From:	Chairman Kent Pension Board Corporate Director Finance
To:	Kent Pension Board – 31 March 2026
Subject:	Investment Update (31 December 2025)
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 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. This paper also provides an overview of the Investment Strategy review, noting timelines for completion of this review.

2 Fund value and asset allocation

2.1 As of 31 January 2026 (the latest available data), the Fund's value was £9.48bn compared to £9.1bn as at 30 September 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**	**58.1**	**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**		

2.2 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.

2.3 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 have not recommended that the 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.

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. Considering 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 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 Investment Strategy Review

5.1 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.

5.2 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).

5.3 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.

5.4 Officers' intention is to present the proposals for the updated draft strategic asset allocation (SAA) and investment strategy statement (ISS) to the

Committee at their next meeting on 23 June 2026 for approval for consultation with other stakeholders. The Board will be engaged and will have oversight throughout the review period.

5.5 Following the June meeting, the Committee members will then be asked to approve the updated ISS and any associated supplementary documents, including the Investment Policy Statement (IPS) at their next meeting.

5.6 By 30 September 2026, the Fund will be required to formally agree and publish the revised ISS. Throughout this 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.

5.7 Officers will provide further updates on the Strategy Review as we progress through the process.

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.

Appendices

Appendix 1 – Quarterly Performance Report (31 December 2025)

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