

To: Kent Pension Board – 04 June 2026

From: Chairman Kent Pension Board  
Corporate Director of Finance

Subject: Investment Update

Classification: Unrestricted

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### **Executive Summary:**

As at 31 March 2026, the Fund's value was £9.4bn, a slight decline from the £9.5bn reported previously. The current asset allocation remains broadly in line with the Fund's strategic targets and approved tolerance bands, with the exception of fixed income. no rebalancing is being recommended to the Committee at this stage, given the ongoing Investment Strategy Review and planned transitions to Border to Coast. Breakdown of the individual asset class allocations are provided in para 2 of this report.

For the quarter to 31 March 2026, the Fund returned +0.1%, marginally underperforming the strategic benchmark of +0.4%. Over the one-year period, the Fund returned +11.5%, outperforming the benchmark by +0.7%, Whilst over three years, the Fund returned +6.2%, underperforming by 2.2%, Details of the asset class and manager performance are contained in paragraph 3 as well as Appendix 1 of this report.

Following the triennial valuation the Fund is updating its investment strategy with the support of Mercer and engagement from Border to Coast. MHCLG has extended the deadline for publication of the new style Investment Strategy Statement (ISS) to March 2027, and the Fund is aiming to finalise the ISS in December 2026. Details of the timeline for completion are provided in paragraph 5 of this report.

Burgess Salmon are undertaking a legal review of the Border to Coast Investment Management Agreement (IMA) on behalf of the 18 partner funds with no significant issues identified. The IMA is now with the partner funds for comment. The discussions on the updated ACCESS Inter-Authority Agreement are nearly complete, with only one outstanding matter at a partner fund, which is expected to be resolved shortly. Once agreed, the new pools will assume oversight of the ACCESS operator Waystone.

### **Recommendation:**

The Board is recommended to note the report.

### **FOR INFORMATION**

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## 1 Introduction

1.1 This report provides the Board with an update on the Fund's asset allocation, investment performance, and responsible investment developments since the last meeting. Additionally, the paper includes a progress update on the Investment Strategy Review as well as Pooling.

## 2 Fund value and asset allocation

2.1 As of 31 March 2026, the Fund's value was £9.4bn (down from £9.5bn on 31 January 2026, as previously reported). The table below sets out the current asset allocation versus the Fund's strategic asset allocation and its rebalancing ranges.

Asset Class	Strategic Asset Allocation (%)	Tolerance Band (%)	Current Asset Allocation (%)	Variance	Status
<b>Equities</b>	<b>53</b>	<b>+/- 10</b>	<b>57.4</b>	<b>4.4</b>	<b>In range</b>
UK Equities	10	+/- 2.5	11.8	1.8	In range
Global Equities	38	+/- 5	39.6	1.6	In range
Emerging Market Equities	5	+/- 2.5	6.0	1.0	In range
<b>Fixed Income</b>	<b>22</b>	<b>+/- 5</b>	<b>16.7</b>	<b>-5.3</b>	<b>In range</b>
Credit	15	+/- 5	14.5	-0.5	In range
RMF (Index Linked Gilts)	7	-	2.2	-4.8	N/A
<b>Alternatives</b>	<b>25</b>	<b>+/- 10</b>	<b>23.8</b>	<b>-1.2</b>	<b>In range</b>
Absolute Return	5	-	5.0	0.0	N/A
Infrastructure	5	-	4.4	-0.6	N/A
Private Equity	5	-	4.6	-0.4	N/A
Property	10	-	9.8	-0.2	N/A
<b>Cash</b>	<b>0</b>	<b>5</b>	<b>2.3</b>	<b>2.3</b>	<b>In range</b>
<b>Total</b>	<b>100</b>		<b>100</b>		

2.2 The current asset allocation remains broadly in line with the strategic target and within approved tolerance bands. As a whole, equities are overweight while private equity, infrastructure, credit, and property are slightly underweight. Fixed income as a whole is largely underweight, primarily due to the impact of the Risk Management Framework (RMF) and ILG performance, as well as following withdrawal of funds out of the RMF in the latter part of 2025. Additionally, higher cash balance is being held pending making further commitments to Fund's alternatives investments in the new Pool.

2.3 The rebalancing position is unchanged from that previously reported. Officers are not recommending any rebalancing takes place at this stage, despite fixed income being out of tolerance, given the ongoing strategy review and transitions to Border to Coast.

## 3 Investment Performance: Quarter to 31 March 2026

3.1 The Fund returned 0.1% over the quarter, marginally underperforming the benchmark return of 0.4%. The quarter was characterised mostly by significant global market volatility, driven primarily by escalating tensions between the US and Iran and a sharp rotation away from growth assets.

- 3.2 **Equities** were mixed. **UK equities** delivered a modest absolute return of 0.2% but significantly underperformed the market, primarily due to stock selection by managers and an underweight to energy. **Global equities (ex. Protection)** declined overall and underperformed with a return of -1.8% (-0.5% relative underperformance), as growth-oriented managers were impacted by the sell-off in technology stocks. While some managers with value styles and allocation to alternative energy stocks outperformed, this was offset by weaker performance elsewhere. The Fund's Risk Management Framework did help to reduce some downside, resulting in a smaller overall loss than global equities ex. protection. **Emerging market equities** were a key positive contributor, outperforming strongly due to effective country allocation and stock selection across both managers. Overall, the EM class returned 4.2% against the 1.8% benchmark.
- 3.3 **Fixed income** markets experienced a difficult quarter overall, with all credit mandates lagging their benchmarks. The Fund's credit mandates returned -0.6% overall, underperforming the composite benchmark of 0.9%. Rising real yields also negatively impacted the Fund's buy-and-hold **Index Linked Gilts** portfolio, which is part of the Risk Management Framework, also returning -0.6% in the quarter.
- 3.4 **Alternative** assets were more resilient. **Absolute return** strategies performed well and provided positive returns in volatile conditions, as a result of the more defensive strategies. Combined, both managers returned 1.7% which was a relative outperformance of 1%. **Property** delivered a modest positive return, broadly in line with the market, although performance was mixed across the unit trust managers. Together property returned 1.6%. **Infrastructure** was flat and underperformed due to higher interest rate expectations, whilst **private equity** generated positive returns with 3.7% in the quarter, compared to the 0.9% SONIA benchmark.

## 4 Longer Term Performance

- 4.1 For the year ended 31 March 2026, the Fund achieved an overall return of 11.5%, achieving an outperformance of 0.7%. This performance was driven primarily by strong absolute returns across equities as well as large outperformance from emerging markets in particular, alongside solid contributions from both fixed income and alternatives, excluding property which struggled somewhat.
- 4.2 Over three years, the Fund returned 6.2%, underperforming the benchmark by 2.2%. The longer-term lag is primarily attributed to the underperformance of Global and UK equities, although property, private equity and absolute return also negatively contributed. Performance was partially offset by strong returns from infrastructure and credit over this time period.

## 5 Investment Strategy Review

- 5.1 As previously reported, following the results of the triennial valuation as at 31 March 2025 the Fund is required to update its investment strategy statement (ISS). This will involve a review of the Fund's strategic asset allocation to ensure the investments achieve a return assumed in the actuarial valuation to maintain and improve the funding position.
- 5.2 The Government's Pension Review and the associated regulations and guidance have introduced new requirements on Funds which includes outlining the Fund's investment beliefs, investment objectives and risk tolerances that have informed its Strategic Asset Allocation. They also stipulate a deadline for updating the ISS which was initially set for 30 September 2026 but has since been extended to 31 March 2027.

- 5.3 The investment strategy review is being supported by the Fund's investment adviser Mercer and in April and May Committee members attended 2 Investment Sub-Group meetings to receive training on and consider the implications of alternate strategy options based on their risk and return profile and impact on their ability to meet the Fund's objectives.
- 5.4 In its June meeting the Committee will receive an update on the work done so far and a recommendation for a preferred strategy options for further development. In the summer members will also receive further training on any new asset classes proposed in the strategy to support their decision making which will be further refined for incorporation into the ISS. Throughout this process, officers will be working closely with Mercer, as well as Border to Coast Pool to ensure they 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.
- 5.5 In September, the Pension Board will be provided with an update on the activity and receive a copy of the draft Investment Strategy Statement for comment before it is presented to the Committee for approval ahead of consultation with other stakeholders.
- 5.6 Following the conclusion of the consultation, the final ISS will be presented to the Committee in December for approval. Simultaneously officers will also be working with the Border to Coast Pool to develop plans for strategy implementation and options for efficient and cost-effective transition of assets into the Pool. The Board and the Committee will be kept updated of progress at every stage.

## **6 Responsible Investment Update**

- 6.1 The officers attended the Border to Coast Responsible Investment Officer Group on 11 May 2026.
- 6.2 The group had an open discussion on the partner funds reporting needs for the future and how the pool may be able to support this. Several of the partner funds are signed up to the Stewardship code and/or complete TCFD reporting.
- 6.3 The Kent Pension Fund are not signatories to the stewardship code and do not submit TCFD reporting, however, there are reporting requirements as signatories to the Principles for Responsible Investment (PRI).
- 6.4 Border to Coast is going to contact the Financial Reporting Council (FRC) regarding the future of reporting for individual partner funds, as if the investments are all within the pool, clarity is required on the responsibilities of the partner funds.
- 6.5 The Border to Coast Stewardship Report is due to be approved by the Board on 23<sup>rd</sup> June and published after the July AGM.
- 6.6 Border to Coast is planning a refresh of their Net Zero road map and are currently in the information gathering stage to ensure that the Net Zero road map reflects the RI beliefs of all the partner funds.
- 6.7 Officers will be working closely with the pool over the coming months to ensure that the road map reflects Kent Pension Fund's Net Zero plans and the plan is for the revised Border to Coast road map to be implemented by Q1 2027.

## 7 Pooling Update

- 7.1 The Pensions Bill, which gives effect to the government's Pensions Reforms finally received Royal Assent in April after much ping-ponging in the Houses of Parliament. It is anticipated that the associated LGPS regulations and guidance setting out the details of the requirements and which have already been consulted upon will be issued imminently and will be effective immediately thereafter.
- 7.2 Kent Pension Fund and six other ACCESS partner Funds officially became shareholders of the Border to Coast Pool effective 1 April 2026 meeting the deadline set by the Government, albeit the Pensions Bill had not been enacted by then.
- 7.3 Members will be aware that, under the reforms, the Pool will be required to provide investment management services, and partner funds will be required to enter into an Investment Management Agreement (IMA) with the Pool. The IMA with Border to Coast has been drafted and has undergone a legal review on behalf of all partner funds. The partner funds will now have an opportunity to discuss and understand the implications of any points arising from the legal review to be able to give their agreement to the IMA. It is understood that no significant issues have been highlighted in the legal review and there is one issue related to liability cap which is being discussed for a considered agreement to be reached. Partner funds and the Pool are taking a pragmatic approach to this in the knowledge that the agreement will be kept under review for any future changes required as the service develops.
- 7.4 Simultaneously, as reported earlier, the ACCESS Inter Authority Agreement is being revised to reflect the changed circumstances i.e. to facilitate the orderly winding down of the pool once ACCESS fund's assets are transitioned into their new pools.
- 7.5 Whilst most of the terms in the updated ACCESS IAA have been agreed by all parties involved, there has been delay due to decisions being delayed at one particular partner fund which is in a different situation to all the other authorities. The issues relating to that fund are expected to be resolved imminently following which the IAA will be required to be signed by individual partner fund Authorities in accordance with their specific governance arrangements.
- 7.6 Once the partner funds sign the IMA with their respective pools, and the new ACCESS IAA, the pools will take on oversight of the ACCESS pool and its operator Waystone. The new operating processes and reporting relationships have now been agreed between all parties and have been acknowledged by Waystone in a letter issued to all ACCESS Funds. This Waystone letter will also be appended to the updated ACCESS IAA to formalise those arrangements.

### Appendices:

#### Appendix One Quarterly Performance Report (31 March 2026)

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