

Leicestershire County Council Pension Fund

High-Level Asset Class Review

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Background and contents

Addressee and purpose

This paper is addressed to the Pension Fund Committee (the “Committee”) of the Leicestershire County Council Pension Fund (the “Fund” or “LCCPF”). The purpose of this paper is to provide high-level review of selected asset classes, in conjunction with the Fund’s annual Strategic Asset Allocation (SAA) review.

Background and scope

This review covers three areas of the Fund’s portfolio: listed equities, targeted return and investment-grade credit.

For each, it considers their role within the Fund, how the underlying mandates have performed, and the key risks or considerations arising from current market conditions.

These asset classes have been highlighted through recent discussions with Fund officers as areas where market conditions, performance trends, or strategic importance warrant closer attention, and where significant time has passed since the last review. Listed Equities also represents a substantial allocation within the portfolio.

The findings will support the Fund’s development agenda for the year ahead, informing future strategic discussions and highlighting any areas where additional analysis or action may be required.

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Executive summary – listed equities

- 1. Current Allocation:** The Fund's equity allocation is delivered through a mix of passive L&G funds, an active multi-manager strategy via LGPSC, and climate-tilted holdings aligned with the Fund's Net Zero climate strategy. The passive funds continue to provide broad, low-cost market exposure, while the active multi-manager fund is intended to add value through a blend of differentiated styles. The equity allocation is currently c.3% above target but remains within the growth allocation's rebalancing range, driven mainly by strong absolute equity performance in recent periods.
- 2. Performance:** Although absolute returns since inception have been positive and in the double digits, performance remains behind the benchmark overall. This is primarily due to the recent underperformance of the active multi-manager fund (c.9.6% lag vs benchmark), which has also weighed on longer-term results. The passive funds, by contrast, have tracked their benchmarks closely and delivered the expected beta exposure.
- 3. Why Has the Active Multi-Manager Fund Underperformed?** The active allocation has been increasingly underweight the "Magnificent 7" and has a stronger tilt towards the value style factor. This has been a clear headwind in a market where returns have been dominated by a very narrow group of large US technology stocks. Lower exposure to Emerging Markets during periods of rebound, and overweight positions in steadier sectors such as Healthcare, have also contributed to this underperformance. Overall, the underperformance is not a concern in itself, as the strategy has delivered in line with expectations based on the underlying investment styles being targeted and the market environment experienced in recent years.
- 4. Market Risk:** Importantly, the same market backdrop that has challenged the actively managed fund also signals a wider risk for the Fund as a whole. Earnings growth in the largest US companies, combined with rising valuations, has pushed US concentration in global indices to levels well above historical norms. This has resulted in global indices becoming increasingly reliant on a small group of US mega-cap technology names, reducing the breadth of future return drivers. Valuation measures such as CAPE for the US are also well above long-term averages—levels historically associated with lower forward returns. Given LCCPF's meaningful exposure to equities, including large passive allocations, this combination of elevated US valuations and heightened concentration feeds directly into the Fund's equity portfolio and represents a material structural risk.

The last full equity review was undertaken three years ago. Given the broader market backdrop, developments since, and the Fund's current overweight to equities (albeit still within the rebalancing range), it may be appropriate for the Fund to consider a refreshed full equity review in 2026—building on the annual SAA review—to help confirm the structure remains resilient, appropriately diversified, and aligned with long-term objectives.

Executive summary – targeted return

- 1. Current Allocation:** The role of the targeted return allocation within LCCPF is to deliver cash +4% with low equity correlation and strong downside protection. The Fund has therefore focused on absolute-return multi-asset mandates. The 2023 review identified a 60:40 blend of Ruffer and Fulcrum as the best fit, and the allocation is currently exactly at its 5% SAA target, with the Ruffer/Fulcrum mix also fully in line.
- 2. Have the Funds Met the Cash +4% Objective?** Absolute returns have been positive across the allocation, but recent performance during a period of strong equity market returns and higher cash rates (over 1 and 3 years) has lagged the benchmark and not met the return objective. Ruffer has driven the shortfall and is also marginally behind its benchmark since inception (Dec-13). Fulcrum, on the other hand, has outperformed since its inception in Oct-23.
- 3. Why Has Ruffer Underperformed?** Ruffer has maintained a sizeable allocation to protection strategies, consistent with its capital-preservation philosophy. This defensive stance shaped returns in 2023 and 2024, when protection assets detracted and the portfolio captured little of the US tech-led rally. These factors meant the strategy failed to meet its cash +4% objective over the past three years. However, performance has improved in 2025, and it is encouraging to see that the portfolio has captured most of its recent equity returns from outside the US — a region the strategy has deliberately avoided. We view the current concentration in the US and the “Magnificent 7” as a material market risk in its own right (as discussed in the targeted equities section), so we see Ruffer’s positioning as appropriate given its role within the Fund.
- 4. What About the Other Key Objectives? (Low Equity Correlation & Downside Protection)** Despite recent return challenges, both Ruffer and Fulcrum continue to meet the allocation’s other core objectives. Over both long-term and recent periods, each has delivered low equity correlation (c.<0.4 over the long term, and even lower more recently) and materially lower volatility than global equities. Both have also provided consistent and strong downside protection across major equity drawdowns (in all six quarters since 2008 when global equities fell by double digits, these funds experienced much smaller declines—and in several cases even posted positive returns).
- 5. Actions to Consider:** Limiting downside risk and protecting the funding position remain key priorities for LCCPF, and both funds continue to support these aims, so we see merit in retaining exposure. However, recent developments suggest this is a natural point to reassess structure. Fulcrum has recently delivered stronger returns, better risk-adjusted outcomes and greater downside resilience than Ruffer, and its strategic enhancements since mid-2023 (including real-time stress monitoring and tighter drawdown controls) may have contributed to this improvement. This also raises the question of whether the current 60:40 balance should be adjusted at the margin, particularly when considering the cost of each manager.

In light of the observations above and alongside the wider SAA work, it may be worth noting whether a further targeted-return review is required in 2026, recognising that a detailed review was already undertaken in 2023 and the allocation continues to serve its intended role.

Executive summary – investment grade credit

- 1. Current Allocation:** The Fund holds investment grade (IG) credit to provide duration, deliver higher expected returns than gilts, offer a stable income stream and improve diversification. The total allocation is currently 3.7%, close to the 3.75% SAA target. The portfolio is fully active, split between Aegon (short-dated IG) and LGPSC global IG, although the internal mix diverges from target with Aegon overweight and LGPSC underweight. The LGPSC underweight (c.£25m) will be addressed using available cash in January 2026.
- 2. Performance:** Both managers have delivered strong returns and are ahead of their benchmarks over three years, although Aegon has weakened more recently. Since inception, returns are positive but both funds have underperformed, with LGPSC only slightly behind and Aegon showing the larger shortfall. Aegon's underperformance reflects the timing of inception and the sharp, sustained rise in its cash-plus (SONIA) benchmark, while short-dated credit repriced more slowly and experienced mark-to-market impacts.
- 3. Market Environment:** These results sit against a backdrop of steadily tightening credit spreads, now near historical lows across major regions (around 0.7–0.8% p.a.). At such levels, even modest widening could lead to IG Credit underperforming gilts in the short term, though the risk reduces over longer holding periods. Despite tight spreads, higher sovereign yields and robust credit fundamentals continue to support medium-term return potential from an absolute return perspective. In this environment, the Fund's current mix of short-dated and global active IG strategies may benefit from additional diversification.
- 4. Actions to Consider:** With spreads at long-term lows and limited scope for active outperformance, there is merit in considering both alternatives within IG credit and alternatives outside IG credit.
 - ✓ Within IG credit – Buy & Maintain: Buy & Maintain offers a complementary approach that locks into yields over the long-term and offers attractive absolute return, reducing sensitivity to spread widening and broadening issuer coverage, while keeping turnover and costs low. LGPSC's new Buy & Maintain Sterling IG Credit Fund is therefore a relevant option, potentially funded by trimming the current overweight to Aegon (subject to due diligence).
 - ✓ Outside IG credit: There are also asset classes outside IG credit that offer comparable risk/return profiles and diversification — such as ABS (already indirectly held through MAC/private debt) and other more niche areas like insurance-linked securities. Adjustments to these allocations could be explored alongside, or as an alternative to, changes within IG credit, subject to availability through LGPS Central.

It may be appropriate for the Fund to consider a more detailed review of its IG credit allocation to explore the relative merits of Buy & Maintain and potential alternatives outside IG credit, and to confirm whether any adjustments to scale or structure would be beneficial. As part of this, the review could also reflect on where future product development or engagement with LGPS Central might support the Fund's longer-term needs.

Executive summary – key recommendations

Where appropriate, and in light of government guidance and pool implementation options, the Pension Fund Committee may wish to review certain asset classes over 2026, based on the time elapsed since their last assessment. The key priority areas would be:

- 1. Listed Equities:** A refreshed equity review, reflecting market developments and the Fund's current equity positioning, to confirm that the structure remains robust and appropriately diversified.
- 2. Investment-Grade Credit:** A review of the IG credit allocation, assessing the case for Buy & Maintain alongside other alternatives, and confirming the appropriate scale and structure of any changes. This should also consider potential product development or engagement with LGPS Central to support longer-term needs.

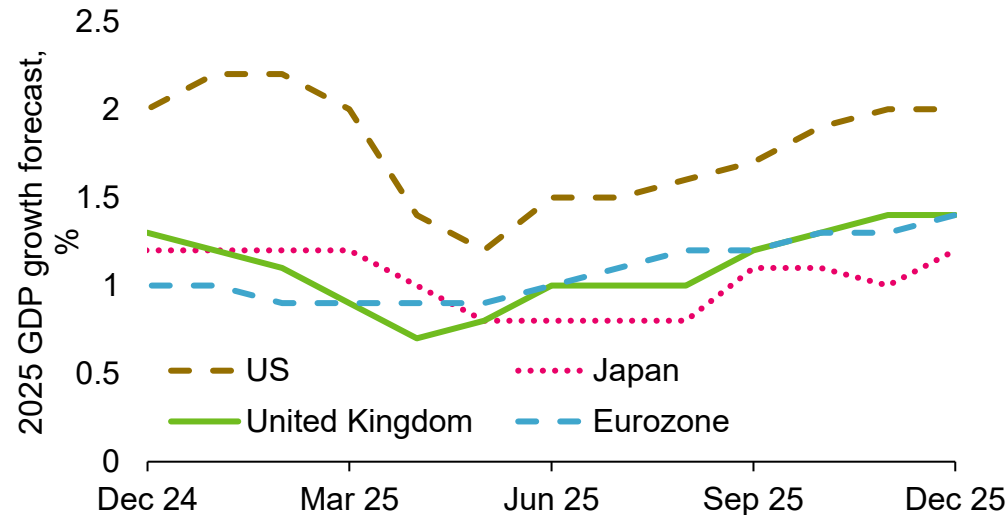
A review of Targeted Return is not proposed as a priority for 2026, given the comprehensive review completed in 2023; however, it remains an area the Fund may wish to continue monitoring.

The final scopes of these reviews should be agreed jointly by officers, investment advisers and LGPS Central.

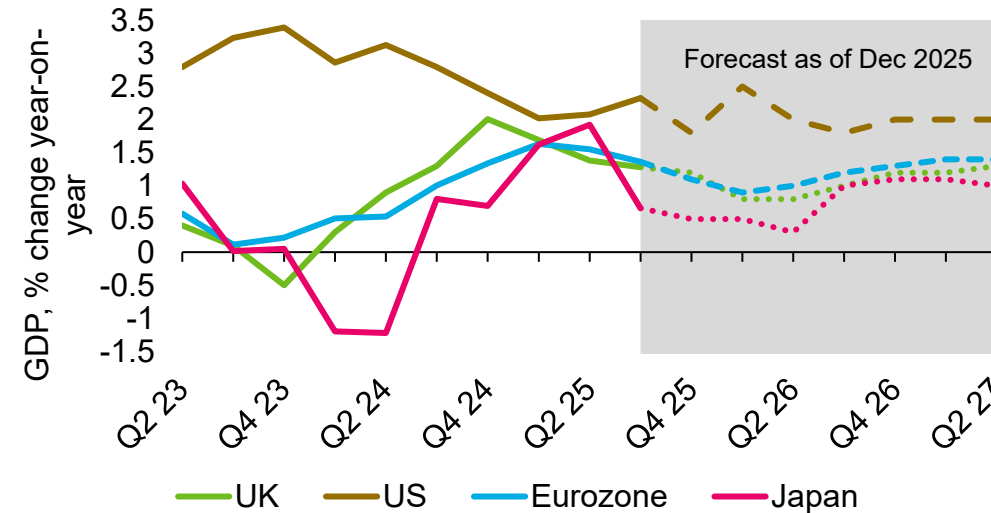
General Market Update (Q4 2025)

Economic background

Growth forecasts have been revised up since being cut dramatically in the wake of “liberation” day



Source: Consensus Economics



Source: LSEG Datastream, Consensus Economics

Growth is still expected to slow, but has held up remarkably well amid sharply higher US tariffs and uncertainty

Global GDP data for Q3 25 demonstrated resilience as tariff impacts, which distorted growth in many economies earlier in the year, diminished.

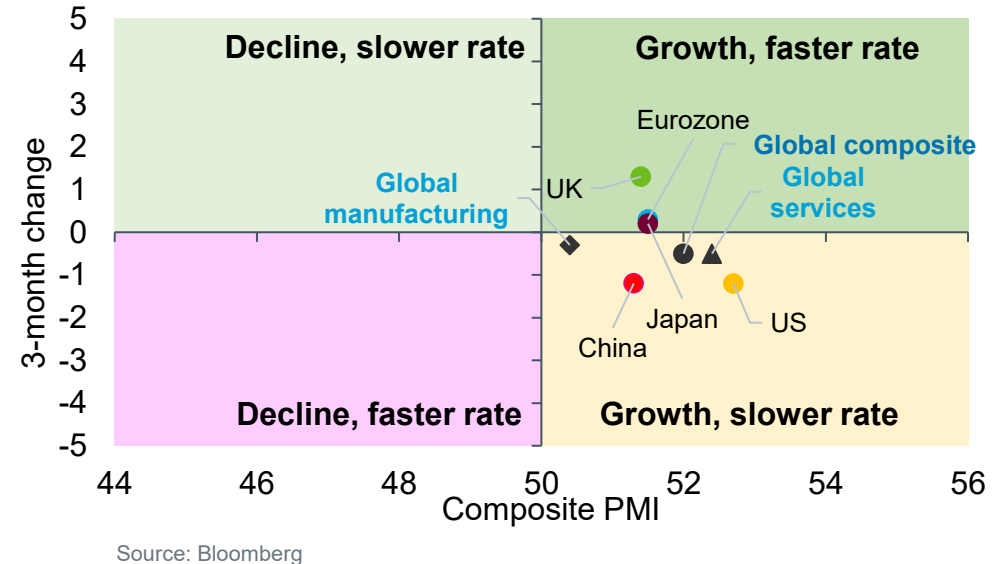
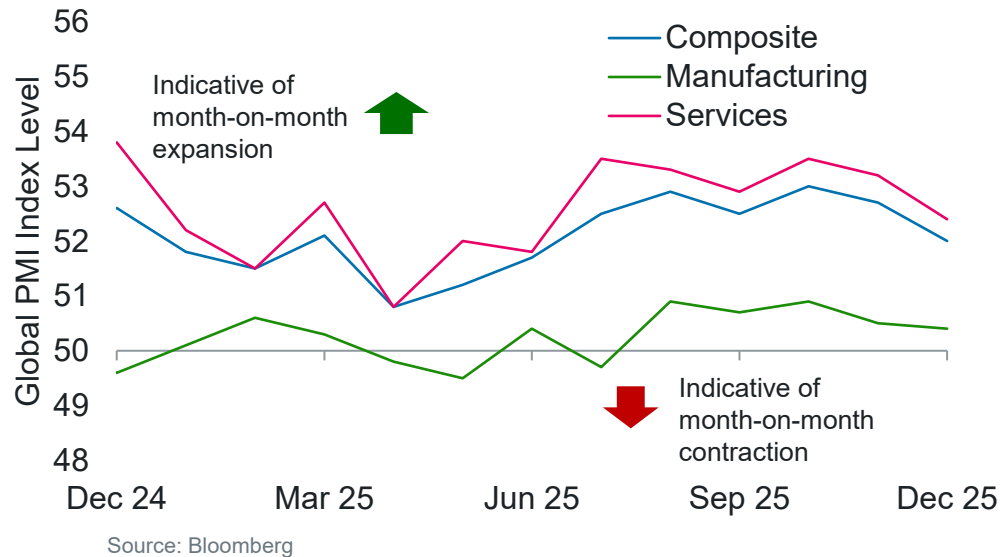
The US economy expanded robustly at a 4.3% annualised rate, its strongest in two years. Eurozone growth improved but remained uneven, driven by Spain and France, while Germany stagnated. China's economy grew steadily, supported by exports and policy measures addressing deflation and stabilising demand despite ongoing property sector challenges. Meanwhile, UK growth slowed, remaining slightly below potential, and Japan experienced its first quarterly contraction after a period of modest growth.

Overall, global growth has remained strong in 2025 despite higher US tariffs and economic uncertainty. This resilience has led to upward revisions of full-year forecasts, with 2025 expected to match 2024's 2.7% growth rate and a moderate slowdown to 2.5% projected for 2026.

Near-term prospects are supported by a global AI-driven investment surge, solid corporate balance sheets, expansive fiscal policies, and delayed effects from rate cuts. The US's One Big Beautiful Bill Act extends tax cuts, while China plans increased stimulus to bolster manufacturing and export-led growth in 2026. Although core European economies underperformed in 2025, infrastructure and investment spending are anticipated to drive growth in 2026.

Economic background

Business surveys suggest slower (but still above-trend) global growth in Q4 25



The JP Morgan Global Composite PMI¹ stayed above the neutral 50 mark for the 35th straight month in December, indicating slower but still above-trend growth at the end of 2025.

Services continued to grow faster than manufacturing, though both sectors expanded at their slowest rates in six and five months, respectively. The latter has been more severely impacted by global trade disruptions, with protectionism and increased competition from China (as it diversified exports beyond the US). This has weighed on investment and manufacturing within the EU, in particular.

Out of 14 nations, 11 saw output growth, led by India, Spain, and Ireland, with the US also above trend. China, the eurozone, Japan, and the UK lagged. Within the eurozone, Germany contracted due to manufacturing weakness despite moderate service growth, France and Italy grew slowly, while Spain performed well thanks to strong services.

New orders growth slowed to a six-month low, driven by a drop in new export orders amid declining global trade. The labour market remains the weak spot; employment expanded slowly worldwide across sectors, except in the UK and China, where it contracted. This raises questions about the sustainability of the current expansion.

Price pressures increased modestly in December 2025, with input and output prices rising at seven- and four-month highs, respectively, especially for service providers.

¹PMI (Purchasing Managers' Index) is a leading economic indicator that reflects business conditions in manufacturing and services. A reading above 50 indicates expansion; below 50 signals contraction.

Economic background

Inflation

The impact of tariffs on US inflation is proving milder than feared. In November, US headline CPI dropped to 2.7%, well below forecasts and September's 3% rise.

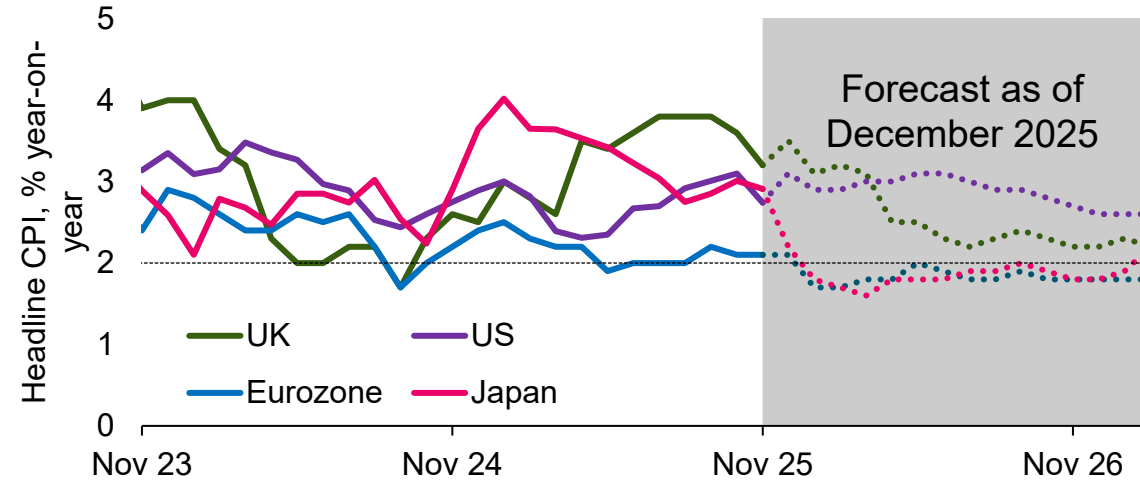
Data accuracy was questioned due to limited collection during the government shutdown, which also led to the October's CPI report not being published.

UK CPI fell to 3.2% in November, an eight-month low, with core inflation also at 3.2%. Wage and service-price inflation moderated, though remains elevated. Unemployment rose to 5.1%, and recent business surveys indicate further job cuts in Q4, suggesting slower wage growth ahead.

The BoE's Decision Maker Panel expects wage settlements to average 3.5% this year. With the Office for Budget Responsibility (OBR) forecasting just 1% pa productivity growth, inflation is likely to remain above target.

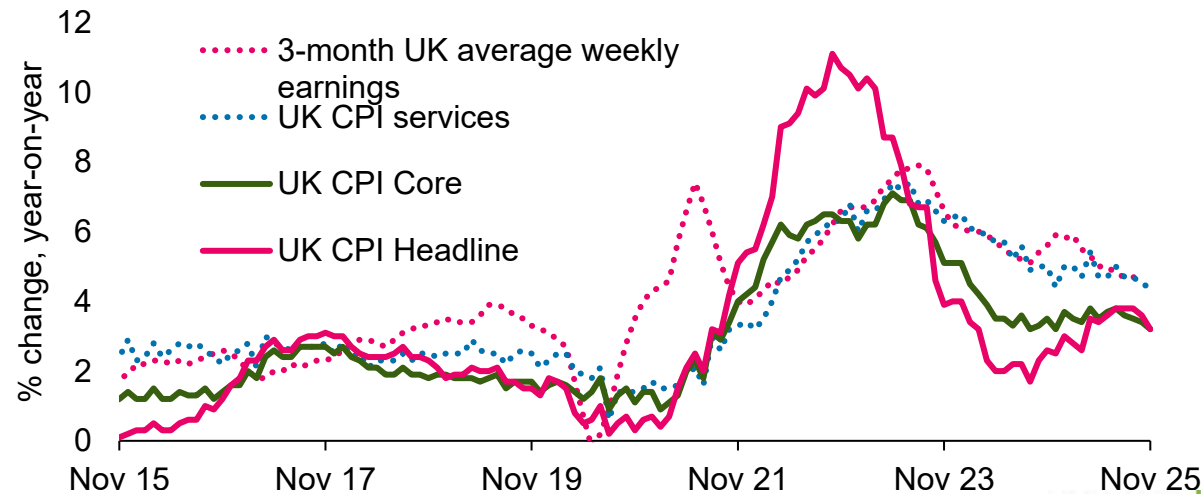
Economists continue to expect a sharp slowdown in Japan's inflation, which has exceeded target for several years now. Eurozone inflation pressures appear much less severe.

UK and US inflation is projected to stay above target in the near term



Source: LSEG Datastream, Consensus Economics

UK inflation eased in Q4 25 on broad-based cooling beyond headline categories



Source: LSEG Datastream, Consensus Economics

Economic background

Interest Rates

Despite the delay of several reports amid the government shutdown in Q4, the US Fed lowered borrowing costs to 3.50-3.75% pa range, after a 0.25% pa cut in September. The central bank prioritised labour market weakness over above-target inflation.

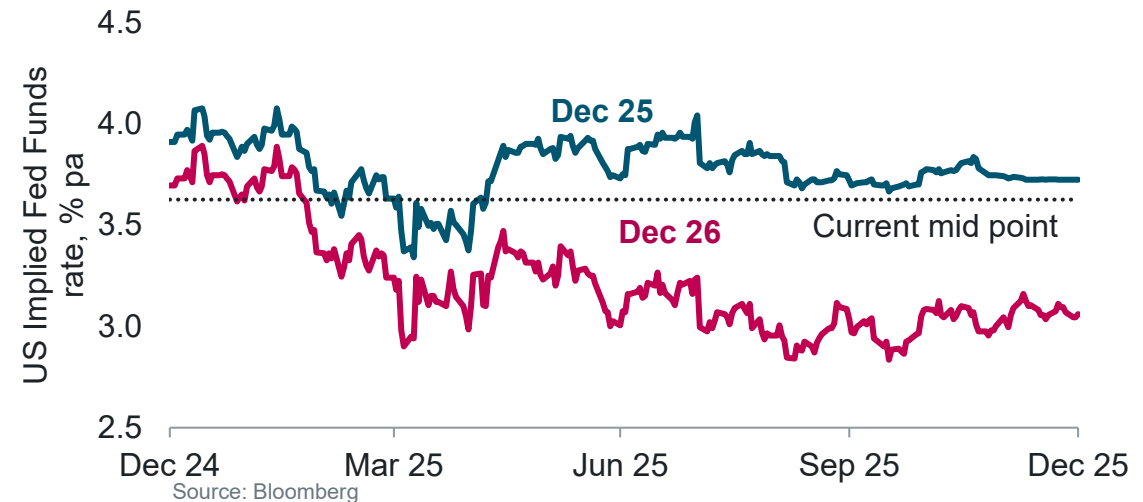
Markets expect at least two 0.25% pa cuts in 2026. However, unless growth and inflation slow more than forecast, the divided Fed may struggle to deliver, with inflation likely remaining above target until 2027.

The BoE reduced the base rate by a total of 1.0% pa in 2025 and is likely to proceed cautiously, as it walks the tight rope between weaker-than-potential growth and above-target inflation.

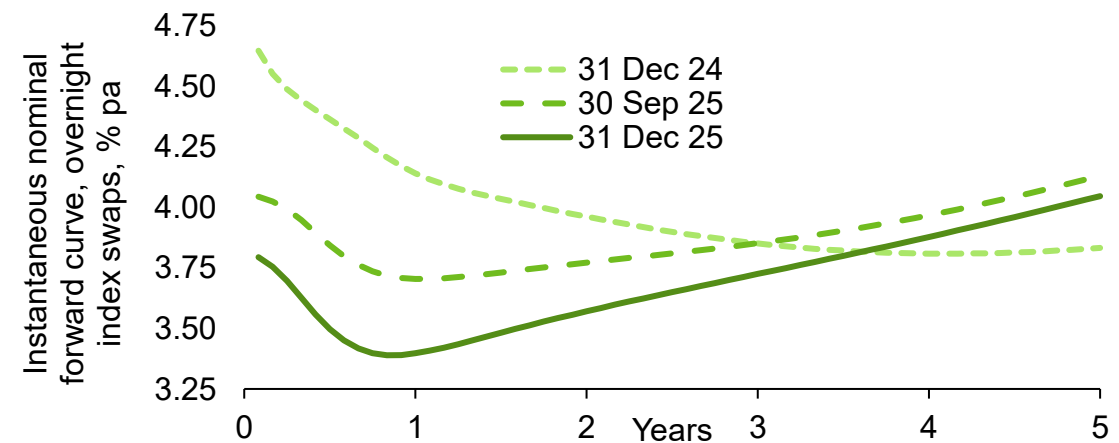
Markets are pricing in one more 0.25% pa cut this year, leaving rates near neutral at 3.50% pa.

Conversely, the BoJ raised rates by 0.25% pa to 0.75% pa in December – the highest in 30 years – and signalled readiness for further tightening.

Markets expect at least two more cuts from the US Fed in 2026



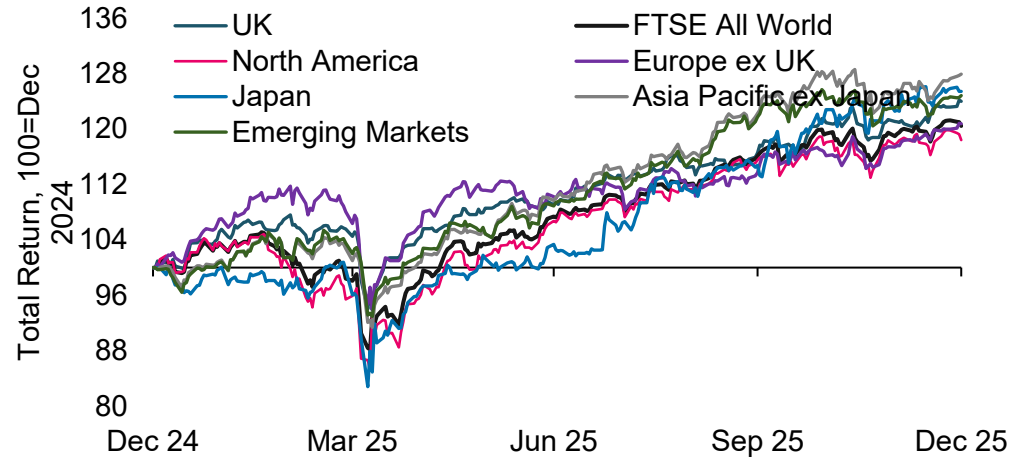
Conversely, markets price in only one 0.25% pa BoE cut in 2026



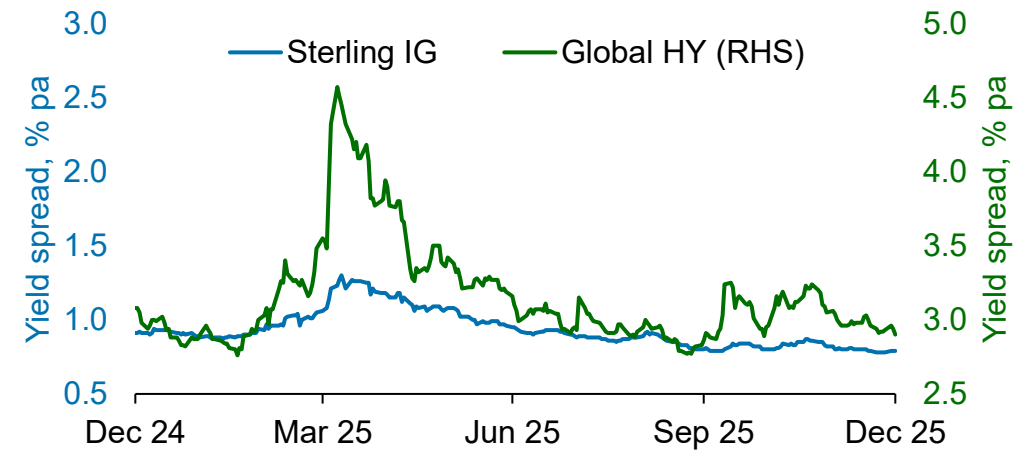
Source: Bank of England

Market background

Global equities extended gains in Q4 to deliver another year of strong returns while credit spreads closed 2025 near historic lows

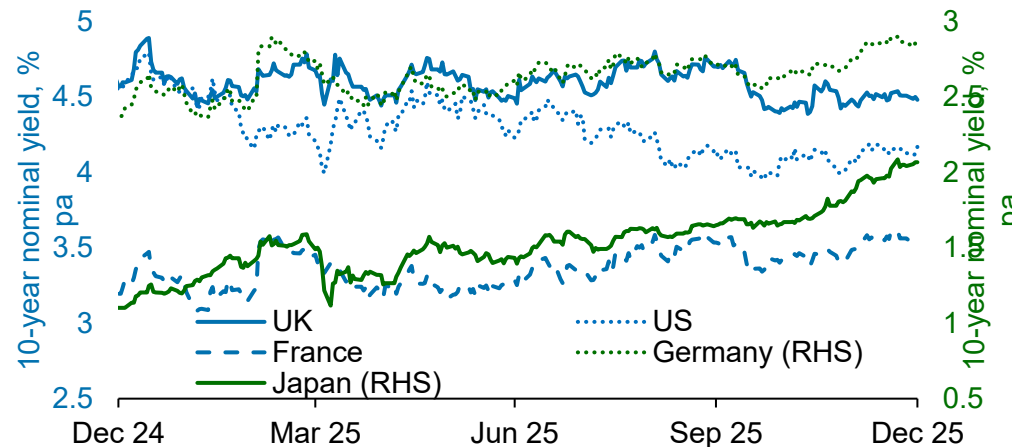


Source: LSEG Datastream

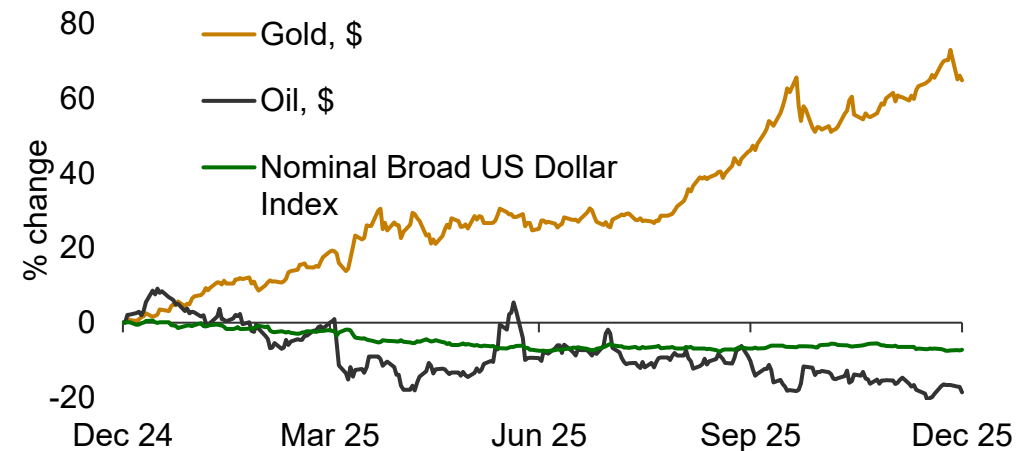


Source: ICE Index Platform

UK yields fell while German and Japanese yields extended their rise in Q4. US yields fell the most over the year. Gold marched higher, while oil and USD fell in 2025



Source: Bloomberg



Source: LSEG Datastream

Listed Equities

Current listed equity portfolio

Current allocation as at 30 September 2025

Manager	Fund	Active/ Passive	Actual Allocation	2025 SAA	Above/ Below Target
L&G	UK Equity fund	Passive	2.2%	2.0%	+
	All World Equity fund	Passive	11.9%	11.5%	+
	Low Carbon Transition Global Equity fund	Passive	4.0%	3.5%	+
	Sub-total L&G Passive Equity		18.2%	17.0%	+
LGPSC	LGPSC Global Eq Active Multi Mgr fund	Active	11.9%	12.0%	-
	LGPSC AW Eq Climate Multi Factor fund	Passive	13.7%	12.0%	+
	Sub-total LGPSC Equity		25.6%	24.0%	+
	Total		43.8%	41.0%	+

Source: Investment managers and “Leicestershire Total Fund Q3 2025 - Manager Summary” quarterly report.

Blended passive + active model

Balance between low-cost beta, climate-aligned systematic strategies and diversified active stock-picking through the Pool

Strong climate tilt embedded in structure

The Fund uses listed equities as one of the primary levers for decarbonisation

Global equity focus with limited UK bias

The portfolio is predominantly global, with only a modest c.2% standalone UK position and another c.2% coming from UK holdings within global mandates

Portfolio above target but within growth allocation rebalancing range¹

Portfolio sits at c.44% vs the 41% target, with most sub-allocations also above target. This mainly reflects strong equity performance in absolute terms through 2025, which we explore on the next slide.

¹As at 30 September 2025, the overall growth allocation (Listed Equities, Private Equity, Targeted Return) stands at 54.2%, which remains within the $\pm 2.5\%$ rebalancing range around the 53.5% target.

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Performance

Performance to 30 September 2025

Manager	Fund	Inception Date	1-year (%)	3-year (%)	Since Inception (%)
L&G	UK Equity fund	Dec-13	16.2 (0.0)	14.5 (0.0)	6.9 (0.2)
	All World Equity fund	Nov-23	17.1 (-0.2)	-	18.8 (-0.3)
	Low Carbon Transition Global Equity fund	Nov-23	18.2 (0.3)	-	19.7 (0.3)
LGPSC	LGPSC Global Eq Active Multi Mgr fund	Feb-19	9.8 (-7.6)	14.7 (-1.5)	11.6 (-0.9)
	LGPSC AW Eq Climate Multi Factor fund	Dec-20	17.0 (0.1)	15.1 (-0.6)	11.9 (0.7)
	Total		15.0 (-2.2)	14.5 (-0.8)	11.2 (-0.6)

Figures are net of fees; returns over one year are annualised. Benchmark-relative returns are shown in brackets. Total performance includes legacy assets no longer held.

Source: Investment managers and "Leicestershire Total Fund Q3 2025 - Manager Summary" quarterly report.

Strong absolute returns but behind benchmark overall

Active multi-manager fund is the main source of recent underperformance

We explore this in more detail on the next slide.

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Passive funds are performing as intended
Tracking is tight across all mandates

Climate-tilted strategies have been stable performers

LGPSC Active multi-manager fund

Performance to 30 September 2025

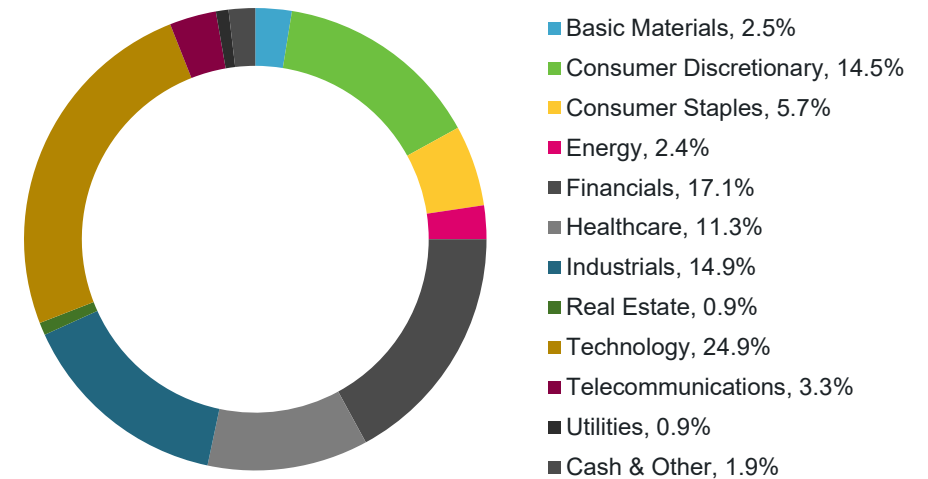
Inception Date	1-year (%)	3-year (% p.a.)	Since Inception (% p.a.)
Feb-19	9.8 (-7.6)	14.7 (-1.5)	11.6 (-0.9)

Source: Investment managers and "Leicestershire Total Fund Q3 2025 - Manager Summary" quarterly report.

Why has the fund underperformed over recent periods?

- Over recent periods, global equity returns have been driven by a very narrow group of large US technology companies, particularly the "Magnificent 7".
- The fund is increasingly underweight the Magnificent 7 (14.6% vs 21.2% in the benchmark at end-September 2025, compared with 17.5% vs 19.7% at end-June 2024), resulting in the fund capturing far less of the market's main source of return.
- The positioning has also been affected by having less exposure to Emerging Markets at points when they have rebounded, while some of the Fund's larger sector overweight positions – such as Healthcare – have delivered steadier but comparatively softer returns during a tech-led rally.
- At the same time, market behaviour became more speculative, with retail activity and margin debt reaching new highs, favouring momentum-driven growth stocks. Given the fund's clear tilt toward value-oriented and fundamentally-driven approaches, these conditions collectively created a difficult backdrop and weighed on relative performance.

Current sector allocation



Source: LGPS Central, as at 30 September 2025

Hymans' views:

We view the current concentration in the US and the Magnificent 7 as a material market risk in its own right (as outlined on the next slides), so we do not regard the Fund's underweight to these stocks, or the resulting recent underperformance, as a concern; it is broadly what we would expect given the fund's purpose and underlying investment styles in this environment.

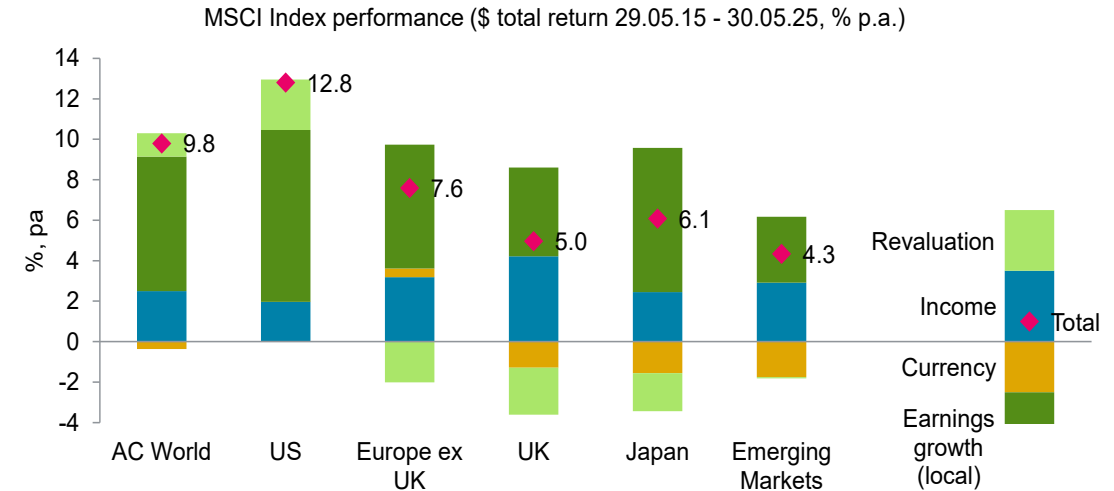
Nonetheless, it is important to periodically review that managers remain true to their stated styles, that the overall balance remains appropriate, and that the level and sources of active risk are suitable and being taken for the right reasons.

Current market risk (1)

US equity concentration – what's happening

- Return decomposition shows US outperformance has been driven by stronger earnings growth and rising valuations, while other regions have seen P/E multiple contraction.
- This has led to a steadily increasing US weight in global equity indices, pushing US concentration above historical norms.
- A large share of performance has come from a small group of mega-cap tech stocks ("Magnificent 7"). The 10 largest stocks now make up c.25% of global indices – this represents concentration levels not seen in decades.
- US earnings growth without these largest stocks is broadly in line with other regions illustrating the significance that these stocks have on equity market metrics.

Decomposition of 10-year returns



US weight in global indices



Source: MSCI, DataStream

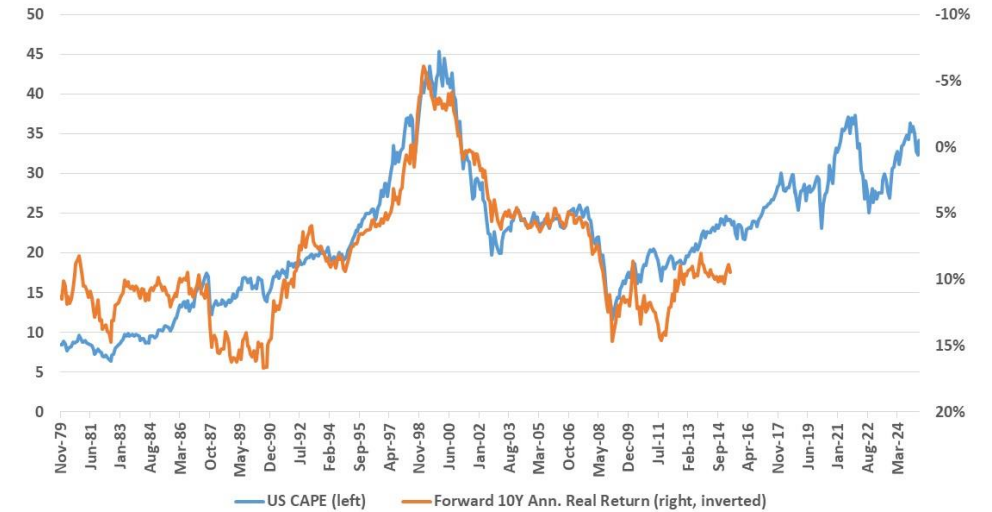
Current market risk (2)

US equity concentration – why it's a risk

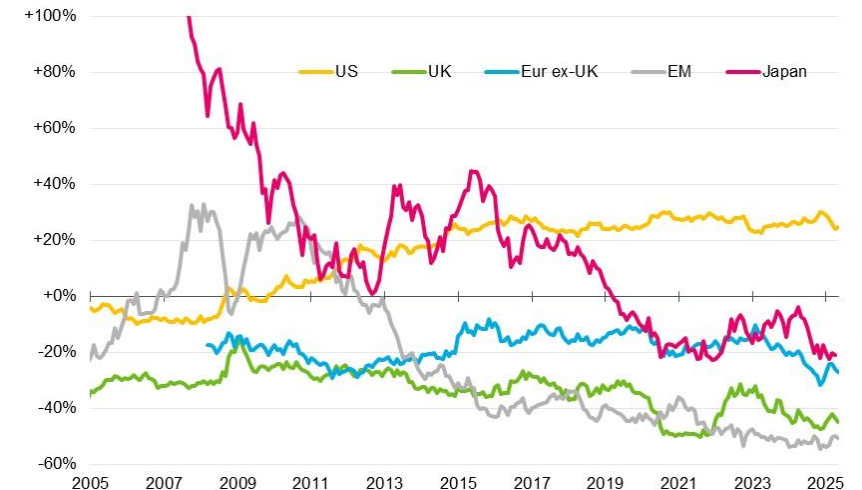
- US valuations are elevated – CAPE¹ is high even with earnings above long-term trend, both in absolute and relative terms. Historically, higher CAPE¹ levels have been associated with lower forward returns.
- Global indices are now heavily concentrated in the US and a small group of mega-cap tech names, increasing country and thematic concentration and leading to greater volatility and a narrower set of future return drivers.
- As LCCPF holds meaningful exposure to global equities (including passive allocations), **this concentration and valuation risk feeds directly into the Fund's equity portfolio.**

¹CAPE (Cyclically Adjusted Price-to-Earnings) is a valuation measure that compares a market's price to its average inflation-adjusted earnings over the past 10 years. It helps smooth out short-term earnings fluctuations and is often used to assess whether a market looks expensive or cheap relative to history.

US CAPE vs Forward Returns



Regional CAPE vs World



Source: MSCI

Actions to consider

- The last full equity portfolio review was undertaken in early 2023. Since then, market environment has evolved, particularly with the increased concentration in US equities and the dominance of the Magnificent 7 highlighted earlier. The Fund is also currently sitting above its equity target.
- Building on the annual SAA review, we believe it would be sensible to **carry out a full equity refresh review** to ensure the structure and allocation remain aligned with the Fund's long-term objectives and investment beliefs, as well as the current market backdrop.

What priorities need to be addressed as part of the equity review?

Manage concentration
risk

Active vs passive
management

Exposure to equity
styles / factors

Climate
considerations

- Review total equity exposures across L&G and LGPSC funds and adjust if needed to reduce unintended reliance on the US or narrow market leadership.
- Assess the split between L&G passive and LGPSC active/multi-factor strategies, including how and where active risk is being taken.
- Review equity style / factor tilts and adjust if unintended biases appear.
- Revisit the Fund's Net Zero strategy and analyse whether the current climate-tilted allocation remains appropriate.

Targeted Return

Overview of targeted return funds

Within the targeted-return space, the opportunity set is broad:

Multi-asset absolute return mandates – invest across equities, bonds, currencies and alternatives, typically with explicit targets (e.g. cash + 3–5%) and a focus on capital preservation and low equity beta.

Directional multi-asset / “growth” targeted-return mandates – long-only or largely long exposures, maintaining persistent equity and credit beta, aiming for equity-like returns but with lower volatility.

Managed futures / trend-following mandates – systematic strategies using futures and other derivatives to capture price trends across multiple asset classes.

Risk-parity and other derivative-heavy strategies – balance risk across asset classes using leverage; generally more complex and highly reliant on derivatives.



Role of targeted return allocation within the LCCPF:

To deliver an absolute return of cash +4% p.a., assessed over rolling three-year periods, irrespective of market conditions, with low equity correlation and strong downside protection.

The Fund, therefore, has deliberately concentrated on “absolute return” multi-asset mandates as these best align with the allocation’s purpose.

In the 2023 review, we concluded that a 60:40 blend of Ruffer and Fulcrum provided the strongest fit to meet these objectives.

In the next slide, we review the current portfolio’s performance and allocation.

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Current portfolio

Current allocation as at 30 September 2025

Manager	Fund	Actual Allocation	2025 SAA	Above/ Below Target
Ruffer	Absolute Return fund	3.0%	3.0%	=
Fulcrum	Diversified Core Absolute Return fund	2.0%	2.0%	=
Total		5.0%	5.0%	=

Performance to 30 September 2025

Manager	Fund	Inception Date	1-year (%)	3-year (%)	Since Inception (%)
Ruffer	Absolute Return fund	Dec-13	5.7 (-2.7)	0.2 (-8.5)	5.1 (-0.4)
Fulcrum	Diversified Core Absolute Return fund	Oct-23	11.8 (3.4)		10.8 (2.0)
Total			8.1 (-0.3)	4.4 (-4.3)	5.9 (0.2)

Figures are net of fees; returns over one year are annualised. Benchmark-relative returns are shown in brackets. Total performance includes legacy assets no longer held.

Source: Investment managers and "Leicestershire Total Fund Q3 2025 - Manager Summary" quarterly report.

Allocation fully aligned with 2025 SAA

The Targeted Return allocation sits exactly at its 5% target

The current Ruffer : Fulcrum blend is also exactly 60:40, in line with the sub-target.

Positive absolute returns but recent performance has trailed the cash-plus benchmark.

Ruffer fund is the main source of recent underperformance

We focus on Ruffer in the next slide.

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Ruffer

Why has the fund underperformed over recent periods?

The chart on the right shows that the portfolio has carried a sizeable allocation to protection strategies (shown in the blue and green shades, green being inflation-protection) over recent years. This defensive positioning reflects Ruffer's capital preservation philosophy, but it has also shaped performance. We therefore focus on 2023 and 2024, both of which delivered disappointing negative absolute returns.

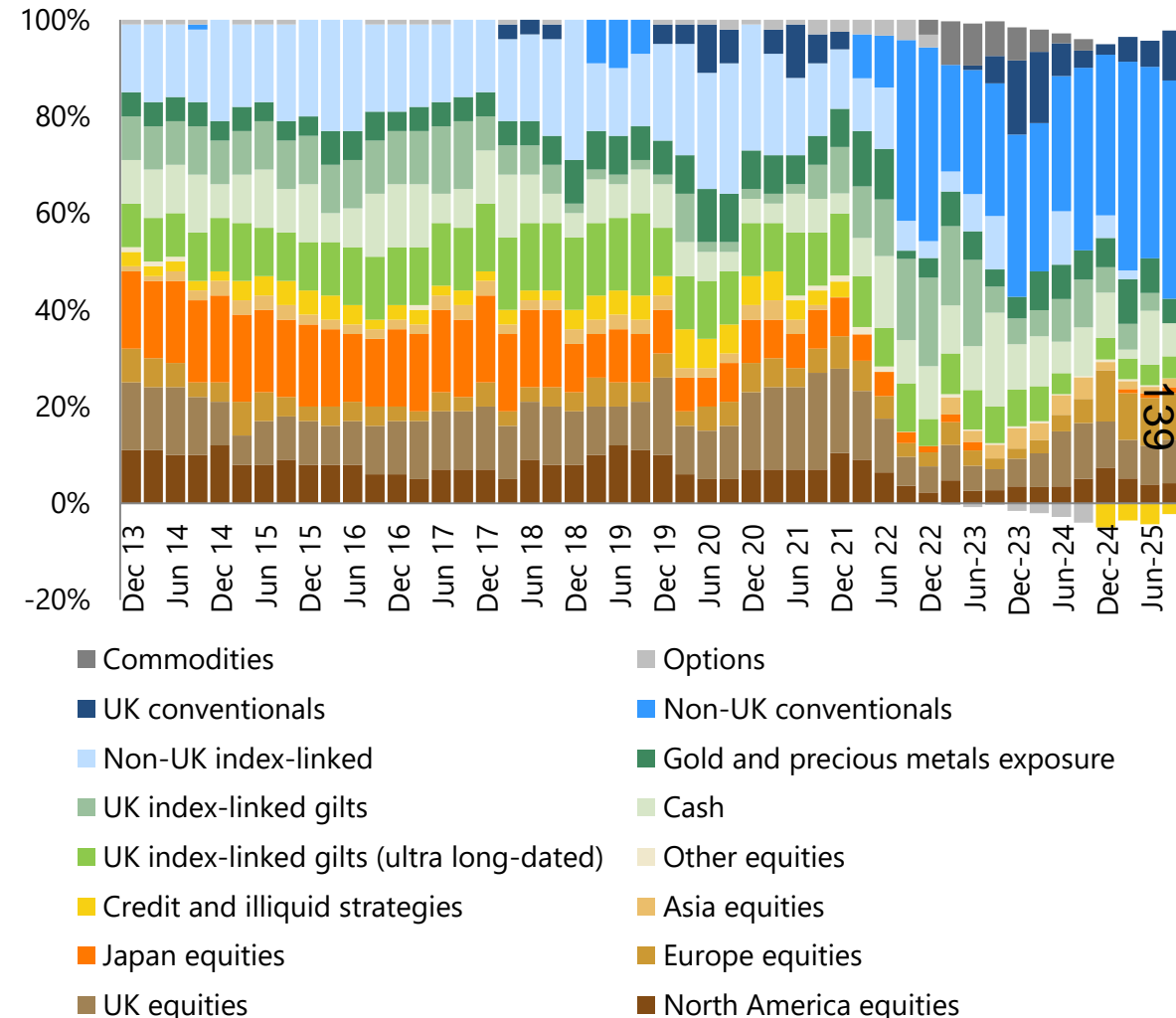
In 2023 (-6.5%), the negative absolute return was driven by losses in protective positions and the portfolio's growth exposure being concentrated in China, where the post-pandemic economic reopening disappointed. Limited participation in the US tech-led rally provided little offset.

In 2024 (-1.9%), a broader mix of growth assets helped, but late-year weakness in protection assets, the yen and index-linked bonds offset gains, while US equities again dominated global returns.

Ruffer has not met its cash + 4% objective over the past three years, largely due to negative returns in 2023 and 2024, which have also weighed on since-inception performance. However, 2025 performance has improved, and it is encouraging to see that since May 2025, the equity allocation has outperformed global equities and captured returns outside the US, even during a US tech-led rally that the portfolio has deliberately avoided.

The next slide considers whether they have delivered on the allocation's other key objectives: low equity correlation and strong downside protection.

Evolution of asset allocation



Equity correlation

Correlation with Global Equity

	Ruffer	Fulcrum ¹	60:40 Ruffer/Fulcrum	Global Equity ²
Measured from 1 Oct 2008 to 30 Sep 2025				
Annualised Return	5.98%	4.07%	5.27%	10.60%
Correlation v equity	0.32	0.41	0.39	1.00
Volatility of quarterly returns	3.86%	2.63%	2.97%	7.75%
Measured from 1 Oct 2020 to 30 Sep 2025				
Annualised Return	3.93%	6.32%	4.94%	14.65%
Correlation v equity	0.24	0.09	0.23	1.00
Volatility of quarterly returns	3.35%	2.60%	2.48%	6.49%

Source: Ruffer, Fulcrum, Bloomberg/MSCI

¹Diversified Core Absolute Return Fund was launched in December 2014, and data prior to this date relates to the Diversified Absolute Return Strategy.

²Global equity performance is based on the MSCI All Country World Index (ACWI), which represents a broad measure of global equity market returns.

Observation

We have shown two periods – the longer-term view from 2008 and the more recent period from 2020 – to illustrate how Ruffer, Fulcrum, and a 60:40 blend have behaved relative to global equities.

Across both periods, Ruffer and Fulcrum have lagged global equities from an absolute return perspective. We would expect this given these strategies purpose is to diversify equity risk rather than chase equity market beta. The more important point is that **both have consistently delivered low equity correlation alongside materially lower volatility**. This is one of the core roles they play in the portfolio, alongside supporting the Fund's long-term return objective. The 60:40 blend, unsurprisingly, tends to capture the steadier features of both managers.

Longer-term picture (since 2008):

Over the full period, Ruffer has generally delivered higher returns, albeit with greater variability than Fulcrum. Fulcrum has been the smoother, more stable performer, although this mandate has demonstrated higher correlation to equities than Ruffer. Both, however, have offered meaningful diversification over the long term horizon.

More recent trend (last 5y):

In the more recent period, this pattern has almost reversed. Fulcrum has delivered stronger returns, lower volatility, and even lower correlation to equities than Ruffer. Notably, equity correlations for both managers have fallen further relative to their longer-term levels, indicating an even stronger diversifying profile in the current environment.

Downside protection

Performance during significant equity drawdowns

Quarter	Ruffer	Fulcrum ¹	60:40 Ruffer/Fulcrum	Global Equity ²	Downside saved (60:40 Ruffer/Fulcrum) ³
Q4 2008 (Global Financial Crisis crash)	16.6%	3.3%	11.3%	-20.7%	155%
Q2 2010 ("Flash Crash" + Eurozone stress (early phase))	-0.7%	-4.1%	-2.1%	-10.3%	80%
Q3 2011 (Eurozone sovereign debt crisis)	-2.7%	-2.3%	-2.5%	-14.7%	83%
Q4 2018 (Fed tightening & global growth slowdown)	-5.5%	-4.3%	-5.0%	-12.4%	59%
Q1 2020 (COVID-19 crash)	-2.3%	1.1%	-0.9%	-19.9%	95%
Q2 2022 (Inflation shock and aggressive rate hikes)	-4.3%	-0.7%	-2.8%	-13.5%	79%

Source: Ruffer, Fulcrum, Bloomberg/MSCI

¹Diversified Core Absolute Return Fund was launched in December 2014, and data prior to this date relates to the Diversified Absolute Return Strategy.

²Global equity performance is based on the MSCI All Country World Index (ACWI), which represents a broad measure of global equity market returns.

$$^3\text{Downside saved} = \frac{\text{Portfolio Return} - \text{Global Equity Return}}{|\text{Global Equity Return}|} \times 100$$

Interpretation:

>100% = avoided loss and gained.

100% = fully protected (flat vs equities down).

0–100% = partial protection (lost less than equities).

<0% = worse than equities.

Observation

Another way to assess the diversification qualities of the targeted return funds is to look at how they behave during periods of significant equity stress. The table on the left highlights the six major quarters since 2008 in which global equities fell by more than 10%.

Across all these episodes, both Ruffer and Fulcrum successfully preserved capital relative to equities. While equities suffered double-digit losses, both funds experienced much shallower drawdowns – and in several cases delivered outright positive returns. This demonstrates another core purpose of the strategies: **strong downside protection** whilst still capturing some upside in more constructive markets.

A notable pattern, which links back to the earlier analysis, is how the relative behaviour of the two managers has evolved over time. In earlier stress periods, including the GFC (Q4 2008) and the early Eurozone stress (Q2 2010), Ruffer tended to outperform Fulcrum in protecting capital. However, in the more recent crises, the Covid-19 crash in Q1 2020 and the 2022 inflation and rate-hike shock, Fulcrum held up better for reasons outlined in the next slide.

Actions to consider

- The targeted return allocation has delivered positive absolute returns, although recent performance has fallen short of the cash + 4% objective, with Ruffer being the main driver of the shortfall. However, we believe both funds (Ruffer and Fulcrum) continue to meet their other core purposes within the Fund – namely low equity correlation and strong downside protection across multiple stress episodes.
- These characteristics remain particularly valuable for LCCPF, where a key priority is to limit downside risk and protect the funding position, and therefore retaining an allocation to assets who can provide these characteristics remains appropriate.
- In forming the equity-correlation and downside-protection analysis, we have deliberately considered a long-time horizon – including periods before the Fund invested in these strategies – as this provides a more complete view of how each manager behaves across different market environments. We believe this longer lens is important in assessing the structural qualities of the strategies.
- We are aware that Fulcrum introduced several strategic enhancements from mid-2023 – including real-time stress monitoring, tighter drawdown controls, and extending risk oversight directly to each portfolio manager. It would be sensible to explore how much these changes (and any others made) have contributed to the improvement in Fulcrum's profile, and whether this represents a structural shift.
- Another reasonable question is whether the cost attached to achieving this degree of downside protection and diversification remains proportionate. Both managers sit at the more active end of the multi-asset spectrum, and their respective fees reflect their different approaches. This is an area that would be sensible to explore further as part of the full targeted return review.
- Taken together, these points suggest a natural moment to reflect on the structure of the targeted return allocation. While the 60:40 Ruffer/Fulcrum blend has served the Fund well, the recent divergence in behaviour raises the question of whether the balance could be refined at the margin, particularly when considering the cost of each manager.
- **In light of the observations above and alongside the wider SAA work, it may be worth noting whether a further targeted-return review is required in 2026, recognising that a detailed review was already undertaken in 2023 and the allocation continues to serve its intended role.**

Investment Grade Credit

Key Characteristics of Investment Grade credit

LCCPF holds investment grade (IG) credit for the following reasons:

Provides duration to support funding objectives

Delivers higher expected returns than gilts

Offers stable income stream

Improves diversification

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Current portfolio

Current allocation as at 30 September 2025

Manager	Fund	Actual Allocation	2025 SAA	Above/ Below Target
Aegon	Global Short Dated Climate Transition fund	0.9%	0.5%	+
LGPSC	IG Credit fund	2.8%	3.25%	-
Total		3.7%	3.75%	-

Performance to 30 September 2025

Manager	Fund	Inception Date	1-year (%)	3-year (%)	Since Inception (%)
Aegon	Global Short Dated Climate Transition fund	Mar-21	5.2 (-0.4)	6.2 (0.2)	2.9 (-1.7)
LGPSC	IG Credit fund	Mar-20	4.8 (0.8)	8.5 (1.2)	1.3 (-0.2)

Figures are net of fees; returns over one year are annualised. Benchmark-relative returns are shown in brackets.

Source: Investment managers and "Leicestershire Total Fund Q3 2025 - Manager Summary" quarterly report.

Overall IG credit exposure is broadly on target

Total allocation (3.7%) is very close to the 3.75% SAA target

Internal mix diverges from the SAA

Aegon is running at nearly twice its target while LGPSC IG is below target. After 30 Sep 2025, a further £90m has been added to Aegon as a temporary holding place for undrawn private market commitments, as agreed at the October 2025 ISC.

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Recent performance is mixed

Both Aegon and LGPSC are ahead over 3 years, though Aegon has weakened more recently

Longer-term picture remains soft

Both funds lag since inception, particularly Aegon, reflecting the timing of inception and its cash-plus (SONIA) benchmark rising sharply and remaining elevated, while short-dated credit repriced more slowly and saw mark-to-market impacts.

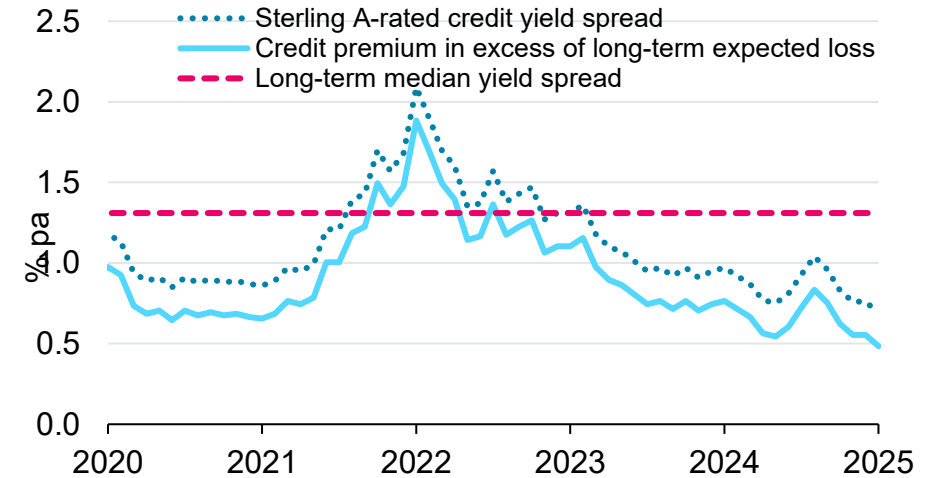
Current market dynamics

Spreads now at historically tight levels:

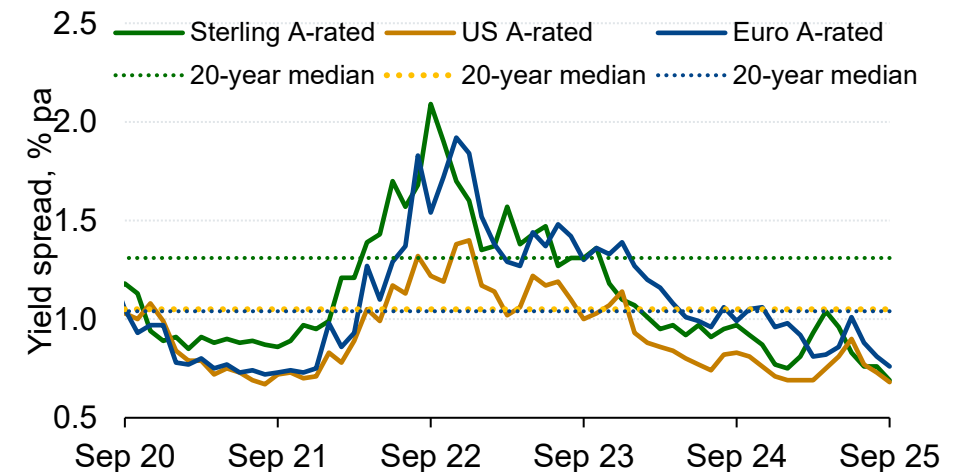
- Global IG credit spreads continued to grind tighter in Q3 and are lower YTD.
- A-rated global spreads are now around 0.7% p.a., slightly below the 10th percentile of their long-term history; Sterling and Euro A-rated spreads are about 0.8% p.a., and the US sits at 0.7% p.a., all well below their long-term medians.
- At these levels, **even a modest widening could lead credit to underperform gilts in the short term, although this risk reduces with longer holding periods.**
- Even with very low spreads, attractive underlying sovereign bond yields support the absolute medium-term return potential from corporate bonds. Indeed, yield-driven demand, alongside relatively robust fundamentals, are helping keep spreads at their current historically low levels.

With spreads at historically tight levels and the Fund currently limited to active short-dated and global IG credit, this may be a timely opportunity to diversify the IG Credit allocation to include alternative credit mandates.

US A-Rated Spreads vs Trend



US, UK & Euro IG Spreads



Source: ICE Index Platform, EIOPA, Hymans Robertson

Comparing IG credit approaches

There are three different investment approaches for investment grade credit:

	1. Passive	2. Buy & Maintain	3. Active
Performance target	Track the performance of benchmark	Attractive absolute return through credit selection and low turnover	Outperform benchmark, typically 0.5-1.0% p.a. but can vary
Approach	Aim to replicate benchmark in a cost-efficient manner	Bonds are intended to be held to maturity unless default or downgrade risks emerge.	Aims to add value through security, sector, duration and curve positioning relative to the index.
Duration	Broadly in-line with benchmark	For LGPSC fund specifically, duration is kept within two years of the ICE BofA Sterling Non-Gilt Index	Managed around benchmark, typically +/- 1-3 years
Off-benchmark positions	Limited	N/A – typically more diversified than passive or active funds, with limits on sector and issuer concentrations.	Non-sterling corporate bonds, cash, government bonds, high-yield bonds
Portfolio turnover	As necessary to replicate benchmark	Low compared to actively managed credit portfolio	High, typically over 100%
Dealing	Daily, typically	Weekly, typically	Daily, typically

Liquidity is similar across all three approaches, but differs in emphasis. Passive and active typically deal daily and invest predominantly in benchmark-eligible IG credit, so liquidity tends to be robust in normal market conditions. B&M strategies are designed to be lower-turnover, but none of the approaches pose material liquidity concerns

Potential addition to the IG Credit allocation

Both current mandates use this approach



Buy & Maintain

Why consider Buy & Maintain in the current market backdrop?

- ✓ **Spreads are historically tight, reducing the scope for active credit outperformance**
With IG spreads at long-term tight, active managers have fewer opportunities to add value through spread compression or credit selection. Buy & Maintain instead focuses on harvesting underlying yield rather than relying on tactical spread moves.
- ✓ **Yields remain attractive, and Buy & Maintain locks these in for the long term**
Even with tight spreads, underlying sovereign yields are still meaningfully higher than in the past decade. Buy & Maintain enables the Fund to secure these higher yields for many years, providing an attractive baseline absolute return.
- ✓ **Strengthens downside resilience if spreads widen from here**
Global active IG is most sensitive to spread widening, while short-dated IG is in theory defensive but may offer limited return. Buy & Maintain provides a steadier middle ground by holding higher-quality bonds to maturity and only selling when fundamentals weaken.
- ✓ **Enhances diversification within credit**
Buy & Maintain adds wider issuer coverage, longer-dated bonds and a different style of credit risk that complements the Fund's two active mandates.
- ✓ **Lower turnover and lower cost, which is beneficial when spreads are tight**
When spreads are compressed, trading can be expensive relative to the return available. Buy & Maintain avoids unnecessary turnover and preserves carry.

LGPSC Buy and Maintain Fund Characteristics

Characteristics	LGPS Central Buy and Maintain Sterling IG Credit Fund
Objective	Produce a return over the long term that will outperform the market.
Approach	Buy & Maintain; low turnover; hold bonds to maturity.
Universe	60%+ GBP IG; up to 40% developed-market IG (USD/EUR/JPY/CHF/CAD/AUD)
Fund size	£917m
Risk & Profile	Average rating: A– Modified duration: 4.4 Larger weights in financials and utilities
Performance	4.0% since inception (Nov 24 to Sep 25)

LGPSC's new Buy & Maintain Sterling IG Credit Fund (launched in November 2024) presents a potential option for the Fund to consider (subject to due diligence).

Additionally, Central have indicated a preference for the Fund to move from the existing Sterling IG Credit product to the Global IG Credit product.

We therefore recommend a detailed review of the Fund's IG Credit allocation to assess the suitability, sequencing and scale of any adjustments, working with the Pool as appropriate.

Alternative options to IG credit

Asset class	Description	Expected return (p.a.) ¹	Risk level	Cashflow certainty	Liquidity	Fees (% p.a.)	Already held in LCCPF?	Pool product available?
IG credit	Corporate bonds rated BBB–A/AA	5.0% – 7.0%		High		Low	Yes – Aegon Short Dated IG; LGPSC IG Credit	Yes – Global Active and buy and maintain
Asset-Backed Securities	Bonds backed by mortgages/loans; securitised credit	5.0% – 7.0%		Medium - High		Low – Medium	Indirectly – via MAC (max 30% of portfolio)	Indirectly – via Global MAC
Absolute Return Bonds	Flexible bond funds targeting stable positive returns	5.0% – 6.0%		Low		Low – Medium	No	No
High-Yield Bonds	Sub-investment-grade corporate bonds (BB–B)	6.5% – 8.5%		Low – Medium		Medium	Indirectly – via MAC (max 30% of portfolio)	Indirectly – via Global MAC
Insurance-Linked Securities	Instruments linked to catastrophe/ insurance risks	7.0% – 9.0%		Low - Medium		Medium - High	No	No
Private credit	Illiquid direct lending, senior loans, private debt	8.0% – 10.0%		Medium		High	Yes – Partners Group PD; CRF; LGPSC PD	Yes – LGPSC PD low &, high return, real assets
Infrastructure debt	Senior / secured loans to infrastructure projects	5.0% – 7.0%		High		Medium - High	No	Indirectly- via LGPSC PD real asset fund
Emerging Market (EM) Debt	Sovereign or corporate EM bonds	6.0% – 8.0%		Low - Medium		Medium	No	Yes – Global Active EM Bond Fund

From another angle, we have also considered alternatives outside of IG credit, specifically asset classes that offer a broadly similar risk/return profile. One option could be to adjust the Fund's existing allocations to these areas, either alongside changes within IG credit or as an alternative to them.

This will be explored further as part of the wider review. Any options beyond the current line-up will naturally be constrained by availability through LGPS Central, though the review will also identify where future product development or engagement with the Pool may be useful.

Thank you

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LCCPF portfolio – growth assets

Asset Class	Mandate	Market Value (£m)	Weight (%)
	Total Growth Assets	3,856.7	54.2
Listed Equity	Total Listed Equity Fund	3,115.0	43.8
	<i>L&G UK Equity Fund</i>	<i>158.6</i>	<i>2.2</i>
	<i>L&G All World Equity Fund</i>	<i>848.2</i>	<i>11.9</i>
	<i>L&G Low Carbon Transition Global Equity Fund</i>	<i>285.0</i>	<i>4.0</i>
	<i>LGPSC Global Eq Active Multi Mgr Fund</i>	<i>847.2</i>	<i>11.9</i>
	<i>LGPSC AW Eq Climate Multi Factor Fund</i>	<i>975.6</i>	<i>13.7</i>
Targeted Return	Total Targeted Return Fund	354.3	5.0
	<i>Ruffer Fund</i>	<i>211.5</i>	<i>3.0</i>
	<i>Fulcrum Diversified Core Abs Ret Fund</i>	<i>142.8</i>	<i>2.0</i>
Private Equity	Total Private Equity Fund	387.4	5.4
	<i>UK Private Equity Fund - Catapult (L)</i>	<i>0.9</i>	<i>0.0</i>
	<i>Oseas Private Equity Fund - Adams Street (L)</i>	<i>345.6</i>	<i>4.9</i>
	<i>LGPSC Private Equity Fund 2018 (L)</i>	<i>9.2</i>	<i>0.1</i>
	<i>LGPSC Private Equity Fund 2021 (L)</i>	<i>12.5</i>	<i>0.2</i>
	<i>LGPSC Private Equity Fund 2023 (L)</i>	<i>10.0</i>	<i>0.1</i>
	<i>Patria Capital Partners SOF III Feeder LP</i>	<i>9.2</i>	<i>0.1</i>

LCCPF portfolio – income assets (1)

Asset Class	Mandate	Market Value (£m)	Weight (%)
	Total Income Assets	2,153.2	30.3
Infrastructure	Total Infrastructure Fund	724.7	10.2
	<i>JPMorgan Infrastructure Fund (L)</i>	<i>164.4</i>	<i>2.3</i>
	<i>IFM Global Infrastructure Fund</i>	<i>176.9</i>	<i>2.5</i>
	<i>KKR Global Infrastructure Fund</i>	<i>32.2</i>	<i>0.5</i>
	<i>Stafford Timberland Fund (L)</i>	<i>114.4</i>	<i>1.6</i>
	<i>Infracapital Infrastructure Fund</i>	<i>12.2</i>	<i>0.2</i>
	<i>LGPSC Infra Core/Core+ (L)</i>	<i>140.7</i>	<i>2.0</i>
	<i>LGPSC Value Add Infrastructure (L)</i>	<i>3.2</i>	<i>0.0</i>
	<i>Quinbrook Net Zero Power Fund (L)</i>	<i>38.1</i>	<i>0.5</i>
	<i>Quinbrook Net Zero Power Fund Co-Inv (L)</i>	<i>42.6</i>	<i>0.6</i>
Property	Total Property Fund	495.2	7.0
	<i>DTZ Legacy Direct Property</i>	<i>88.1</i>	<i>1.2</i>
	<i>La Salle Property Fund</i>	<i>282.6</i>	<i>4.0</i>
	<i>Active Value I Property Fund (DTZ)</i>	<i>12.9</i>	<i>0.2</i>
	<i>Active Value II Property Fund (DTZ)</i>	<i>32.5</i>	<i>0.5</i>
	<i>LGPSC UK Direct Property Fund</i>	<i>79.1</i>	<i>1.1</i>

LCCPF portfolio – income assets (2)

Asset Class	Mandate	Market Value (£m)	Weight (%)
Private Debt	Total Private Debt Fund	484.6	6.8
	<i>Christofferson Robb & Company Fund - CRF3 (1 month L)</i>	2.7	0.0
	<i>Christofferson Robb & Company Fund - CRF5 (1 month L)</i>	43.1	0.6
	<i>Christofferson Robb & Company Fund - CRF6 (1 month L)</i>	31.1	0.4
	<i>M&G DOF Fund</i>	38.6	0.5
	<i>Partners Group Private Debt Fund</i>	103.6	1.5
	<i>LGPSC PD Low Return 2021 (L)</i>	159.7	2.2
	<i>LGPSC PD High Return 2021 (L)</i>	32.1	0.5
	<i>LGPSC PD Real Assets (L)</i>	73.8	1.0
Public Debt	LGPSC Global Active MAC Fund	448.7	6.3

LCCPF portfolio – protection assets

Asset Class	Mandate	Market Value (£m)	Weight (%)
	Total Protection Assets	1,100.7	15.5
Investment Grade Credit	Total Investment Grade Credit Fund	266.4	3.7
	<i>Aegon Global Short Dated Climate Transition Fund</i>	66.0	0.9
	<i>LGPSC Investment Grade Credit Fund</i>	200.4	2.8
Inflation-linked Bonds	Aegon (formally Kames) Index-Linked Fund	214.4	3.0
Currency Hedge	Aegon (formally Kames) Currency Hedge Fund	58.9	0.8
Cash	Cash	560.9	7.9

Private equity – current framework

	Segment	Target Allocation
Geography	North America	30-60%
	Europe	20-40%
	Asia Pacific	10-30%
	Emerging Markets	0-10%
Lifestage	Venture	10-30%
	Growth	10-30%
	Buy-out	40-70%
	Special Situations	0-10%
Origination channel	Primary funds	50-70%
	Secondaries	10-30%
	Co-investments	15-25%
Economic sector	No specified ranges as opportunity set varies, but aim for diversification	-

Infrastructure – current framework

	Target Allocation	Allocation Ranges
By Risk	80% core and core-plus infrastructure 20% value-add and opportunistic infrastructure	70-90% core and core-plus infrastructure 10-30% value-add and opportunistic infrastructure
By Geography	20% UK 75% Overseas (Developed) 5% Advanced Emerging Countries	10-30% UK 60-80% Overseas (Developed) 0-10% Advanced Emerging Countries
By Sector	No sector allocations targeted, but looking for reasonable diversification	Timberland allocation capped at 20%

Key Beliefs:

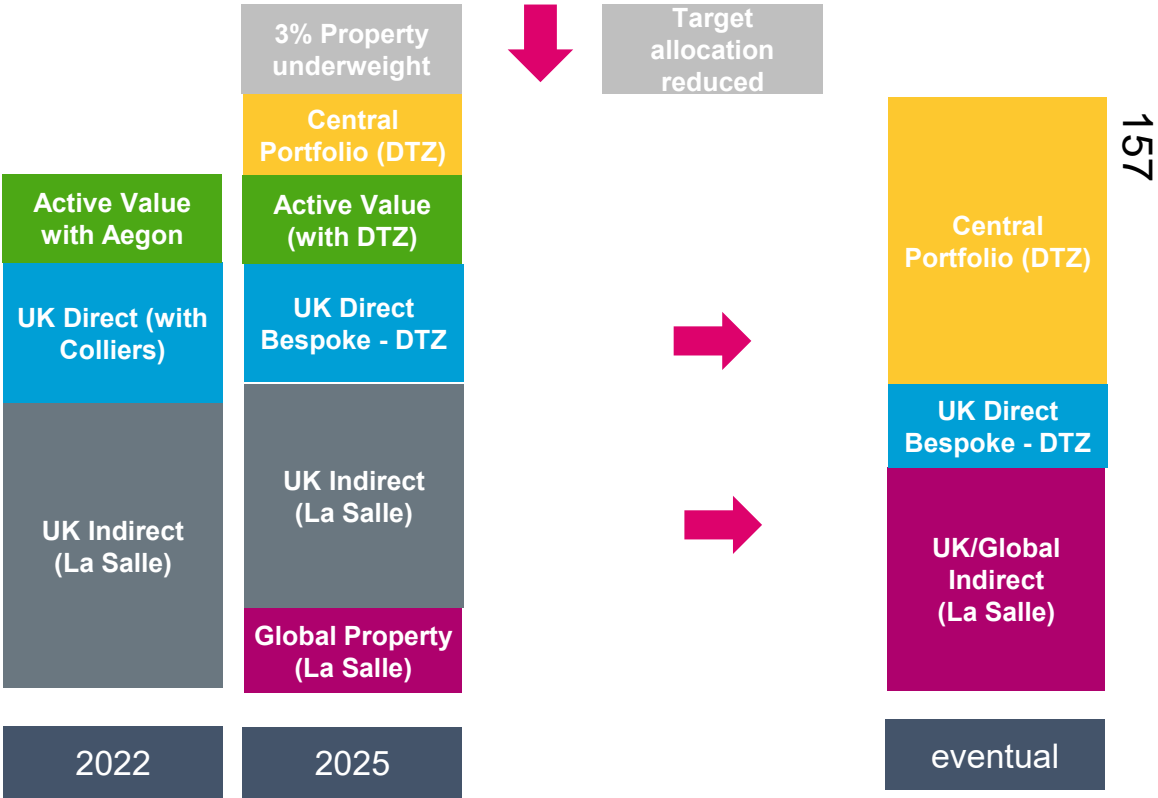
- Bias towards core and core-plus infrastructure with a target allocation set between 70% - 90%
- Preference for global mandates, with UK exposure limited to 30%
- Focus on developed markets, with EM exposure limited to 10%

Property – current framework

Target framework

Target allocation (2025 review)		
Regional split	UK	70%
	Global	30%
Manager split	DTZ	60%
	LaSalle	40%
Investment Channel	Direct	60%
	Indirect	40%
Risk	Core Commercial	70 – 90%
	Residential	Up to 15%
	Value-add Commercial	Up to 20%

Expected evolution of property portfolio



Private debt – current framework

		Current Target (%)	Allocation Ranges (%)
By Market Segment	Senior corporate debt	70	40-90
	Real asset-linked debt	20	10-30
	Opportunistic debt	10	0-20
By Region	Europe	45	30-60
	North America	45	30-60
	Developed Asia & Rest of World	10	0-20

Glossary

Term	Description
Beta	The extent to which a fund moves with the market. Equity beta refers to sensitivity to equity market movements; credit beta refers to sensitivity to credit markets.
CAPE (Cyclically Adjusted Price-to-Earnings)	CAPE is a valuation measure that compares a market's price to its average inflation-adjusted earnings over the past 10 years. It helps smooth out short-term earnings fluctuations and is often used to assess whether a market looks expensive or cheap relative to history.
Directional	A strategy that maintains meaningful market exposure (e.g. to equities or credit) and therefore rises or falls with markets.
Targeted-return mandate	A fund aiming for a specific return outcome (such as cash +X%) rather than tracking or outperforming a benchmark index.
Capital preservation	An investment approach focused on limiting losses and protecting the value of capital, especially in market downturns.
Managed futures	Funds that trade futures contracts across multiple asset classes to gain or reduce exposure quickly.
Trend-following	A systematic strategy that seeks to profit from sustained upward or downward price movements across markets.
Derivatives	Financial instruments whose value is based on an underlying asset (e.g. futures, options, swaps). Used to gain or hedge exposures efficiently.
Risk parity	An investment approach that aims to balance risk equally across asset classes, often using leverage to adjust exposures.
Leverage	Using borrowed money or derivatives to increase the size of an investment exposure beyond the underlying capital invested.
Systematic strategy	A rules-based, model-driven investment approach with minimal discretionary decision-making.

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