successful overweight to Korea and underweight to India.

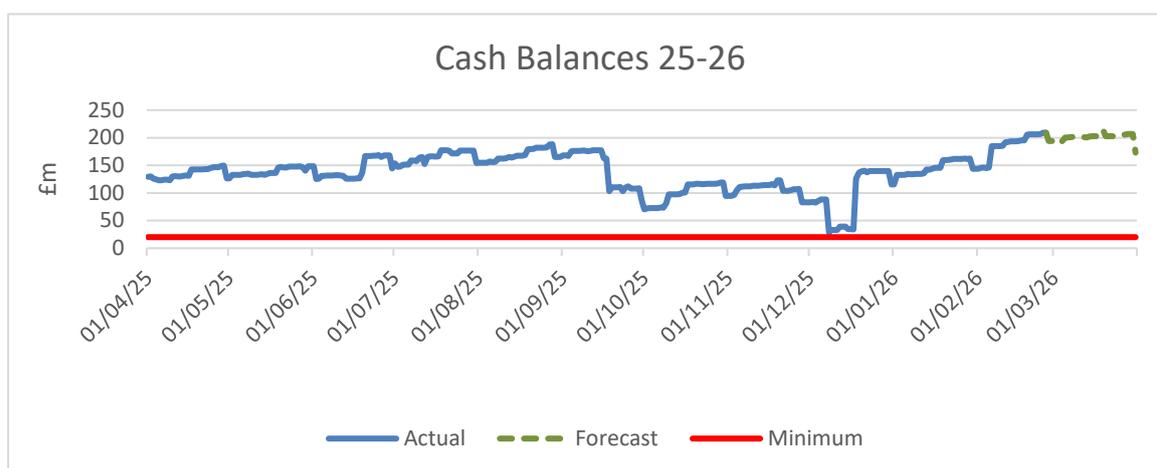
- 4.4 Fixed income outperformed over the year, returning 8.9% against a benchmark of 5.3%, as yields stabilised and the Fund's managers successfully navigated the tariff impact and changing interest rate outlook.
- 4.5 Alternatives produced mixed longer-term results with absolute return and infrastructure both performing well over the 1-year period, returning 10.6% and 9.8% respectively, significantly ahead of their benchmarks of 4.2% and 4.4% respectively. Private equity and property both underperformed over the year, returning 2.3% and 2.4% respectively. Private equity performance was hindered by HarbourVest who returned 0.8%, though YFM saw strong returns of 9.3%.
- 4.6 Over the three-year period, the Fund returned 6.6%, underperforming the benchmark of 9.2%. The longer-term lag is primarily attributed to the underperformance of Global and UK equities, as well as property and absolute return during a high-inflation period of 2023-2024.
- 4.7 Notable long-term success include infrastructure, which returned 10.5% over three years, which was a relative outperformance of 5.7%, and Credit which outperformed its benchmark by 3.2% with a three-year return of 8.4%.

5 CASH FLOW

- 5.1 The cash balance as of 31 December 2025 was £115.2m, up from £105.2m at the end of the previous quarter. Previously the Fund held a significant cash balance which was held within Insight to meet additional collateral requirements if any as well as to fund drawdowns for alternative asset classes. As discussed at the last Committee, £180m was used to Fund two large property investments in December and so there is currently a nil balance within Insight. However, the Committee also agreed to opportunistically rebalance global equities and hence a further £90m has been generated as cash be held to meet future private equity drawdowns.

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

- 5.2 The chart below shows the Fund's actual cash flow experience during this financial year from: 1 April to 26 February 2026(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 income receipts and pensions payroll payments. Additionally, the chart shows the impact from investment transactions, indicated by the dips seen in September, as a result of the purchase of a new property within the DTZ portfolio, and again in December following the property purchases previously reported. Following these purchases, Committee agreed to an opportunistic rebalancing within the global equities mandate, which brought cash levels back to healthy levels.
- 5.3 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 indicates that cash levels are expected to remain roughly in line with current levels by the end of the quarter. No new known investments are being planned, which would impact upon cash flow. Additionally, the cash flows relating to Fund's legacy private equity and infrastructure investments are expected to net to zero, considering all estimated drawdowns and distributions.



Cash Flow Forecast (2025/26 – 2027/28)

- 5.4 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 cash flow forecast for the Fund based on existing investment commitments is summarised in the table below.

	2025-26 Q4 £m	2026-27 Full Year £m	2027-28 Full Year £m
Opening cash balance	132.8	172.8	282.1
Revenue			
Pensions contributions	81.3	326.0	339.0
Property income	6.7	14.8	29.0
Total inflows	87.9	340.8	368.0
Pensions payments	-77.8	-328.0	-337.6
Admin, governance and oversight	-7.0	-7.7	-7.9
Investment management fees	-1.0	-4.0	-4.2
Total outflows	-85.7	-339.8	-349.7
Net revenue cashflow	2.2	1.0	18.3
Investments			
YFM	0.1	45.9	38.2
Partners Group	8.0	83.4	96.5
HarbourVest	-8.2	31.0	53.1
Disposal of IPIF	38.0	0.0	0.0
Potential new infrastructure	0.0	-28.0	-104.0
Potential new private equity	0.0	-24.0	-70.0
Net investment cashflow	37.9	108.3	13.8
Closing internal cash balance	172.8	282.1	314.2
Total cash balance	172.8	282.1	314.2

- 5.5 The table shows that the Fund’s cashflow from pension contributions and property income is marginally net positive, after taking investment management

fees into account. As investments move into the pool, investment manager fees will not impact cash as they will be taken directly from underlying investment funds.

- 5.6 Following the Fund's triennial valuation as at 31 March 2025, the actuary will be certifying updated contribution rates for the next three years which will come into effect from 1 April 2026. The impact of the new contribution rates on the Fund's cashflow will be incorporated in the forecast as soon as it becomes available and will be reported to the next committee.
- 5.7 The figures in the table above include cash flows from planned commitments to private equity and infrastructure. The forecast for 25-26 includes proceeds from disposal of IPIF unit trust by Fund's property managers DTZ, As at the previous update, 2026-27 and 2027-28 expects the Fund's alternatives allocation to provide large inflows as a result of the existing alternatives allocation being mostly fully drawn and transitioning to distributing phase. However, in the coming months the Fund will be exploring opportunities for commitments within the alternatives portfolios with Border to Coast Pool to maintain allocation to this asset class. Initial estimates for cash flow from those commitments have been added. These figures are indicative and no decision has yet been made regarding BCPP propositions. Any recommendations will be brought to a future Committee meeting for decision.
- 5.8 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.
- 5.9 Given the current and forecast cash levels, officers have no concerns over liquidity.

6 Responsible Investment Update

- 6.1 Officers attended the quarterly Responsible Investment Group with Border to Coast partner funds in February.
- 6.2 The pool provided an update of their long-term RI Strategy which was signed off by the Border to Coast Board in November 2025. The focus is working on the structure around what the pool is already progressing on, rather than a "big bang" launch.
- 6.3 The implementation is being managed via four pillars to drive long-term value for the pool. These are:
 - Portfolio Resilience – building resilience into investment decisions
 - Stewardship & Voice – Promoting longer-term value through active ownership
 - Innovation- Innovating to meet emerging sustainability challenges and opportunities.
 - System Influence – shaping the system for long-term resilient outcomes

- 6.4 In addition to this, the annual “climate report” is in the process of being drafted. One notable update is this is due to be renamed the “sustainability and climate report” to meet FCA requirements regarding sustainability disclosure over a broader range of themes than climate.
- 6.5 Officers were notified of the Pool’s four engagement themes which are split into two core themes: corporate accountability and climate resilience and two targeted themes: Natural Capital & Biodiversity and Fairness in work, pay and prospects. Engagement throughout the year will be focused, but not limited to, these four themes.
- 6.6 Borders to Coast also have a priority watchlist consisting of 33 companies for focused engagement. 10 of these companies are on the Pool’s nature watchlist, which is new for the 2026 AGM season, this is aimed to mitigate nature risk at company and system level. They have used the world benchmarking alliances nature benchmark to identify laggards and prioritised companies based on holding size. 11 of these companies are in the top 40 highest emitters and the final 13 are on the pool’s human rights watchlist.
- 6.7 Companies on the watchlist will be written out to with the can explanation of the reasons why they are on the watchlist and concerns and expectations will be shared.
- 6.8 The Net Zero roadmap is due to be refreshed as the pool’s 2025 interim targets have already been met, and they are on target to meet 2030 targets. In addition to this, requirement to make adjustments necessary to align with the pool’s principles taking into consideration latest policy updates and to incorporate the views of the incoming partner funds.
- 6.9 Officers will be contacted by the pool in upcoming months to include Kent Pension Fund’s input in the refresh of the roadmap.

7 Voting Activity for the 3 months to 31 December 2025

- 7.1 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
- 7.2 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.
- 7.3 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 December 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	63	225	10
Schroders	WS ACCESS UK Equity Fund	5	56	11
Schroders GAV	WS ACCESS Global Active Value Fund	57	215	216
M&G	WS ACCESS Global Dividend Fund	7	91	31
Robeco	WS ACCESS Global Stars Equity	2	3	0
Robeco	WS ACCESS EM Equity Fund	6	23	4
Columbia Threadneedle	WS ACCESS Emerging Markets Equity Fund	19	85	26
Ruffer	WS ACCESS Absolute Return Fund	15	100	29
NON-POOLED				
Impax	Impax Environmental Markets (Ireland) Fund	4	38	1
Pyrford	Global Total Return	8	44	6

7.4 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.

8 Engagement Activity

8.1 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

8.2 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 2.

9 Securities Lending

9.1 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.

9.2 The Kent Pension Fund also has a securities lending programme with Northern Trust for the directly held segregated assets not yet in the pool.

9.3 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.

9.4 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

9.5 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.

9.6 The Securities Lending performance for the quarter ending 31 December 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	105.191	10.8	0.069
WS ACCESS Global Dividend	M&G	139.527	8.9	0.040
WS ACCESS Absolute Return	Ruffer	113.246	23.2	0.046
WS ACCESS UK Equity	Schroders	55.216	5.5	0.020
WS ACCESS Global Active Value Fund	Schroders	22.145	4.4	0.015
WS ACCESS EM Equity Fund	Robeco	27.369	9.4	0.174
WS ACCESS Emerging Markets Equity Fund	Columbia Threadneedle	14.918	4.9	0.028
WS ACCESS Global Stars Equity Fund	Robeco	14.850	1.0	0.004
Total		492.462		0.396

9.7 Baillie Gifford Global Equity Core, Ruffer Absolute Return Fund, Robeco EM Equity Fund & M&G Global Dividend Fund, lent a total of five of the top ten

revenue earning stocks, which included: Rivian Automotive INC, United States of America Treasury Notes, Infosys Limited, Figma Inc. & VF Corp Com.

Appendices

Appendix 1 – Quarterly Performance Report (31 December 2025)

Appendix 2 – Engagement Example – Columbia Threadneedle

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