London Borough of Brent Pension Fund

Investment Strategy Implementation

February 2026

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For and on behalf of Hymans Robertson LLP

Contents

1. Introduction

Addressee and Purpose

This report is addressed to the Officers and Pension Fund Sub Committee (the “Committee”) of the London Borough of Brent as administering authority to the London Borough of Brent Pension Fund (the “Fund”). It sets out the conclusions of the review of the Fund’s investment strategy, makes initial recommendations on the asset allocation for the Fund and provides recommendations for the Fund’s Growth, Income and Protection portfolios.

This report should not be used for any other purpose. It should not be released or otherwise disclosed to any third party except as required by law or with our prior written consent, in which case it should be released in its entirety. We accept no liability to any other party unless we have accepted such liability in writing. We provide comment from an investment but not a legal or tax perspective.

Where the subject of this report refers to legal or tax matters, please note that Hymans Robertson LLP is not qualified to give such advice therefore we recommend that you seek independent advice on these matters. We have prepared this advice in our capacity as investment advisers to the Fund.

Background and objectives

The work we have undertaken has been influenced by our understanding of the Fund’s background, objectives, and beliefs, which are:

- Ensure that sufficient resources are available to meet all benefit as they fall due for payment.
- Recover any shortfall in assets, relative to the value of accrued liabilities, over broadly the future working lifetime of current employees.
- Enable employer contributions to be kept as stable as possible and at reasonable cost; and,
- Maximise the returns from investments within reasonable risk parameters.

The investment strategy review process has been run in tandem with the actuarial valuation, with the bulk of the work focusing on whether an alternative investment strategy to the current approach could be more suitable. To evidence this, asset-liability modelling was undertaken as at 31 March 2024. The results of the asset-liability modelling work have already been presented to the Committee at the October 2025 meeting, and we provide a brief recap of these results in section 2 of this report.

The initial results of the 2025 actuarial valuation showed that the Fund was 113% funded at 31 March 2025, which represented a 26% improvement on the previous 31 March 2022 valuation. Asset performance has continued to be positive since 31 March 2025 and the Fund Actuary has confirmed that the funding position is likely to have improved further as a result. Considering the significantly improved funding position and future investment return expectations, and following detailed modelling and consultation throughout the valuation exercise, the Fund’s long-term open employers’ contribution rates are being reduced from 30.5% of pay in 2025/26 to 23.0% of pay in 2026/27 (and beyond).

The remainder of this report will focus on expanding the conclusions and recommendations put forward to the Committee in October.

Executive summary

The conclusions and recommendations from this report are set out below:

- As agreed at the October meeting, the Committee has adopted a new long-term investment strategy (described in this report as "Alternative 3"). This strategy includes new allocations to private equity and natural capital, a reduction in the Fund's infrastructure allocation, and an increased allocation to Protection assets (specifically gilts and multi-asset credit).

- These changes will lead to some reshaping of the Fund's investments. Some changes can be implemented in the near term (though Officers will likely need to engage with LCIV to clarify responsibilities for implementing these changes and the timing of these changes). Other changes will take a period of years to implement fully.

- In terms of immediate actions, we recommend the Fund reduces its multi-asset fund allocation towards the new long-term strategic target, with the proceeds being re-invested in the Protection portfolio, which consists of fixed interest gilts and multi-asset credit.

- Once this has been completed, the Fund will be c16% underweight to private markets, based on asset valuations as at 31 December 2025. This reflects the 7% underweight to property, the 4.5% underweight to infrastructure, and the new allocations to private equity and natural capital (and is net of the remaining allocation to multi-asset funds).

- It will take a period of years to build these allocations to their strategic targets. We recommend Officers engage with LCIV to understand its plans for building the Fund's allocations so that the timeline can be better understood.

- The question then is, where should money earmarked for future investment in these private markets assets be invested in the meantime, noting that the value of this earmarked portfolio is not insignificant (value £230m as at 31 December 2025)?

- As discussed in our previous report from February 2024, we recommend a portfolio of assets is identified and earmarked to be drawn down over a period of time to fund these new investments. We recommend this earmarked portfolio is invested in a blend of equities, bonds and cash.

- The Fund will need to communicate its agreed long-term investment strategy to LCIV so that LCIV can begin to implement the strategy. We recommend the table in section 9 is presented to LCIV as a draft to allow any areas of ambiguity and uncertainty to be resolved.

- It will also be appropriate to specify an interim target allocation reflecting the earmarked portfolio discussed in section 7 of this report. We recommend Officers engage with LCIV to ensure that LCIV can implement the strategy in line with the Committee's wishes.

- Given the proposed reduction in employer contributions, it will be important to determine the expected annual shortfall between contribution income and benefit payments. This information will be communicated to LCIV to enable them to create a plan to deliver the investment income needed to bridge this gap.

- Looking ahead, the Committee will need to establish its local investment strategy. We propose this is discussed at a future Committee meeting.

2. Recap on results of asset-liability modelling

Investment strategies modelled

We modelled the alternative investment strategies shown in the table below to assess whether a more suitable mix of assets could be appropriate for the Fund.

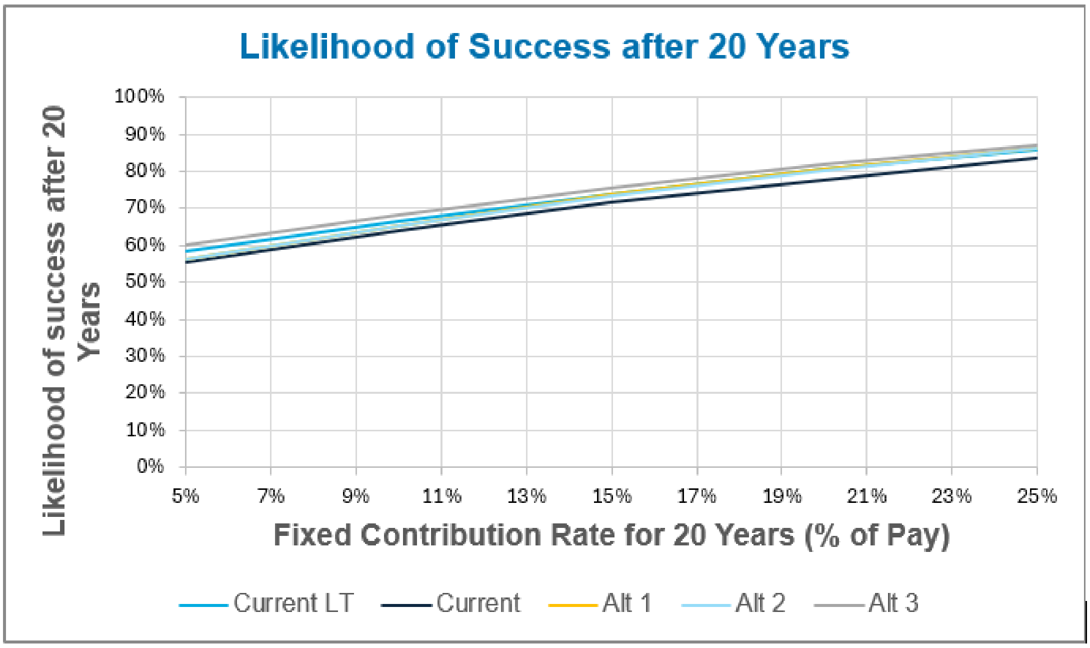
	Assets	Current long-term target (%)	Alt 1	Alt 2	Alt 3
Growth	UK equities	5.0%	5.0%	5.0%	5.0%
	Global equities	40.0%	37.0%	40.0%	37.0%
	Emerging markets equities	5.0%	3.0%	3.0%	3.0%
	Private equity	-	-	-	2.5%
Total Growth		50.0%	45.0%	48.0%	47.5%
Income	Multi-asset (Diversified Growth)	5.0%	5.0%	5.0%	5.0%
	Infrastructure	15.0%	10.0%	10.0%	10.0%
	Private debt	5.0%	5.0%	5.0%	5.0%
	Property	10.0%	10.0%	7.0%	10.0%
	Natural capital	-	-	-	2.5%
Total Income		35.0%	30.0%	27.0%	32.5%
Protection	Fixed interest gilts	10.0%	15.0%	15.0%	10.0%
	Multi-asset credit	5.0%	10.0%	10.0%	10.0%
	Cash	-	-	-	-
Total Protection		15.0%	25.0%	25.0%	20.0%

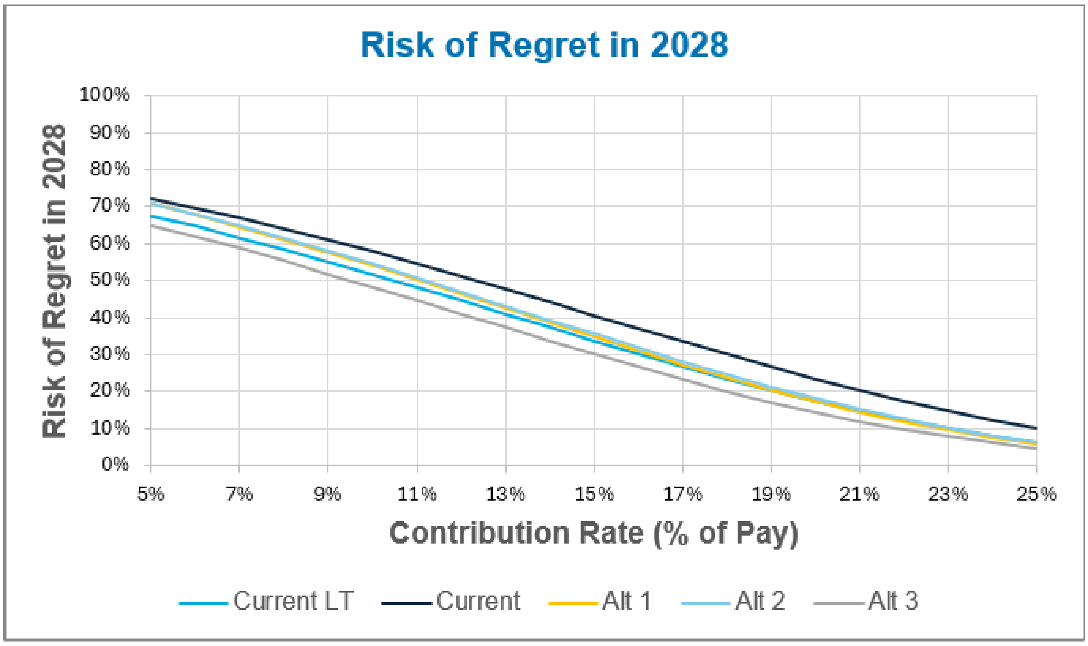
We undertook asset-liability modelling to compare these strategies allowing for different employer contribution rates and using two key metrics:

- Likelihood of Success: the probability that the Fund will be more than 100% funded in 20 years' time.
- Risk of Regret: the probability that contributions will need to be revised upwards at the next actuarial valuation in 2028.

A sample of the output from this modelling is shown in the charts below. These illustrate that "Alternative 3" gives the most favourable results among the strategies considered: it has the highest Likelihood of Success and the lowest Risk of Regret among the strategies considered. For full details, please refer to our previous report entitled "2025 valuation investment strategy review results" and dated September 2025.

Our recommendation to the Committee was to adopt Alternative 3 as the Fund's new long-term investment strategy. This report builds on that recommendation to make recommendations for the Fund's Growth, Income and Protection portfolios.





What has changed since the modelling was undertaken?

The modelling was undertaken in advance using 31 March 2024 membership data, market conditions, and future investment return expectations. For the formal triennial funding valuation exercise, the Fund Actuary has confirmed that the funding level was stronger at 31 March 2025, due to a combination of factors including positive investment returns and higher expected future investment returns. The significant improvement in past service funding position and higher expectation for future investment returns are two key factors that help support a reduction in the long-term open employers' contribution rates to 23% of pay. Further, asset performance has continued to be positive since 31 March 2025 and the Fund Actuary has confirmed that the funding position is likely to have improved further as a result.

It is important for the Fund to monitor the funding position to assess the impact of changing market conditions and future investment return expectations. It is expected that the next formal review of investment strategy will be carried out in conjunction with the 31 March 2028 actuarial valuation.

3. Investment strategy review framework

Investment strategy review process

The strategy review process has been run alongside the actuarial valuation, and is focused on the high-level allocation to Growth, Income and Protection assets, as well as the high-level asset class allocation within these categories, i.e. **what** the Fund should invest in.

Unlike previous reviews, the implementation of the investment structure i.e. how the Fund should invest has not been included as it is envisaged that the London CIV will be coordinating this phase of the strategy review, in line with the requirements of the 'Fit for Future' consultation. The Fit for the Future changes are discussed in the next section.

Framework for the review

The objectives of the review are to determine the mix of assets which best meets the risk and return requirements of the Fund. Our approach is to evaluate the Fund's current strategy against a range of plausible alternatives, each designed to test potential enhancements the Fund could make. To help frame the analysis, we have used our Growth/Income/Protection framework, as per the diagram below.

Growth	Assets which deliver positive real returns over the long-term enabling the Fund to meet its obligations whilst maintaining the affordability of the target level of contributions (assets such as global and private equity).
Income	Assets which deliver a relatively high and stable level of income which helps the Fund to diversify risk and to fund benefits payments (assets such as property, infrastructure, private debt).
Protection	Assets which reduce or hedge the Fund's investment risk and thereby seek to protect the funding position (assets such as traditional gilts and index-linked gilts).

Current position

To ascertain any required adjustments to the overall strategy it is important to compare the Fund's current allocation with the new long-term strategy recommended to the Committee at the October meeting. The following table shows the current Fund position as of 31 December 2025 versus these new long-term targets.

Taking this into consideration when setting alternative allocations to compare, we have included the current position as of 31 December 2025, alongside the new long-term targets.

You can see from the below that the Fund remains overweight to Growth and underweight to Income and Protection assets. This is in part due to the level of drawn down commitments to property and infrastructure that remain below the required levels to meet the respective long-term targets.

The purpose of this report is to recommend how the Fund should move towards the long-term targets shown in this table. For some asset classes (e.g. private equity), this transition may take a period of years. For other asset classes, there may be opportunities to carry out more immediate rebalancing to move towards these long-term targets. These points are discussed later in this report.

Assets	Allocation 31 Dec 2025 (%)	Long-term target (%)	Relative (+/-%)
UK equities	6.7%	5.0%	1.7%
Global equities	45.9%	37.0%	8.9%
Emerging markets equities	5.3%	3.0%	2.3%
Private equity	0.1%	2.5%	-2.4%
Total Growth	**58.0%**	**47.5%**	**+10.5%**
Multi-asset	14.3%	5.0%	9.3%
Infrastructure	5.2%	10.0%	-4.8%
Private debt	3.9%	5.0%	-1.1%
Property	3.0%	10.0%	-7.0%
Natural capital	-	2.5%	-2.5%
Total Income	**26.4%**	**32.5%**	**-6.1%**
Fixed interest gilts	7.6%	10.0%	-2.4%
Multi-asset credit	4.8%	10.0%	-5.2%
Cash	3.2%	-	3.2%
Total Protection	**15.6%**	**20.0%**	**-4.4%**

Source: Northern Trust, Investment managers

Impact of 'Fit for the Future' changes

From 1 April 2026, the London Collective Investment Vehicle ("LCIV") will be responsible for all investment management decisions required to implement the Fund's investment strategy. This includes decisions relating to tactical asset allocation, investment manager selection stock selection, investment stewardship (in line with the investment strategy statements set by Administering Authorities) and investment cashflow management.

The investment strategy itself will continue to be set by the Committee, with LCIV being the Committee's primary source of strategic investment advice. The Committee will be responsible for monitoring the actions taken by LCIV to implement the investment strategy, with the Committee's approach to monitoring to be discussed and agreed.

It may take time for LCIV to introduce and fully implement this new approach. We recommend Officers engage with LCIV to understand its plans and timeline. These discussions will inform which of the recommendations set out in this report can be implemented by Officers.

4. Growth assets portfolio

Growth assets aim to deliver positive real returns over the long-term enabling the Fund to meet its obligations whilst maintaining the affordability of the target level of contributions. A summary of two key asset classes within the Growth portfolio – listed equites and private equity – is provided below.

	Asset class description
Listed equities	Listed equities are shares in publicly traded companies and form a key growth asset within LGPS portfolios. They offer higher long-term expected returns through capital gains and dividends, supporting stable and affordable employer contribution rates. Although returns can be volatile, equities remain liquid and provide valuable diversification. Exposure can be implemented through passive funds for broad, low-cost market coverage or active strategies in areas such as emerging markets where managers may add value. Lower carbon listed equity mandates can support LGPS funds' net zero ambitions through a reduction in carbon emissions.
Private equity	Private equity involves investing in privately owned companies with strong growth potential, where managers seek to improve operations and enhance long-term value. These investments are illiquid and require capital to be committed for long periods, but this illiquidity is expected to deliver a return premium above listed equities. Private equity offers limited diversification from listed markets yet provides access to different parts of the economy and can complement the growth portfolio. LGPS funds typically invest through fund-of-funds structures that spread risk across multiple managers and strategies, though fees and fund lifecycles are more complex and performance takes time to materialise.

Actions taken since the last review

The following actions have been taken since the last investment strategy review:

- **Global equities:** to support the Fund's net zero ambitions, the Committee agreed to replace the Fund's existing index-tracking global equity mandate with two new lower carbon index-tracking global equity mandates. This restructuring is expected to materially reduce the carbon intensity of the Fund's equity portfolio while maintaining broad global equity exposure. The transition of assets to these new mandates is underway.

- **Emerging market equities:** the Fund invests in the LCIV Emerging Market Equity fund. Following a period of investment underperformance, LCIV carried out a review of this fund and has decided to replace the original manager (JP Morgan) with a new multi-manager fund structure (a 50:50 split between Acadian and Ashmore). We are supportive of the action LCIV has taken.

- **Private equity:** the Fund's current private equity investment with Capital Dynamics was valued at £1.5m as at 30 December 2025. Capital Dynamics have been active in the secondaries market, exploring ways to sell these investments. Absent a sale, this investment is expected to be allowed to run down.

Recommendations from this review

We recommend the following actions in relation to the Fund's Growth assets portfolio:

- **Global equities:** we recommend the Fund quantifies the reduction in carbon emissions achieved following the restructuring of its global equity mandates and reviews its "Net Zero Roadmap" to develop an action plan for achieving a net zero position.

- **UK equities:** we recommend the Fund engages with LCIV to understand whether it plans to launch a lower carbon UK equity fund.

- **Private equity:** we have recommended the Fund introduces a 2.5% target allocation to private equity. This represented a stepped change from previous investment strategy reviews and has been driven by the requirement of the fit for future consultation for Funds to allocate more assets to local investment. The final details on how this will be allocated are still to be decided between partner funds and the pool, but it is envisaged to be predominantly private assets and property. Although there is the potential for the final local investment allocation to be more diverse that just private equity it is envisaged the venture capital will play some part and therefore from a modelling perspective it was important to allocate accordingly to capture the risk return profile. Although LCIV does not currently offer a private equity fund we understand it has plans to launch one later this year. Whether this is to become part of the local investment offering is still not known and therefore we recommend Officers engage with LCIV to confirm their intentions on local investment vehicles.

5. Income assets portfolio

Income assets aim to deliver a relatively high and stable level of income which helps the Fund to diversify risk and to fund benefits payments (assets such as property, infrastructure, private debt). A summary of the principal asset classes within the Income portfolio is provided below.

	Asset class description
Multi-Asset	Multi-asset funds provide exposure to a broad mix of asset classes within a single investment, allowing managers to adjust allocations and use diversification to seek smoother returns than pure equity strategies. They can help reduce reliance on traditional market risks, offer some protection in stressed markets, and may act as a useful source of liquidity to support rebalancing when other assets fall. Multi asset strategies vary widely, with differences in how much dynamic allocation they use, how directional they are to equity markets, and the range of underlying assets they include. For LGPS clients, these funds can simplify governance while still delivering diversified return potential, especially for smaller schemes seeking broad exposure through fewer managers. Multi-asset funds can also be used a source of capital to meet capital calls from private markets investments while providing exposure to a broad mix of asset classes before this capital is called. Indeed, the Fund has adopted this approach, maintaining an overweight position to this asset class with a view to reducing this position as more opportunities to invest in private markets investments become available.
Infrastructure	Infrastructure investing focuses on essential assets such as transport networks, utilities, energy systems and social infrastructure that support the functioning of society. These assets typically generate long-term, stable income streams that are often linked to inflation, making them attractive for LGPS funds seeking reliable cash flows and diversification. Returns tend to be resilient because many infrastructure assets operate in regulated or monopolistic environments, resulting in low correlation with listed markets. Infrastructure is an illiquid asset class, and investors must commit capital for long periods, particularly in closed-ended funds. Because individual assets can be concentrated, spreading allocations across multiple managers or strategies helps reduce asset-specific risk and improve diversification. Infrastructure can play several roles within an LGPS portfolio, including enhancing growth diversification, providing steady income, and supporting long-term funding objectives such as aligning with inflation-linked liabilities.
Private Debt	Private debt refers to lending that takes place outside public markets and includes areas such as direct lending, real estate debt and infrastructure debt. Returns are driven mainly by contractual income and, because the asset class is illiquid, investors typically receive an illiquidity premium over comparable public market debt. Private debt offers

	higher yields, a stable income-focused return stream and a diversified source of return within an LGPS income allocation. Funds are usually long-term commitments made through closed-ended structures, so liquidity needs must be carefully considered. The broad private debt universe allows LGPS funds to access different forms of lending, but strategies vary in complexity, duration and risk, and performance can take several years to fully emerge.
Property	Property investing typically involves commercial real estate such as offices, industrial units and retail assets, with some exposure to alternative and residential sectors. This asset class provides diversification away from equities and bonds, modest inflation linkage and the potential to add value on a risk-adjusted basis. Its returns are less volatile than equities and have historically shown low correlation with other major asset classes, helping reduce overall portfolio risk. Property is an illiquid asset class with high transaction costs and requires active management, so it is best held as a long-term strategic allocation. LGPS investors commonly access the asset class through pooled property funds for scale and diversification, while larger investors may consider direct portfolios.
Natural Capital	Natural capital refers to the environmental assets and ecosystems that provide essential services such as raw materials, carbon storage, biodiversity, flood protection and pollination. Investing in natural capital allows LGPS funds to access opportunities aligned with long-term sustainability themes while potentially supporting financial goals and impact objectives. The theme spans both traditional and private markets, ranging from listed equity and debt strategies to illiquid real assets such as timberland and farmland. More established natural resource strategies, particularly in real assets, can provide stable long-term return potential, while emerging private strategies carry higher risk and require careful manager selection. Natural capital is best approached as a long-term thematic allocation, with diversification and clarity of objectives central to constructing an effective mandate.

Actions taken since the last review

The following actions have been taken since the last investment strategy review:

- **Multi-asset funds:** the Fund's allocation to multi-asset is split across two LCIV funds, with Baillie Gifford and Ruffer. In 2024 the Fund disinvested £33m from Baillie Gifford to move the Fund towards its strategic benchmark and to provide liquidity to support upcoming private market commitments.

- **Infrastructure:** the Fund has been exploring options for increasing its infrastructure allocation, including investment options outside of LCIV. At 31 December 2025, the infrastructure allocation was 5.2% of total Fund assets. At the time, this was significantly below the 15% strategic target allocation. As part of this strategy review, the strategic target allocation to infrastructure has been reduced to 10%. The aims here are to introduce greater diversification into the strategy, by placing less reliance on this asset class and accommodating the new allocation to natural capital, among the other changes recommended. The Fund was 4.5% underweight this new long-term 10% target as at 31 December 2025.

- **Private debt:** the private debt allocation will build towards the 5% strategic target over a period of time. To support this, a commitment of £45m was made to LCIV Private Debt II in February 2025.

- **Property:** in 2023 the Fund made a £30m commitment to the LCIV UK Housing Fund. This investment, together with the UK commercial property investments held with Fidelity and UBS, has taken the Fund's property allocation to 3% of assets as at 31 December 2025 versus a strategic target of 10%. The Fund will need to identify opportunities to build its property allocation to the 10% target and future options are discussed in the next section. With input from Hymans Robertson, the Committee has continued to monitor its property investments and detailed discussions took place in relation to the Fidelity fund, which received material redemption requests and gave cause for concern over the ongoing viability of the fund. We noted the situation has since stabilised and were content to support the Fund in retaining this investment.

Recommendations from this review

We recommend the following actions in relation to the Fund's Income assets portfolio:

- **Multi-asset funds:** in line with the recommendation provided in 2024, we recommend the Fund reduces its allocation to multi-asset funds towards the long-term strategic target. Our formal recommendation is set out in a separate report.

- **Infrastructure:** the Fund holds three infrastructure investments, through Alinda, Capital Dynamics and LCIV. It is expected that the Alinda and Capital Dynamics investments will be allowed to run down with distributions received from these investments being reinvested in other mandates. The Fund's largest infrastructure investment is through the LCIV Infrastructure fund (value £61m at 31 December 2025). Further investments will need to be made to build the Fund's allocation towards the new 10% target. It is expected that these new investments will be made through LCIV, either as an increase to the existing allocation (LCIV Infrastructure fund), or to the LCIV Renewable Infrastructure fund, or to a new LCIV fund. In our view, it will be important to build a diversified infrastructure allocation so that the Fund is not overly exposed to a specific region or sector (notably renewable energy). The implementation of such a strategy will fell to LCIV.

- **Private debt:** the Fund should continue with the current plan, which involves topping up the private debt allocation by making commitments to future LCIV fund vintages. We expect that LCIV will be responsible for calculating the amounts that will be committed to these future fund vintages.

- **Property:** we understand LCIV has created a property vehicle, working with CBRE, that will be the future platform for partner funds that operate "fund of funds" mandates. We recommend Officers engage with LCIV to understand its plans for building out the Fund's property allocation, in terms of the pace at which this will happen, and a comparison of likely trading costs against potential cost savings.

- **Natural capital:** natural capital is a long-term investment that offers attractive prospective returns and diversification from more traditional asset classes. It can also have a role to play in helping pension schemes achieve their net zero ambitions: timberland, for example, can remove carbon dioxide from the atmosphere. This dual role has prompted many LGPS funds to explore an allocation to natural capital. LCIV launched a natural capital fund in July 2024, called the LCIV Nature-Based Solutions fund. We recommend the Committee builds its knowledge of investing in natural capital, the investment aims and objectives, and risks. We would be happy to support the Fund in this area and to illustrate the contribution this investment could make towards achieving the Fund’s net zero ambitions. We recommend Officers engage with LCIV about the LCIV Nature-Based Solutions fund and future plans.

6. Protection assets portfolio

Protection assets are assets which reduce or hedge the Fund's investment risk and thereby seek to protect the funding position (assets such as traditional gilts and index-linked gilts).

	Asset class description
Gilts	Gilts are bonds issued by the UK Government, providing highly secure, predictable cash flows backed by the strength of the UK sovereign. They play an important role in LGPS portfolios as a low-risk, liquid asset that helps stabilise returns and provides reliable income. Conventional gilts pay fixed coupons, while index-linked gilts offer inflation-adjusted payments, making them useful for managing inflation risk. Gilts can be bought, sold or used efficiently within liability-aware strategies because they are easy to trade, can be leveraged, and are eligible as collateral for derivative positions. For LGPS funds, gilts serve as a high-quality anchor within the portfolio, supporting liquidity, risk management and long-term funding stability.
Multi-asset credit	Multi-asset credit (MAC) funds invest in a range of fixed income assets to provide diversified exposure across credit markets. MAC funds can add value through both top-down asset allocation, using relative value and macro analysis, and bottom-up security selection, through fundamental credit analysis. These funds also enable managers to exploit relative value across geographies, asset classes and capital structure positioning. Asset classes typically include investment- and speculative-grade corporate bonds, leveraged (or syndicated) loans, asset-backed securities (ABS) and emerging-market debt (EMD).

Actions taken since the last review

The following actions have been taken since the last investment strategy review:

- **Gilts:** the value of the Fund's gilts holdings fell significantly during 2022 in response to the rise in interest rates. Rebalancing was undertaken to restore this allocation to its 10% strategic target.

Recommendations from this review

We recommend the following actions in relation to the Fund's Income assets portfolio:

- **Gilts:** the Fund is c2.4% underweight gilts. We recommend increasing the gilts allocation to the 10% strategic target utilising the remaining proceeds from the reduction in the multi-asset fund allocation.

- **Multi-asset credit:** the Fund is currently c5.2% underweight. We recommend increasing this allocation towards the 10% target. Utilising proceeds from the reduction in the multi-asset fund allocation will take the multi-asset credit allocation to 9.8%.

7. Creating an earmarked portfolio to fund new investments

Background and objectives

The Fund will build its investments in private markets assets, such as private equity, property, infrastructure, private debt and natural capital, over the next few years. These investments are drawn down over a multi-year period and the Fund needs to have liquid assets that can be accessed at short notice to meet capital calls issued by the managers.

Given the staged nature of private markets deployment, we propose creating an earmarked portfolio that can be drawn down over a period of years. This would be a temporary allocation, invested across equities, bonds and cash, that provides diversification and liquidity while maintaining an appropriate level of risk and return at a whole-Fund level. The blended fund would act as a holding portfolio until capital is required by private market managers.

In principle, a blended fund of this type provides several advantages:

- It holds capital earmarked for private markets in liquid assets until required
- It maintains the overall risk and return profile of the Fund within acceptable ranges
- It provides broad exposure and avoids concentration in any single asset class
- It offers an efficient mechanism for meeting capital calls at short notice

This approach can be implemented using existing holdings. The Fund's overweight equity and bond/cash positions naturally form the foundation of the blended fund, with cash levels sized in line with expected capital call activity over the coming months. The split would be reviewed periodically to ensure it remains appropriate given market conditions and funding requirements.

Overall, this provides a structured and cost-effective way to hold capital for future investments in private markets. It avoids unnecessary transactions, reduces management fees relative to multi-asset alternatives, and supports the development of the Fund's long-term strategic allocation.

Current position and the need for an earmarked portfolio

The table in the following section shows:

- the Fund's current position relative to the long-term strategic targets;
- the impact of the disinvestment from the reduction in the multi-asset allocation; and
- the reinvestment of these proceeds into Protection assets.

Following this transaction, the Fund becomes:

- overweight listed equities, by 12.9%;
- overweight Protection, by 3.0%; and
- underweight private equity and Income assets, by an aggregate 15.9%.

Because private markets cannot be deployed immediately and require a multi-year commitment schedule, the Fund must hold these surplus liquid assets in a way that is risk-aware, return-generating and easily accessible. This is the role of the earmarked blended fund.

Assets	Allocation 31 Dec 2025 (%)	Illustrative allocation post multi-asset change	Long-term target (%)	Relative post sale (+/-%)
UK equities	6.7%	6.7%	5.0%	1.7%
Global equities	45.9%	45.9%	37.0%	8.9%
Emerging markets equities	5.3%	5.3%	3.0%	2.3%
Total listed equities	**57.9%**	**57.9%**	**45.0%**	**+12.9%**
Private equity	0.1%	0.1%	2.5%	-2.4%
Multi-asset	14.3%	6.9%	5.0%	1.9%
Infrastructure	5.2%	5.2%	10.0%	-4.8%
Private debt	3.9%	3.9%	5.0%	-1.1%
Property	3.0%	3.0%	10.0%	-7.0%
Natural capital	-	-	2.5%	-2.5%
Total of private equity + Income	**26.5%**	**19.1%**	**35.0%**	**-15.9%**
Fixed interest gilts	7.6%	10.0%	10.0%	-
Multi-asset credit	4.8%	9.8%	10.0%	-0.2%
Cash	3.2%	3.2%	-	3.2%
Total Protection	**15.6%**	**23.0%**	**20.0%**	**+3.0%**

Source: Northern Trust, Investment managers

Options for the blended fund

Following the reduction of the multi-asset allocation, we estimate the Fund will be holding a blended portfolio of c.80% listed equities and c.20% cash. This provides strong return potential, commensurate with the portfolio of illiquid assets it is designed to replicate, although it relies heavily on cash holdings.

We would support a blended portfolio with 60-75% in equities with the balance held in a combination of bonds and cash. The right blend depends on a number of factors, including the anticipated timeline for deploying capital and the pace at which each individual asset class is built up. As an example, if a larger proportion of the capital calls is likely to fall within the short to medium, this would tend to support a lower initial allocation to equities. This would reduce the mismatch risk of using equities (which can be volatile particularly over short periods of time) to meet capital calls where the overall amounts are known with reasonable certainty.

We recommend Officers engage with LCIV to understand its plans for building the Fund's allocations so that the timeline can be better understood. It will also be important to engage with LCIV so that it understands the objectives of the blended portfolio and how the Fund expects this to operate in practice. Retaining some flexibility will be important: the balance between bonds and cash can be expected to vary over time depending on liquidity needs depending on expected capital calls. For this reason, we recommend the blended portfolio is reviewed on a regular basis to ensure it aligns with the Fund's overall risk and return objectives.

8. Other considerations

Investment income requirements

The proposed reduction in employer contributions means it will be informative to determine the expected annual shortfall between contribution income and benefit outgo. This information can be communicated to LCIV to allow them to determine the investment income needed to bridge this gap.

Local Investment

The government's Fit for the Future changes require Administering Authorities to:

- set out their approach to local investment
- work with relevant Strategic Authorities to identify suitable local investment opportunities.
- report on the extent and impact of their local investments.

It also requires pools to develop the capability to carry out due diligence on local investment opportunities, take the final decision on whether to invest, and manage those investments.

The Committee will need to establish the Fund's local investment strategy. The strategy will depend on the Committee's beliefs/views, covering:

- Appetite for local investing
- How you define local
- Your appetite for impact
- Investment/risk-return considerations
- Governance
- Monitoring/reporting

We propose this is discussed at a future Committee meeting.

9. Specifying the target investment strategy

The Fund will need to communicate its agreed long-term investment strategy to LCIV so that LCIV can begin to implement the strategy. Under the Fit for the Future requirements, the Fund must specify target allocations and tolerance ranges using a (summary) template set out in corresponding guidance. We have translated the recommendations set out in this report into this template and the results are set out in the table below. The proposed tolerance ranges reflect our experience of working with other funds. They also seek to strike a balance between ranges that would allow the Fund to drift too far from the target allocations and rebalancing too frequently. We recommend this is presented to LCIV as a draft to allow any areas of ambiguity and uncertainty to be resolved.

It will also be appropriate to specify an interim target allocation reflecting the earmarked portfolio discussed in section 7 of this report. We recommend Officers engage with LCIV to ensure that LCIV can implement the strategy in line with the Committee's wishes.

Long-term strategic target allocation

Asset class	Strategic asset allocation (%)	Tolerance range (+/- %) – specified only for listed assets
Listed equity	45.0	+/- 3.0%
Private equity	2.5	n/a
Private credit	5.0	n/a
Property/real estate	10.0	+/- 3.0%
Infrastructure	10.0	n/a
Other alternatives[1]	7.5	n/a
Credit	10.0	+/- 3.0%
UK government bonds	10.0	+/- 3.0%
Cash	-	+/- 3.0%
Total	100.0	

[1] Includes multi-asset (5%) and natural capital (2.5%)

Interim target allocation

To support further discussions with LCIV (for the reasons given in section 7), we have set out below an interim target allocation. This incorporates the blended fund and recognises the build-up of the Fund's private markets allocations albeit over a period of time. This interim target allocation is provided for illustrative purposes only and will need to be refined and finalised following discussions with LCIV.

Asset class	Interim target asset allocation (%)	Tolerance range (+/- %) – specified only for listed assets
Listed equity	52.5	+/- 3.0%
Private equity	1.0	n/a
Private credit	5.0	n/a
Property/real estate	6.0	+/- 3.0%
Infrastructure	6.0	n/a
Other alternatives[2]	7.0	n/a
Credit	10.0	+/- 3.0%
UK government bonds	11.0	+/- 3.0%
Cash	1.5	+/- 3.0%
Total	100.0	

[2] Includes multi-asset (5%) and natural capital (2.5%)

10. Conclusion and next steps

The conclusions and recommendations from this report are summarised below:

- As agreed at the October meeting, the Committee has adopted a new long-term investment strategy (described in this report as "Alternative 3").

- We recommend the Fund reduces its multi-asset fund allocation towards the long-term strategic target, with the proceeds being re-invested in the Protection portfolio, which consists of fixed interest gilts and multi-asset credit.

- Once this has been completed, the Fund will be c16% underweight to private markets, based on asset valuations as at 31 December 2025. This reflects the 7% underweight to property, the 4.5% underweight to infrastructure, and the new allocations to private equity and natural capital (and is net of the remaining allocation to multi-asset funds).

- We recommend a portfolio of assets is identified and earmarked to be drawn down over a period of time to fund these private markets investments. In practice, this will involve retaining overweight positions in equities, bonds and cash.

- The Fund will need to communicate its agreed long-term investment strategy to LCIV so that LCIV can begin to implement the strategy. We recommend the table in section 9 is presented to LCIV as a draft to allow any areas of ambiguity and uncertainty to be resolved.

- It will also be appropriate to specify an interim target allocation reflecting the earmarked portfolio discussed in section 7 of this report. We recommend Officers engage with LCIV to ensure that LCIV can implement the strategy in line with the Committee's wishes.

- Given the proposed reduction in employer contributions, it will be important to determine the expected annual shortfall between contribution income and benefit payments. This information will be communicated to LCIV to enable them to create a plan to deliver the investment income needed to bridge this gap.

- Looking ahead, the Committee will need to establish its local investment strategy. We propose this is discussed at a future Committee meeting.

We look forward to discussing this paper with Officers and the Committee.

Prepared by:

Kenneth Taylor, Senior Investment Consultant

For and on behalf of Hymans Robertson LLP

February 2026

General investment risk warning

Please note the value of investments, and income from them, may fall as well as rise. This includes but is not limited to equities, government or corporate bonds, derivatives, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of investments. As a result, an investor may not get back the full amount of the original investment. Past performance is not necessarily a guide to future performance.

Private equity investments, whether held directly or in pooled fund arrangements carry a higher risk than publicly quoted securities; the nature of private equity pooling vehicles makes them particularly illiquid and investment in private equity should be considered to have a long-time horizon.

Further reliances and limitations

Hymans Robertson LLP has relied upon or used third parties and may use internally generated estimates for the provision of data quoted, or used, in the preparation of this report. Whilst reasonable efforts have been made to ensure the accuracy of such estimates or data, these estimates are not guaranteed, and HR is not liable for any loss arising from their use.

This report does not constitute legal or tax advice. Hymans Robertson LLP is not qualified to provide such advice, which should be sought independently.

Appendix: Hymans Robertson manager ratings

Fund and Responsible Investment ratings

A description of the Hymans Robertson ratings referred to in this paper is provided below.

Hymans manager ratings

Preferred	Our highest rated managers in each asset class. These should be the strategies we are willing to put forward for new searches.
Positive	We believe there is a strong chance that the strategy will achieve its objectives, but there is some element that holds us back from providing the product with the highest rating.
Suitable	We believe the strategy is suitable for pension scheme investors. We have done sufficient due diligence to assess its compliance with the requirements of pension scheme investors but do not have a strong view on the investment capability. The strategy would not be put forward for new searches based on investment merits alone.
Negative	The strategy is not suitable for continued or future investment and alternatives should be explored.
Not Rated	Insufficient knowledge or due diligence to be able to form an opinion.

Hymans RI ratings

Strong	Strong evidence of good RI practices across all criteria and practices are consistently applied.
Good	Reasonable evidence of good RI practices across all criteria and practices are consistently applied.
Adequate	Some evidence of good RI practices but practices may not be evident across all criteria or applied inconsistently.
Weak	Little to no evidence of good RI practices.
Not Rated	Insufficient knowledge to be able to form an opinion on.

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