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| To: | Kent Pension Board – 04 June 2026 |
| From: | Chairman Kent Pension Board<br>Corporate Director of Finance |
| Subject: | Investment Update |
| Classification: | Unrestricted |

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**Executive Summary:**

As at 30 June 2026, the Fund's value was £9.96bn, an increase of more than £500million from the £9.42bn 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. As was the case previously, 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 30 June 2026, the Fund returned +5.87%, a strong absolute return but marginally underperforming the strategic benchmark of +6.11%. Over the one-year period, the Fund returned +14.5%, a slight outperformance vs the benchmark of +14.3%, Whilst over three years, the Fund returned +8.8%, underperforming by -1.1%, Details of the asset class and manager performance are contained in paragraph 3 as well as Appendix 1 of this report.

The Fund is continuing to work with Mercer, with engagement from Border to Coast, to review and update its Investment Strategy. The approach taken on the strategy review and developing the updated ISS has been detailed in section 6 of the report below and will also be discussed in further detail during the scheduled Hot Topic Training. The draft ISS is due to be approved by the Committee at their meeting later this month, at which point officers will also share with the Board, before going out to consultation in October. Once the consultation is complete, the final ISS will be presented in the Committee's December meeting for approval, ahead of the extended deadline of 31 March 2027.

**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 30 June 2026, the Fund's value was £9.96bn, up from the £9.42bn (as at 31 March 2026), previously reported to the Board. 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 |
|---|---|---|---|---|---|
| **Equities** | **53** | **+/- 10** | **60.8** | **7.8** | **In range** |
| UK Equities | 10 | +/- 2.5 | 11.6 | 1.6 | In range |
| Global Equities | 38 | +/- 5 | 41.9 | 3.9 | In range |
| Emerging Market Equities | 5 | +/- 2.5 | 7.3 | 2.3 | In range |
| **Fixed Income** | **22** | **+/- 5** | **14.6** | **-7.4** | **In range** |
| Credit | 15 | +/- 5 | 14.0 | -1.0 | In range |
| RMF (Index Linked Gilts) | 7 | - | 0.6 | -6.4 | N/A |
| **Alternatives** | **25** | **+/- 10** | **22.6** | **-2.4** | **In range** |
| Absolute Return | 5 | - | 4.8 | -0.2 | N/A |
| Infrastructure | 5 | - | 4.1 | -0.9 | N/A |
| Private Equity | 5 | - | 4.1 | -0.9 | N/A |
| Property | 10 | - | 9.6 | -0.4 | N/A |
| **Cash** | **0** | **5** | **2.0** | **2.0** | **In range** |
| **Total** | **100** | | **100** | | |

2.2 The current asset allocation remains broadly in line with the strategic target and within approved tolerance bands, and largely unchanged from previously reported figures. As a whole, equities are overweight while alternatives are slightly underweight. Fixed income as a whole is largely underweight, primarily due to the impact of the Risk Management Framework (RMF) and Index Linked Gilts (ILG) performance. A large part of the underweight is also attributable to the 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 given the ongoing strategy review and transitions to Border to Coast.

## 3 Investment Performance: Quarter to 30 June 2026

3.1 The Fund returned 5.9% over the quarter, marginally underperforming the benchmark return of 6.1%. After a dip in March, following the start of the Iran /US conflict, markets rebounded strongly during the period as concerns surrounding the conflict eased and investor sentiment was supported by continued strength in technology and AI-related sectors. Whilst the Fund benefited from this backdrop, performance was held back by relative underperformance within the fund's global and UK equity mandates and some alternative assets.

3.2 ***Equities*** delivered strong absolute returns, although developed market mandates lagged their benchmarks. **Global equities (ex. Protection)** returned 11.9% (vs 14.2% per the MSCI ACWI benchmark), whilst **UK equities** returned 4.1% (vs the FTSE All Share's 4.7%). The quarter was characterised by a sharp rally in technology and AI-related stocks, particularly within large-caps, which benefitted the Fund's growth and quality style mandates, but where they were not held at all or in the same proportion by the Fund's managers and it contributed to the relative underperformance. The Fund's Risk Management Framework which caps the upside gains linked to the Global indices caused a further a drag of -2.8% on the Fund's global equity performance. **Emerging market equities** were the standout performer, returning 29.8% in the quarter, significantly outperforming the benchmark of 23.3%. Strong performance from semiconductors and technology-related companies across Asia supported these returns.

3.3 ***Fixed income*** performed well over the quarter. The Fund's credit mandates returned 2.6%, comfortably ahead of the composite benchmark return of 0.9%. Corporate credit markets benefited from tightening spreads and resilient company earnings, which supported excess returns despite a mixed backdrop for government bonds. The Fund's buy-and-hold **Index Linked Gilts** portfolio, which is part of the Risk Management Framework, returned -2.3% in the quarter.

3.4 Performance across the ***alternative*** assets was mixed. The Fund's **absolute return** strategies performed in line with the UK RPI benchmark, returning 1.2%. **Infrastructure** returned -0.2%, underperforming the SONIA benchmark of 0.9%, while **private** equity returned -2.3% against the same benchmark. **Property** slightly underperformed the UK All Property Index return of 1.1%, posting returns of 0.8%. Property markets continued to generate positive income returns, with Q2 being one of the best quarters for rent collection, although transaction costs from recent property purchases affected overall returns during the quarter.

## 4 Longer Term Performance

4.1 For the year ended 30 June 2026, performance across the Fund was mixed. Emerging market equities were the strongest contributor, returning 65.2% against the benchmark of 48.2%. The asset class benefited from strong performance across Asian technology and semiconductor companies as investor demand for businesses exposed to the AI supply chain remained robust throughout the year. Credit also outperformed, returning 5.5% against a 3.8% benchmark, as tightening credit spreads and resilient corporate fundamentals supported returns. All alternatives bar property delivered returns ahead of the benchmark, though there were many purchases made within the direct property portfolio in the prior 12 months with transaction costs which have the effect of reducing the returns for the period in which the property is purchased.

4.2 The above positive returns were partly offset by weaker performance from developed market equities. Whilst both global equities and UK equities provided strong absolute returns, posting 19.9% and 16.5% respectively, they underperformed the benchmarks by 7.8% and 5.4%. Market returns over the year were increasingly concentrated in a small number of large technology companies, particularly within the US equity markets, which created a challenging backdrop for many of the Fund's managers, particular those with a growth or quality-style.

4.3 Over three years, relative performance has been held back again primarily by the Fund's developed market equity investments. Global equities posted an annualised return of 13.2% vs the benchmark return of 18.0%, whilst UK equities returned 12. % vs the 15.3% posted by the FTSE All Share. In contrast, credit, absolute return and infrastructure have all generated strong outperformance in the period, returning 7.9%, 6.5% and 10.9%, respectively.

4.4 Conversely, private equity delivered a return of 4.1% over the three years to 30 June 2026, underperforming the SONIA benchmark by 60 basis points. Property also underperformed, though by a larger margin, returning 2.7% against the 4.7% benchmark.

**5 Responsible Investment (RI) Update**

5.1 Work on responsible investment was more muted during the quarter and following the previous Board meeting, with Border to Coast not holding any RI Officer Groups meetings.

5.2 In the meantime, officers had been progressing and successfully completed Fund's submission for the UNPRI report.

5.3 The UNPRI submission is a detailed piece of work and covers 60+ pages of questions that are developed to identify the Fund's progress across six principles:

a) *We will incorporate ESG issues into investment analysis and decision-making processes;*

b) *We will be active owners and incorporate ESG issues into our ownership policies and practices;*

c) *We will seek appropriate disclosure on ESG issues by the entities in which we invest;*

d) *We will promote the acceptance and implementation of the Principles within the investment industry;*

e) *We will work together to enhance our effectiveness in implementing the Principles;*

f) *We will each report on our activities and progress towards implementing the Principles.*

5.4 Final results will not be available for some time. Officers will keep the Board updated once the results have been received.

5.5 The nature of the Fund's role in the submission going forward is uncertain, given the changes to responsibilities for both the Fund and the Pools, as well as implementation decisions being the responsibility of the Pool moving forward. As discussed previously, Border to Coast has already initiated discussions as to what that may look like going forward and how they can best support Funds when it comes to reporting requirements in the new LGPS regulatory environment.

## 6 Investment Strategy Update

6.1 As previously reported, following the 2025 actuarial valuation, the Fund is required to review its strategic asset allocation (SAA) and update its Investment Strategy Statement (ISS). The review is ongoing and is being undertaken with support from Mercer.

6.2 Since the last update, the Pension Fund Committee has considered the work undertaken on the strategy review and, at their June meeting, noted the progress made and approved the approach taken so far. Members have considered a number of strategy options, developed by Mercer, and had landed on two broadly similar strategy options, with the only difference being one would result in the introduction of a new asset class, i.e. Private Credit. As such, it was suggested that members would receive additional training to fully understand the risk and reward profiles and implications of the two strategy options.

6.3 Training has since been undertaken at the July Investment Sub-Group meeting by Mercer and supported by Border to Coast's private credit portfolio manager providing insight into Border to Coast's implementation approach and experience of the asset class. Following the training sessions members have received a summary note comparing the two options with a clear indication of the preferred option per advice from Mercer. A copy of the Mercer slides on the development of the SAA is attached in Appendix Two.

6.4 A draft ISS is now being prepared and reviewed to ensure that it meets the Government's newly published guidelines on preparation of an Investment Strategy Statement. This includes articulation of the Fund's investment beliefs and objectives as well as the Fund's approach to Responsible Investment and Local investment. Officers are continuing to work with Mercer and Border to Coast as the strategy develops and to consider the practical arrangements required for implementation.

6.5 Once drafted the proposed SAA and draft ISS will be presented to the Committee at their meeting on 29th September. The draft ISS will also be shared with the Board at that stage. Once the draft ISS is agreed by the Committee at that meeting, it will be issued for consultation with members and employers on 1 October for a period of 4 weeks.

6.6 Following the consultation, responses will be taken on board, and a final version will be presented to the Committee at their December meeting. This ensures that the Investment Strategy review remains on track to meet the new statutory deadline of 31 March 2027, as reported previously.

6.7 Finally, an important point to note is that the Board will receive a detailed presentation from officers of the approach taken for the investment strategy review and preparation of the ISS prior to today's Board meeting as part of the 'Hot Topic Training' which will include the proposed timetable and any key elements within the ISS.

## 7 Pooling Update

7.1 The previous update given to the Board was that the new Investment Management Agreement (IMA) with Border to Coast had been drafted and had undergone a legal review. Additionally, it was reported that the ACCESS Inter Authority Agreement (IAA) was being revised in order to reflect the new circumstances; to help facilitate the orderly winding down of the ACCESS Pool once all ACCESS assets are transitioned to the new Pool's.

7.2 We are happy to report that the IMA with Border to Coast and the revised ACCESS IAA have both now been signed.

7.3 Additionally, as reported in section 6 above, a focus for officers recently has been on developing the new investments strategy and ISS. Border to Coast have been involved in this process throughout and are continuing to engage with the Fund and Mercer on this. Border to Coast is also focussing on developing a number of investment propositions in order to support partner funds with implementation of their investment strategies and have started to share some early overview of timelines for potential transition of assets into the pool.

7.4 As members will be aware, the Fit for the Future reforms move a lot of the responsibility away from partner funds to the Pools. As a result, partner funds' responsibilities are focussed on maintaining effective oversight of the Pool. As such, we are continuing to work with other partner funds in order to develop a framework for oversight of the Pool, to reflect these new arrangements. Officers will continue to share updates on this and the transition plans with the Board at future meetings.

7.5 The Pool has provided an update on its approach and progress on all the different stands of activities in relation to pooling and is included in Appendix three of this paper.

**Appendices:**

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| **Appendix One** | **Quarterly Performance Report (30 June 2026)** |
| **Appendix Two** | **Mercer Investment Strategy Review** |
| **Appendix Three** | **Pooling Update from Border to Coast** |

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