



LOCAL PENSION COMMITTEE – 3 JULY 2026

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

VALUATION OF PENSION FUND INVESTMENTS

Purpose of Report

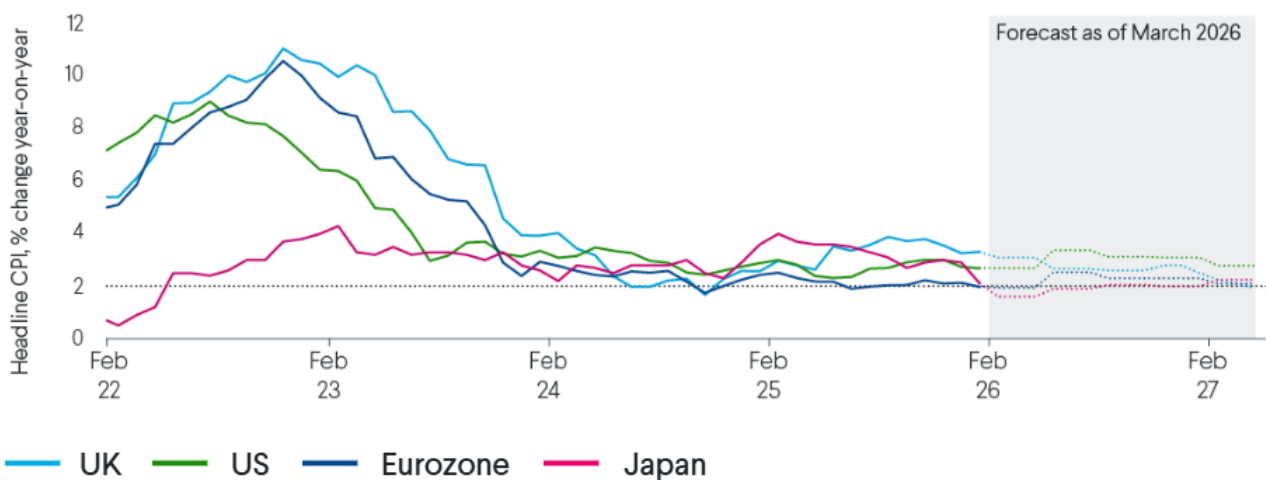
1. The purpose of this report is to provide the Local Pension Committee (LPC) with an update on the investment markets and how individual asset classes are performing, and the total value of the Fund's investments as at 31 March 2026.

Markets Performance and Outlook

2. Global investment markets delivered positive returns over the year ended 31 March 2026, although performance was uneven across asset classes. Global equities were strong, supported by resilient corporate earnings, enthusiasm around artificial intelligence related investment, and generally supportive financial conditions. By 31 March 2026, the MSCI World Index (GBP) delivered nearly 20%, another robust year for listed equities, particularly in developed markets.
3. Fixed income also produced positive returns over the year, helped by stabilisation in bond markets after the sharp repricing experienced in earlier years, particularly in 2022 which experienced double digit losses at a time when broad listed equity indexes also suffered losses. The Bloomberg Global Aggregate Index USD unhedged (which measures the performance of global investment-grade fixed-rate debt) returned 4.3% for the 12 months to 31 March 2026.
4. Commodity markets were substantially stronger over the same period. The iShares S&P Commodity Indexed Trust benchmark had a 43% one year return in USD as at 31 March 2026, reflecting the sharp rise in commodity prices included within the index over the year. The underlying benchmark is heavily weighted to energy (crude oil, gasoline and natural gas), and also includes agriculture (wheat, corn, soyabeans, sugar), industrial and precious metals (copper, aluminium, nickel, gold and silver) and livestock.
5. Overall, the year to 31 March 2026 can therefore be characterised as one in which risk assets again performed well, especially equities and commodities, while bonds generated positive but modest returns. Market returns remained concentrated, with technology and AI related themes continuing to play an outsized role in equity market performance with many companies generating returns well in excess of the wider benchmark.
6. As a result concentration risk has increased materially with passive global indexes becoming dependent on a smaller number of companies. Returns have been driven more by themes (Artificial Intelligence for example) rather than broad economic growth.

7. The following points are summarised from Hymans Robertson’s May 2026 Capital Markets update which provide a board summary of market drivers that would affect the Fund’s future performance. The full report is available on their website.
8. Global economic conditions remained resilient through 2025, with growth broadly in line with expectations despite heightened geopolitical tensions and policy uncertainty. Geopolitical risks have been a feature of recent market conditions, particularly developments in the Middle East and uncertainty around global trade policy. These risks have contributed to fluctuations in energy prices and heightened concerns regarding supply shocks and inflation persistence. At the time of writing there has, been some signs of de-escalation. A US–Iran agreement reached in June 2026 aims to bring an immediate end to hostilities.
9. Even if tensions ease, elevated energy costs are likely to drive headline inflation towards around 4% across many advanced economies in late 2026. While the US may face a sharper but less persistent inflationary impact due to its energy exporter status, economies such as the UK and eurozone remain more exposed. Central banks are therefore expected to remain cautious, as limited policy tools, demand impacts, and the risk of second-round inflation effects constrain their ability to respond in lowering domestic interest rates.
10. Prior to Middle East hostilities inflation had moderated from recent peaks but now remains above central bank targets in several developed markets. This has resulted in a cautious approach to monetary policy, with markets expecting limited further interest rate cuts during 2026.

Figure 1: As at March 2026 inflation was trending lower before the start of conflict in the Middle East



Source: Bloomberg

11. Within their looking ahead section, Hymans believe that while a swift resolution to current geopolitical tensions could improve the outlook, the balance of risks has shifted towards weaker growth, higher inflation and tighter monetary policy. In the UK, the inflation shock is more likely to keep the Bank of England on hold (the BoE held rates at 3.75% at the June 2026 meeting) rather than prompt easing, although market expectations for aggressive rate hikes may overstate the persistence of near-term

inflation relative to deteriorating real activity and labour market conditions (with unemployment at around 5.2%).

12. In fixed income markets, the repricing of short dated (commonly up to 3 years to maturity) bond yields has already incorporated a meaningful inflation risk premium, improving relative value, particularly in a scenario where growth slows and inflation moderates. Against a backdrop of elevated inflation and fiscal risks, maintaining exposure to short to medium dated sovereign bonds remains prudent given their lower duration sensitivity. In contrast, credit markets are showing early signs of stress, with spreads widening especially in speculative grade segments though valuations suggest that more attractive entry points may emerge.
13. Equity valuations have moderated somewhat but remain vulnerable to the combined effects of higher discount rates (from expectations of rising or higher for longer Government interest rates and increasing geopolitical risk), rising input costs and softer demand.
14. Global equity markets delivered strong returns the year to 31 March 2026 as previously stated. Equity markets recovered from 2025 volatility linked to tariff announcements. The table below shows the index performance of the MSCI world index (in GBP) as at 31 March 2026, it finished the year up 16.9%

Figure 2: MSCI world index performance

	3 mth	1 yr	3 yr (annualised)	5yr (annualised)	Div Yield	P/E
MCSI World	-1.55%	16.86%	14.80%	11.78%	1.68%	22.7

15. One of the main policy tools that affects markets in general is central bank interest rates and forward guidance that markets interpret as either positive or negative for markets. Historically, interest rates and guidance offered by central banks would be accommodative during periods of low growth, recession or rising employment.
16. The US it seems has stopped its continued path on cutting 'base' interest rates with the last cut at the January 2026 meeting and the most recent decision in June 2026 a pause. The table below shows a handful of developed market interest and inflation rates. The rates have been checked against the central bank and national statistics sources listed below; entries have been changed where those sources support an update. [table last update 19 June 2026]

Fig 3: Developed market interest and inflation rates

	Interest Rate %	Last Movement	Date of Last Movement	Inflation Rate %	Date of Inflation Rate	Inflation Metric Used
Australia	4.35	Up	May 2026	4.2	April 2026	Consumer Price Index (CPI)
Canada	2.25	No change	June 2026	2.8	April 2026	Consumer Price Index (CPI)
Euro Area	2.25 (deposit facility)	Up	June 2026	3.2	May 2026	Harmonised Index of Consumer Prices (HICP)
Japan	0.75	No change	April 2026	1.4	April 2026	Consumer Price Index (CPI)
Sweden	1.75	No change	May 2026	1.5	May 2026	Consumer Price Index with Fixed Interest Rate (CPIF)
United Kingdom	3.75	No change	April 2026	3.0	May 2026	Consumer Prices Index incl. owner occupiers' housing costs (CPIH)
United States	3.50–3.75	No change	April 2026	4.25%	May 2026	Consumer Price Index (CPI)

Source: Various central banks source sites, Australian Bureau of Statistics; Eurostat; Statistics Bureau of Japan; Statistics Sweden; Office for National Statistics (UK); US Bureau of Labor Statistics. Interest rates are the latest official policy rates available at the time of writing; inflation figures are the latest official annual rates available at the time of writing, with flash estimates used where final May data had not yet been published.

17. Hymans' capital markets review May 2026 comments on most major asset classes performance and their prospects. A summary for a number of asset classes starting with equities is shown below.

a. Equities:

- Global equities declined in Q1 of 2026 as the Middle East conflict disrupted energy supplies, increasing inflationary pressures and weakening growth expectations; US markets underperformed due to a rotation away from expensive technology stocks.
- Market leadership shifted, with Asia Pacific ex Japan outperforming, supported by strong AI-related investment and investor rotation into relatively better value technology opportunities outside the US.
- Despite near term volatility, earnings forecasts have continued to improve, underpinned by structural drivers including AI investment, supportive fiscal policy (US and China), and increased defence spending in Europe.
- However, downside risks to earnings have increased, reflecting higher energy, input and financing costs, alongside potential demand weakness from reduced real incomes.

- Valuations have moderated following the March sell off but remain elevated on a cyclically adjusted basis (which account for potential earnings reversion) (see fig 4 below), suggesting a more subdued medium-term return outlook despite improved short-term fundamentals.

Fig 4: Global equity price declines, alongside strong earnings growth, have reduced trailing (last 12 months earnings) price to earnings ratios



Source: Bloomberg/Hymans Robertson

b. Government bonds:

- The Bank of England reduced the base rate by a total of 1.0% during 2025. Generally, Government bond markets experienced continued volatility, with yields initially rising on the back of inflation concerns and fiscal developments before stabilising later in the period.
- Monetary policy remains restrictive, with central banks expected to ease cautiously, reflecting persistent above target inflation and ongoing uncertainty around the pace of disinflation.
- Divergence across regions has increased: Japanese yields have risen, while US and UK yields have eased modestly amid expectations of slower growth and policy loosening.

c. Corporate credit:

- Companies are finding it harder to service their debts because borrowing costs are higher and debt levels have increased, while geopolitical risks add further uncertainty. While earnings have remained resilient, increased debt issuance, particularly from large technology firms funding AI investment may place gradual upward pressure on spreads.
- Companies' debt issuance has been strong, especially in investment grade markets, supported by continued investor demand for higher yields.
- Spreads have widened modestly but remain tight relative to long term averages, offering only a limited buffer against losses. Leveraged loan markets have weakened more notably, reflecting softer fundamentals and concerns around private credit and sector concentration risks.
- Investment grade credit still looks reasonably attractive over the medium term. However, more caution is needed in speculative grade credit because

spreads remain tight and market volatility is elevated, so better opportunities to invest may arise later.

d. UK Property:

- Property delivered a total return of c7% over the 12 months to February 2026, driven primarily by income (5.7%), with only modest capital appreciation. While real rental growth has continued across sectors, the pace slowed over the most recent quarter, with survey evidence pointing to weakening tenant demand and more cautious rental expectations. Vacancy rates remain elevated, particularly in offices, although retail vacancies have recovered to pre pandemic levels.
- Rental yields were broadly stable over the quarter, with the gross reversionary yield (a valuation metric that estimates the total income return a property could achieve once it is fully let at current market rents) holding at 7.1% and the net initial yield rising slightly to 5.3%, reflecting modest outward movement in office and industrial yields. The gap between these measures suggests continued scope for rental growth. Demand remains strongest for higher quality assets, particularly modern, energy efficient offices which are achieving premium rents.
- Investment activity picked up in late 2025, with transaction volumes exceeding recent averages. However, market conditions remain challenging, with redemption pressures persisting across some open ended funds. This has created ongoing selling pressure, providing opportunities for investors to deploy capital at more attractive pricing levels.

18. A summary of global asset class performance over various time frames as at quarter ending 31 March 2026 is shown below. The standout classes over the longer term remain, listed global equity, US listed equity, private equity and gold. The first two exhibit a high degree of correlation given the US equity market makes up the majority of global equity returns. Private equity depends on the types of strategy employed and as such can be less correlated with global equity returns. Gold has, against most asset classes the lowest levels of correlation when measured over a 10-year period.

Figure 5: Performance by asset class as at 31 March 2026

Sub Asset Class	Return	Annualised Total Returns to 31/3/26 (GBP unless stated)				
	3 Months	1 Year	3 Years	5 Years	10 Years	20 Years
Global	-1.2%	18.0%	14.6%	11.0%	12.8%	9.8%
US	-2.4%	15.3%	15.8%	13.1%	15.1%	12.0%
UK	2.4%	21.5%	13.2%	11.0%	8.6%	6.7%
EM (USD)	-2.3%	20.8%	13.8%	4.1%	8.0%	5.7%
US Investment Grade	1.2%	2.4%	2.1%	1.2%	3.7%	6.0%
US Non Investment Grade	1.3%	4.6%	6.0%	5.0%	6.5%	7.1%
UK Investment Grade	-1.9%	2.9%	1.2%	-3.6%	-0.1%	2.7%
European High Yield (EUR)	-1.7%	2.7%	7.0%	2.5%	3.8%	5.6%
Emerging Markets	-1.3%	10.2%	9.0%	1.7%	2.7%	4.9%
UK Gilts	-1.9%	2.5%	0.4%	-4.2%	-0.7%	2.4%
UK Index Linked Gilts	1.1%	3.9%	-3.1%	-6.8%	-0.7%	3.3%
Cash	0.8%	4.4%	5.0%	3.4%	2.1%	
Gold	10.1%	45.9%	30.3%	23.3%	15.2%	12.5%
Cat Bonds	3.7%	9.9%	12.5%	11.3%	8.0%	9.5%

	Return	Annualised Total Returns to 31/12/25 (USD)				
	3 Months	1 Year	3 Years	5 Years	10 Years	15 Years
Private Equity	2.4%	8.5%	7.5%	11.5%	13.8%	13.6%
Private Credit	1.4%	5.7%	8.0%	9.6%	8.7%	9.0%
Real Estate	2.2%	4.0%	0.1%	5.7%	7.0%	8.9%
Infrastructure	-0.9%	5.2%	7.1%	10.2%	9.4%	9.1%

Source: Bloomberg for listed markets,

Figure 6: asset class correlations 10 year (March 2016 to March 2026)

	Global	US	UK	EM	US	US Non	UK	Euro	EM	UK	UK	Cash	Gold	Cat
	Equities	Equities	Equities	Equities	IG	IG	IG	Hi Yield	Bonds	Gilts	ILG			Bonds
Global Equities	1.00	0.97	0.81	0.81	0.39	0.63	0.25	0.82	0.70	0.14	0.42	0.20	-0.01	0.04
US Equities		1.00	0.69	0.69	0.42	0.67	0.18	0.72	0.57	0.10	0.39	0.14	-0.04	0.15
UK Equities			1.00	0.77	0.09	0.38	0.20	0.77	0.67	0.07	0.25	0.25	-0.08	-0.17
EM Equities				1.00	0.25	0.43	0.27	0.78	0.74	0.15	0.37	0.20	0.10	-0.13
US Investment Grade					1.00	0.76	0.46	0.17	0.30	0.48	0.61	0.02	0.56	0.53
US Non Investment Grade						1.00	0.10	0.39	0.26	0.06	0.38	0.06	0.22	0.56
UK Investment Grade							1.00	0.32	0.59	0.99	0.82	0.19	0.39	-0.02
European High Yield								1.00	0.88	0.19	0.41	0.35	-0.10	-0.30
EM Bonds									1.00	0.48	0.56	0.40	0.17	-0.34
UK Gilts										1.00	0.82	0.15	0.43	0.02
UK Index Linked Gilts											1.00	-0.01	0.40	0.04
Cash												1.00	0.30	0.12
Gold													1.00	0.36
Cat Bonds														1.00

Portfolio changes during the quarter ended March 2026

19. No rebalancing activity was conducted during the period.
20. Commitments were made to two Central private equity vehicles totalling £80million. These commitments were approved at the meeting of the Investment Sub-Committee on 1 October 2025.
21. The first capital call for Central's real assets private credit 2024 vintage were also received this quarter, a total of £130million is committed to this investment product.

22. The net effect on cash, quarter on quarter, has seen an increase from £453million to £505million as a result of older private markets investments returning capital. Information on the Fund's current valuation and variances to the Strategic Asset Allocation are reported later within this paper.

Investments approved at Investment Sub-Committee (ISC)

23. There has been no meeting of the ISC since the last update to the LPC. As a reminder, at the meeting of the ISC on the 1 October 2025 where the following decisions were approved.
- a. Top up an additional £120m to the 2024 Central private debt sleeves (£90m to Direct Lending and £30m to real assets). These additional commitments bring the total commitments across the two 2024 Central private credit vintages to £400million.
 - b. £90m additional commitment to the Aegon Short Dated Investment Grade corporate bond investment from general cash balances. £90million was added to this product over three £30million investments in October and November 2025.
 - c. £110m per annum of new commitments to private equity, are made to rebuild exposure and reach the target allocation by 2031-32 for private equity (PE), to be split as follows:
 - i. £65m to the LGPS Central 2025 PE primary sleeve.
 - ii. That it be delegated to the Director of Corporate Resources to commit £15m to the 2025 co-investment sleeve subject to satisfactory due diligence.
 - iii. That it be delegated to the Director of Corporate Resources to commit a further £30m earmarked for potential allocation (£15m each to secondary and venture sleeves), subject to satisfactory due diligence. The Venture Capital product will now not be launched by Central owing to limited capital available from Partner Funds to make this product viable. In total £95million is committed to PE rather than the envisaged £110million. The minor shortfall of £15million is not material and can be evaluated at the next strategic asset allocation review.

Strategic Asset Allocation (SAA) 2026

24. The annual meeting of the LPC on 30 January 2026 was attended by Hymans Robertson who presented the proposed changes to the SAA alongside a review of the performance of the Fund.
25. Proposals were approved by the LPC the change to allocations are described below:
- a. Local investments: 1% initial allocation to Local Investments across the four asset classes, private equity, property, infrastructure and private credit.
 - b. Fixed interest UK Government Bonds: Initiation of 2% fixed interest gilts allocation.
 - c. Two asset class reviews: A listed equity and investment grade credit review. The nature of the reviews will be dependent on Central's asset class design work which is ongoing currently. Any outcomes will be presented to the relevant LPC meeting during 2026.

UK Government Gilts allocation

26. By the time of the June 2026 LPC meeting the investment UK Government Bonds will have been completed. The Fund received advice from LGPS Central's Client Director having passed through the relevant internal review process at LGPS Central.
 - a. The aim of the paper was to present the Fund with an appropriate investment vehicle to satisfy the 2% allocation agreed by the LPC at the January 2026 meeting.
 - b. Four options were considered by Central which included 2 external managers, an internally managed mandate and a pooled solution.
27. A passive UK Gilts exposure via Legal and General (L&G), the all stocks gilt index fund was selected for a number of reasons:
 - a. Investment in a L&G fund can be implemented quickly. Including because the Fund has an existing relationship with L&G. (Equity investments)
 - b. L&G passive funds are 'green' rated by LGPSC when assessing all five areas (philosophy and process, people and culture, performance, positioning and risk and responsible investing). The review was carried out in March 2026 which updated a previous review in September 2025.
 - c. Historical performance has been as expected with tracking error (to the benchmark) low (<0.2% annualised) which is as expected with a passive gilt strategy.
 - d. Low annual management costs, no trading costs and weekly dealing meant that with the case for using L&G to satisfy this allocation was relatively straightforward.
28. With respect to the selection of the All stock gilts index fund, this was selected for the following reasons:
 - a. It provides broad exposure to the market, including all gilts in issuance and is highly liquid.
 - b. Yields are reasonably attractive without taking significant duration risk, i.e. the risk yields could increase further, and values fall, is higher with longer duration benchmarks.
 - c. The SAA stated allocation to conventional gilts (not index linked where exposure already exists) which narrowed options.
29. At the time of the advice (20 April 2026) the yield to maturity for the L&G fund (if all holdings were held to maturity) was 4.9% with an average time to maturity of 8 years (duration). The fund held UK bonds totalling £1.6trillion and is therefore highly popular with investors.
30. Central advised on implementation and settled on the current historically high yield to enter the market and complete the full investment over 3 tranches in 1 month.

31. Fund officers completed the necessary investment agreements and instructed L&G in June 2026 and scheduled 3 investments of £45million, £45million and £50million which totals c2% of the total Fund value.
32. The presentation of the SAA was updated to follow the guidance from Government where all LGPS funds will report against the same nine asset class descriptions. The Fund's 2026 allocation is shown below alongside the rebalance ranges.

Asset class	Strategic asset allocation (%)	Tolerance range ($\pm\%$)	Local invs
Listed equity	41.00%	+ / - 2.5%;	1% across 4 asset classes
Other alternatives	5.75%	51.75% - 56.75%	
Private equity	7.50%		
Property	7.5%	+ / - 2.0%;	
Infrastructure	12.5%	34.50% - 38.50%	
Private credit	9.5%		
Credit liquid MAC (i)	7.00%		
Credit IGC (i)	3.75%	+ / - 2.0%;	
UK Government bonds	5.5%	7.25% - 11.25%	
Investment cash	0.0%		
	100.0%		

- (i) Including credit instruments of investment grade quality, including (but not limited to) corporate bonds and non-UK government bonds.

33. The achievement of the 1% local investment target will take time to achieve, Central have appointed a Local Investment Director who has started the process to building an investment product that partner funds can commit capital to. In the meantime, there is some allocation to local investments within the existing investment products the Fund invests in. Officers and Central will work on the look through to quantify the Fund's share of local investments so that this existing allocation is taken into account when agreeing the appropriate commitment to a new Central local investment product.

Cash holdings and outstanding commitments

34. As presented in more detail elsewhere on today's agenda, the level of cash held by the Fund is higher than the SAA target of 0.75% of total Fund assets. At the quarter ended 31 March 2026 the Fund held £505million (£453m previous quarter) in cash and an additional £47million (£60million previous quarter) with Aegon as collateral in order to support the currency hedge. Taken together this represents 7.4% (7.0% last quarter) of total Fund assets.
35. The additional cash is as a result of SAA recommendations in 2022 and 2023 prompted a switch from liquid assets towards private market investments. At the time of writing there is over £0.9billion in outstanding commitments awaiting to be called for private market investments which will draw down the cash balance. A separate paper on today's agenda addresses this and includes a forecast for cash balances for the end of the financial year 2026/27. The majority of this £0.9billion commitment is for LGPS Central products totalling over £0.8billion across private equity, property, infrastructure and private credit.

36. The Fund's private market illiquid assets take time for money to be invested (called) by the underlying managers. In the meantime, the majority of the cash that would be used to satisfy calls is held as cash which includes the use of money market funds, fixed cash deposits and UK treasury bills as well as overweight positions in other liquid asset classes which could be sold to satisfy calls once cash levels are lower.
37. The Fund is in discussions regarding further commitments to both infrastructure and private credit. These will be presented to the LPC by LGPS Central's advisory function which will perform implementation and management of the SAA taking into account the Fund's investments strategy statement (ISS) which includes the Fund's investment beliefs and responsible investment policy.
38. The Fund also has implemented the 2% allocation to UK Government bonds which was a new allocation approved at the meeting of the Committee on 30 January 2026. More detail is available elsewhere on today's agenda regarding this investment which totalled £140million in investments to a Legal and General UK gilts product across three separate transactions made from cash balances.
39. The Fund, at the time of writing (23 June 2026), has £220million invested in fixed deposits with a weighted average interest rate of 4.00% with an average term to maturity of 4.0 months. In addition, at the time of writing, the Fund holds £214million across money market funds (MMFs) and a USD account with rates ranging from 3.73% to 3.90%. Therefore, the cash held is still generating a reasonable return, ahead of the Bank of England base rate.
40. A cashflow forecast for the Fund estimates that cash should reduce gradually over the financial year end towards £230million from the quarter end (31 March 2026) position of £505million. The reduction in cash is dependent on a number of factors:
 - a. The most important factor is the speed at which the significant commitments already made by the Fund are called by the underlying managers, a prudent estimate for this has been included in the forecast.
 - b. The pace at which closed ended funds return capital, in particular private equity, private credit and infrastructure funds.
41. The table below shows the current position of the Fund's actual investments against the 2026 SAA targets. In summary, the Fund is overweight cash, and underweight income assets. As previously stated, significant commitments have been made to income asset classes to close the gap to the target SAA with additional commitments to infrastructure and private credit in the planning process.

	31/3/26		31/3/26	Difference, actual to 2026 SAA	£m to SAA weight	% diff to SAA	Rebalance range
	£m	2026 SAA	Actual weight %				
Growth	3,985	53.5%	53.6%	0.1%	8	1.3%	+ / - 2.5%; 51.75% - 56.75%
Income	2,297	36.5%	30.9%	-5.6%	-416	3.1%	+ / - 2.0%; 34.50% - 38.50%
Protection	646	10.0%	8.7%	-1.3%	-97	-0.8%	+ / - 2.0%; 7.25% - 11.25%
Cash	505	0.0%	6.8%	6.8%	505		
	7,434	100%	100%				

The Protection asset group includes hedge collateral at 0.75% of total fund assets

	31/3/26		31/3/26	Difference, actual to 2026 SAA	£m to target weight	% diff to SAA
Growth	£m	2026 SAA	Actual weight %			
Listed Equity	3,218	41.00%	43.3%	2.3%	170	2.3%
Other alternatives	370	5.00%	5.0%	0.0%	-2	0.0%
Private Equity inc local	397	7.50%	5.3%	-2.2%	-160	-0.9%

	31/3/26		31/3/26	Difference, actual to 2026 SAA	£m to target weight	% diff to SAA
Income	£m	2026 SAA	Actual weight %			
Infrastructure inc local	864	12.50%	11.6%	-0.9%	-65	1.4%
Property inc local	502	7.50%	6.8%	-0.7%	-56	-0.3%
Credit - Private inc local	478	9.50%	6.4%	-3.1%	-228	2.2%
Credit - global liquid MAC	454	7.00%	6.1%	-0.9%	-67	-0.2%

	31/3/26		31/3/26	Difference, actual to 2026 SAA	£m to target weight	% diff to SAA
Protection	£m	2026 SAA	Actual weight %			
Credit - Investment grade	202	3.25%	2.72%	-0.5%	-40	-0.5%
Short dated IG credit	157	0.50%	2.11%	1.6%	120	1.6%
Government bonds	240	5.50%	3.23%	-2.3%	-169	-2.3%
Active currency hedge	47	0.75%	0.63%	-0.1%	-9	-0.1%

Cash	505	0.00%	6.8%	6.8%	505	
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Overall Investment Performance

42. Investment performance analysis over various time frames to the period quarter ending 31 March 2026 is conducted by Hymans. Hymans collate information directly from investment managers and calculate performance, which provides an independent check of manager valuations. The valuation summary is included within the exempt part of today's agenda together with the individual investment manager reports.
43. It is important to note that the valuations produced can be different to those provided by managers or included in the Statement of Accounts. For example, timing differences or use of different accounting methodologies. The differences are not expected to be material in the context of the messages being conveyed by this report.
44. Summarised returns for the whole Fund versus benchmark are shown below.

	1yr	3yr pa	5yr pa
Total Fund	+10.5%	+7.9%	+7.0%
vs benchmark	-2.2%	-2.2%	-0.6%

45. It is important to note that investment returns can be negative in absolute terms and for a protracted period, and chances of negative absolute returns over shorter periods of time are considerably higher than over longer periods of time. Currently over the short and medium term (three and five-year time frames) the returns for the Fund are comfortably positive at +7.9% pa over 3 years and +7.0% per annum over five years.
46. The current returns compare favourably to the most recent Hymans Robertson actuarial valuation, as at 31 March 2025, which calculated a future investment return of at least 6.1% pa in 80% of the future simulated outcomes. The Fund decided to increase the level of prudence from 75% used at the 2022 actuarial valuation to 80% in recognition of increase volatility and uncertainty in investment markets.
47. The Fund aims to generate investments returns ahead of the required future investment return (6.1%) and selects products such that the target investment return for the Fund's SAA builds in an amount of margin over the 6.1% required rate without taking undue investment risk. As at the 2025 SAA review, Hymans calculated the Fund's 20-year return for the target SAA to be 8.4% per annum.
48. The Fund has similar returns to three other LGPS funds where information is available. Returns are summarised in the table below.

	1 yr return to 31 March 2026 range	Benchmark range
3 Central LGPS Funds	10.0%-10.1%	11.7%-12.9%
LCC pension fund	10.5%	12.6%

49. The current investment returns over the one, three and five-year timeframes versus the benchmarks are negative. This is partly due to the change of benchmarks through 2024 where existing benchmarks were replaced with comparisons which more accurately reflect the risk being taken. In many cases the existing benchmarks were replaced with tougher comparisons, for example, moving of the private equity benchmark from FTSE all world to FTSE all world plus 3% per annum.

50. Over the one year time period investment returns are 2.2% below the benchmark. The largest components affecting this variance are the LGPS Central global active equity product and the private equity investments, each contribute about an adverse 1.5% return versus their respective benchmarks. Performance of the Central global active equity product is covered elsewhere on today's agenda as part of the public markets review. The private markets review will address private equity at the next meeting of the LPC scheduled in September 2026.
51. These adverse returns versus benchmark is offset by positive returns versus benchmark, the most notable is the LGPS Central Climate multi factor fund (MFF) which has outperformed its benchmark over the year by over 1%, it is the Fund's single largest investment at over 14% of the Fund. Officers will be in contact with advisors at Central to discuss rebalancing within equity products in the coming weeks.
52. Private equity has also had another tough year with total returns 10% below the benchmark which is also the FTSE All World index plus an additional 3% pa to represent the additional risk private equity investments represent. Over the longer term, private equity investments have performed well, see figure 4, where 10 year and 15-year performance for the private equity asset class has been 14% per annum. The Fund has performance for private equity from March 2016, performance to date is 13.3% pa.

Pooling progress

53. The Government's ambition is to have all investments pooled by 31 March 2026. All the Fund's assets including those with external managers now have a management agreement with Central to provide ongoing oversight and decision making however during the 'bedding in' phase investment decisions will be conducted in a collaborative manner with officers, the Fund's investment advisor and Central investment teams all playing a part.
54. The Fund has regular weekly meetings to progress investment related matters which have been running effectively for over a quarter now.
55. In April 2026, all of the Fund's external investment managers have been instructed to allow access to investment information and the Fund's decision for Central to provide discretionary investment management services. LGPS Central will give an update on progress during an earlier item on this agenda.

Leicestershire Pension Fund Conflict of Interest Policy

56. Whilst not a conflict of interest, it is worth noting that the County Council also invests funds with four managers with whom the Leicestershire County Council Pension Fund invests, namely Partners Group, JP Morgan, DTZ investors and Christofferson Robb and Company (CRC). Decisions on the County Council's investments were made after the Fund had made its own commitments.

Recommendation

57. The Local Pension Committee are recommended to note the report.

Environmental Implications

58. The Leicestershire LGPS has developed a Net Zero Climate Strategy (NZCS) for the Fund. This outlines the high-level approach the Fund is taking to its view on Climate Risk. This will align with the Fund's Responsible Investment approach as set out in the Principles for Responsible Investment. The Fund is committed to supporting a fair and just transition to net-zero. There are no changes to this approach as a result of this paper.

Equality Implications

59. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material Environmental, Social and Governance ("ESG") factors into investment processes. This has relevance both before and after the investment decision and is a core part of the Fund's fiduciary duty. The Fund will not appoint any manager unless they can show evidence that responsible investment considerations are an integral part of their decision-making processes. This is further supported by the Fund's approach to stewardship and through voting, and its approach to engagement in support of a fair and just transition to net zero. There are no changes to this approach as a result of this paper.

Human Rights Implications

60. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material Environmental, Social and Governance ("ESG") factors into investment processes. This has relevance both before and after the investment decision and is a core part of the Fund's fiduciary duty. The Fund will not appoint any manager unless they can show evidence that responsible investment considerations are an integral part of their decision-making processes. This is further supported by the Fund's approach to stewardship and through voting, and its approach to engagement in support of a fair and just transition to net zero. There are no changes to this approach as a result of this paper.

Background Papers

Local Pension Committee 30 January 2026, Overview of the Current Asset Strategy and Proposed 2026 Asset strategy – item 121:

<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=740&MId=8372&Ver=4>

Appendix

None

Officers to Contact

Declan Keegan, Director of Corporate Resources

Tel: 0116 305 7668

Email: Declan.Keegan@leics.gov.uk

Simone Hines, Assistant Director Finance, Strategic Property and Commissioning

Tel: 0116 305 7066

Email: Simone.Hines@leics.gov.uk

Bhulesh Kachra, Strategic Finance Manager - Investments

Tel: 0116 305 1449

Email: Bhulesh.Kachra@leics.gov.uk

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