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| To: | Kent Pension Board – 25 November 2026 |
| From: | Chairman Kent Pension Board<br>Corporate Director of Finance |
| Subject: | Investment Update |
| Classification: | Unrestricted |

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**Executive Summary:**

As of 30 September 2026, the Fund's value was £9.99bn, a marginal increase from the £9.96bn reported previously for June. The current asset allocation remains broadly in line with the Fund's strategic targets and approved tolerance bands, apart from 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 paragraph 2 of this report.

For the quarter to 30 September 2026, the Fund's performance was flat with a return of +0.4%. This represents a -0.5% underperformance vs the strategic benchmark of +0.9%. Over the one-year period, the Fund returned +9.5%, a relative underperformance of 1.0% vs the benchmark of +10.5%. Whilst over three years, the Fund returned +8.3%, underperforming by -1.6%, Details of the asset class and manager performance are contained in paragraph 3 as well as Appendix 1 of this report.

The draft Investment Strategy Statement (ISS) was approved by the Committee at their September meeting and then went out to consultation throughout October. Officers have been reviewing the responses to the consultation and making necessary updates to the ISS, as a result, before presenting the final version to the Committee for approval, during their December meeting.

**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 Statement as well as Pooling.

## 2 Fund value and asset allocation

2.1 As of 30 September 2026, the Fund's value was £9.99bn, a very marginal increase from the £9.96bn (as of 30 June 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** | **61.4** | **8.4** | **In range** |
| UK Equities | 10 | +/- 2.5 | 11.7 | 1.7 | In range |
| Global Equities | 38 | +/- 5 | 42.4 | 4.4 | In range |
| Emerging Market Equities | 5 | +/- 2.5 | 7.3 | 2.3 | In range |
| **Fixed Income** | **22** | **+/- 5** | **14.1** | **-7.9** | **Underweight** |
| Credit | 15 | +/- 5 | 13.9 | -1.1 | In range |
| RMF (Index Linked Gilts) | 7 | - | 4.6 | -2.4 | N/A |
| RMF (Synthetic cash offset) | - | - | -4.3 | -4.3 | N/A |
| **Alternatives** | **25** | **+/- 10** | **22.5** | **-2.5** | **In range** |
| Absolute Return | 5 | - | 4.7 | -0.3 | N/A |
| Infrastructure | 5 | - | 4.0 | -1.0 | N/A |
| Private Equity | 5 | - | 4.3 | -0.7 | N/A |
| Property | 10 | - | 9.5 | -0.5 | N/A |
| **Cash** | **0** | **5** | **1.9** | **1.9** | **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.

2.3 The rebalancing position is unchanged from that previously reported. Officers will not be recommending any rebalancing takes place at this stage given the ongoing strategy review and transitions to Border to Coast.

## 3 Investment Performance:

### Quarterly performance

3.1 The Fund returned 0.4% in the quarter to 30 September 2026, compared with 0.9% for its benchmark. Global equity markets made small gains, supported by strong company earnings, and continued investment in artificial intelligence. However, concerns about inflation, interest rates and renewed tensions in the Middle East affected market sentiment. Higher energy prices also added to inflation concerns, while government bond yields rose, putting pressure on bond prices.

3.2 Within the Fund, the growth and dividend-focused equity managers outperformed, although most equity managers fell short of their benchmarks. Most fixed income managers also underperformed, with one posting only a marginal outperformance. Additionally, this environment was difficult for alternatives asset classes which had a difficult quarter, with all areas underperforming, with the exception of direct and pooled property.

### One-year performance

3.3 Over the year to 30 September 2026, the Fund returned 9.5%, against the 10.5% benchmark return. Equity markets generally performed strongly over the period, led in particular by large US technology companies. Continued investment in artificial investment and strong earnings from major technology businesses supported share prices. Emerging markets also performed very well, with particularly strong returns also from large technology companies in parts of Asia. However, gains were not evenly spread across markets. Inflation concerns, geopolitical tensions, and uncertainty over interest rates contributed to periods of volatility, particularly in bond markets.

3.4 Most of the Fund's developed market equity managers underperformed in this period because of reason discussed above, with Schroders GAV being the only manager to beat its benchmark. Emerging market equities, by contrast, significantly outperformed. Fixed income performance was mixed, with two mandates ahead of their benchmarks and two behind. Alternatives also produced mixed results with absolute return performing well, helped by its more defensive approach, and private equity also posting positive performance, whilst infrastructure and property lagged their benchmarks.

### Three-year performance

3.5 Over the three years to 30 September 2026, the Fund returned 8.3% compared to the benchmark return of 9.9%. Markets have moved through a period of high inflation and rising interest rates in 2022 and 2023, followed by a gradual easing and a change in expectations for interest rates. Since the launch of ChatGPT in late 2022, Artificial intelligence has also become a major focus for investors. This has driven strong demand for technology shares, particularly among a relatively small group of large US companies. The recovery has not been as easy for bonds and property, where higher borrowing costs and changing expectations for interest rates have continued to affect valuations.

3.6 Most of the Fund's equity managers underperformed over the three-years, largely as a result of underweights to that small handful of large tech-stocks, with Schroders GAV again being the exception. Fixed income performed well in this period, with all mandates beating their benchmarks. Within alternatives, absolute return and infrastructure also outperformed, while private equity and property remained behind their respective benchmarks.

## 4 Responsible Investment Update

4.1 Officers attended the quarterly Border to Coast Responsible Investment Officer Operations Group (RI OOG) on 19 August 2026. The Pool confirmed the 2025-26 Stewardship Report has been published on their website, along with the 2026 Responsible Investment Policy. Officers also received an update on Border to Coast's future engagement priorities.

4.2 Additionally, Border to Coast review their voting guidelines annually to ensure they remain fit for purpose and aligned with evolving best practice. The 2026 review commenced in July and saw the guidelines reviewed by Robeco, who are BCPP's voting and engagement provider, and benchmarked by the RI team against both asset owners and asset managers.

4.3 The review found that the guidelines continue to effectively serve BCPP's RI approach. However, there were four areas which were identified where amendments may be appropriate to reflect developments in market practice and formalise aspects of the existing approach. These areas are climate-related voting expectations; shareholder proposals; shareholder rights; and dual-class share structures.

4.4 The new Policy is due to be presented at the November Joint Committee meeting and going live from January 2027, ahead of the proxy voting season.

## 5 Investment Strategy Update

5.1 The Pension Fund Committee (PFC) agreed the updated Strategic Asset Allocation (SAA) and the draft Investment Strategy Statement (ISS) at its meeting in September. The ISS has now been consulted upon and will be updated for any changes identified through the consultation process. A detailed report on the outcome of the consultation along with the final ISS will be shared with the Board and presented to the PFC for approval in December.

5.2 As the new SAA has introduced changes from the current position, it will require movement between asset classes. This will be implemented alongside transitioning of assets into Border to Coast to avoid potential doubling of transition costs and will involve careful planning and management. Officers have already begun discussions with the Pool to ensure that the transitions can be managed in the most cost-efficient way once the updated strategy is approved by the Committee in December

5.3 The transition will involve mapping the Fund's assets to the appropriate propositions (portfolios) in the Pool, as well as identifying the most cost-efficient way to transition the Kent Fund's assets to the Pool's Funds.

5.4 As the Pool is responsible for implementing the Fund's investment strategy, going forward, they will be undertaking detailed cost benefit analysis to support the mapping and transition decisions. Initial transition plans and considerations will be shared with the Committee and Board in December.

5.5 The latest LGPS investment regulations also require Funds to include their target and approach to Local Investments as well as Responsible Investment beliefs and approach in the Investment Strategy Statement.

5.6 Whilst the draft ISS already contains the fund's high-level approach to both these areas, it needs further development and articulation of preferences and priorities to enable the Pool to provide suitable solutions to achieve the Fund's target.

5.7 A training session for Committee and Board member is planned in January where the Border to Coast Pool officers will provide insight into their approach to implementing local investments, the opportunities and challenges and any immediate potential local investment options available in the Pool.

5.8 Earlier this year, following a Responsible Investment (RI) beliefs survey, the PFC agreed that the Fund's existing Responsible Investment Policy remains appropriate and is broadly aligned with the Pools' RI approach. However, members expressed a need for further training on RI following which the Fund's RI Policy can be reviewed and updated if necessary.

5.9 The committee members will therefore receive further training on RI and will hear from both the Pool officers as well as our consultants Marsh (previously called Mercer) in the coming February Committee which is usually a non-decision committee meeting and is used for such training.

5.10 This will be followed with Investment Strategy Group meetings in the spring and summer of 2027 where members will get an opportunity to further explore and agree updates to the Fund's RI policy as appropriate, by the end of September 2027.

## 6 Pooling Update

6.1 Whilst the Pool continues to develop its investment and advisory capabilities for existing as well as new partner funds, a number of working groups have been set up to provide partner fund input into these work streams. Besides, there are existing working groups which provide a platform for partner fund engagement on BAU activities such as review of governance, performance, and responsible investment at the Pool.

6.2 The Officer Operations Group (OOG) meets twice in the quarter and focuses on strategic and governance issues. In the last quarter the OOG received updates from the Governance and Oversight working groups. They also discussed the future role of the group and the need for an independent support to improve its effectiveness and to ensure that the group's agenda reflects the partner fund's priorities. The Pool also presented its future operating model to the group and high-level plans on cash management and whole fund reporting. Officers also got an opportunity to participate in a tour of a couple of London properties owned by the Pool's UK property portfolio.

6.3 The Investments Officer Operations Group (IOOG) meets quarterly and mainly undertakes annual reviews of Pool propositions based on a rota, besides discussing topical issues. The review concludes with assigning a rating to the propositions reviewed. The IOOG meeting on 7 September focused on an annual review of BCPP's alternatives propositions where the private equity, private credit, infrastructure, and climate opportunities propositions were all considered to be rated "On Track". However, BCPP also have a UK Opportunities proposition, as well as the Global Real Estate Core and Global Real Estate Value-Add propositions which were all considered to be "Too early to rate".

6.4 At the IOOG, BCPP also highlighted their seven transition principles, all designed to provide us Partner Funds with a 'no surprises' approach. The principles are:

a) Investment case: transitions to be based on an investment case;

b) Consistency with Fit for the Future: un-pooled assets to be brought into Pooled vehicles or funds under Pool oversight;

c) Minimise transition costs: transition costs will be minimised whilst maximising market exposure and considering tax implications;

d) Avoid transitioning more than once: transitions will take into account Partner Funds SAA, preferences and beliefs;

e) Flexible approach: transition approach will be assessed on an event-by-event basis, with cost implications of different routes and the basis of each recommendation to be shared with PFs in advance;

f) Financial case: the financial case will consider cost savings, transition costs, and payback periods over the whole transition programme; and

g) TM & advisor support: a transition manager and transition advisor have been appointed.

6.5 Finally, BCPP held its Annual Conference in Leeds on 25-26 September. The conference provided members of the PFC and officers with a valuable opportunity to engage directly with the Pool's leadership team as well as the wider delivery teams and gain insight into key developments and strategic initiatives across the Pool. It also facilitated networking with representatives from partner funds, enabling the exchange of views and discussion of common opportunities and challenges. The conference was well attended and received positive feedback from participants.

**Appendices:**

**Appendix One Quarterly Performance Report (30 September 2026)**

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