For professional clients in the UK only

LOCAL PENSIONS PARTNERSHIPINVESTMENTS

Annual Employer Meeting

Royal County of Berkshire Pension Fund

Richard Tomlinson
March 2025

Local Pensions Partnership Investments

Agenda

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Introduction

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Introduction

Who are LPPI and what do we do?

Local Pensions Partnership Investments (“LPPI”) is one of eight Local Government Pension Scheme (“LGPS”) asset pools, formed in 2016 as a collaboration between Lancashire County Council and the London Pensions Fund Authority. LPPI was one of the earliest pools that formed - the decision to build LPPI being taken ahead of the UK Government issuing statutory pooling guidance in 2016. The Royal County of Berkshire Pension Fund (“RCBPF”) joined the LPPI pool in 2018.

LPPI provide investment management and investment advisory services to RCBPF and other LGPS Funds.

- Investment management involves investing and managing RCPBF’s capital across a breadth of asset classes.
- Investment advisory involves providing advice to the RCBPF Pension Fund Committee on the optimal allocation of capital, within agreed risk tolerances, to achieve long-term / strategic goals.

Our aim is to invest our clients’ assets diligently, cost effectively and responsibly.

We work in close collaboration with RCBPF’s Officers, Advisers and Fund Actuary to deliver on key outcomes, for example ensuring that all benefits can be paid as they fall due and contribution rates are as affordable and stable as possible.

Presenter – from LPPI

- **Richard Tomlinson**, Chief Investment Officer

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Economic Overview

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Year in review

- Asset returns were broadly positive, underpinned by **positive “real” rates** (interest rates above inflation). While cash and fixed income have generated modest returns, **global equity markets have continued their run of strong performance**.
- **The rise of AI** and speculation over its impact have helped propel technology and anything closely related to the top of investors minds. The **biggest equity market winners** have been names associated with this theme, particularly so called **“Mag-7” stocks**. Unlike the “Dotcom” bubble, much of these gains have been driven by earnings growth.
- **Interest rates and inflation** remained above levels seen since the global financial crisis, though progress on **disinflation** (the inflation level falling) is encouraging and has **allowed central banks to begin cutting** interest rates.
- **Private market asset returns** have been more muted as they continue to adjust to the interest rate environment. Falling interest rates should help improve investment conditions and provide a solid platform for **Infrastructure, Real Estate and Private Equity** into 2026.
- **Geopolitics** has provided additional uncertainty. This includes multiple regional conflicts and large portions of the democratic world holding elections – in most cases incumbent governments losing power.
- The **diversification** within RCBPF’s investment strategy, across different asset classes, countries, sectors and currencies, as well as the prudent approach to investing, has proved resilient. Fund performance remains strong on an absolute basis, with the Fund returning 7.8% over a 1-year period to 31 December 2024.
- RCBPF’s total return over 3 years to 31 March 2024 was 7.7% p.a. (significantly outperforming the Pensions & Investment Research Consultants Ltd (PIRC) average of 5.3% p.a.), placing the Fund in the 5th percentile within the PIRC universe.

Outlook

- **Economic growth** is expected to continue to be led by the US in 2025. **The UK and Eurozone have challenges**, though in the UK inflationary risks have tempered somewhat and the **Bank of England has scope to cut interest rates** to support demand.
- **Global disinflation** is expected to persist in 2025, though geopolitics and climate change can both disrupt this. The new US administration is a sharp contrast to the previous regime, and **some geopolitical reordering is to be expected**. We are watching conditions closely for their potential impact on the Fund's assets and liabilities.
- As a pension fund, RCBPF is a **long-term investor**, so can navigate short-term volatility in markets. The Fund remains in a **strong position for the future**. Importantly for members, **increases in pension payments are linked to inflation annually**:
  - September 2024 CPI was 1.7% which means that LGPS benefits can expect to receive a 1.7% increase in April 2025.
- LPPI continues to make progress on its **Responsible Investment & Net Zero initiatives**.
- The Fund is approaching its **2025 Triennial Actuarial Valuation date**. We will work with RCBPF to support the valuation process. We are due to provide Strategic Asset Allocation ("SAA") advice in 2026 in light of the Valuation. The Fund's SAA today balances growth (return generation) and diversification to help promote affordability and stability for employers, and at this stage we would not expect to advise making significant changes to this next year.

Investment performance and asset allocation

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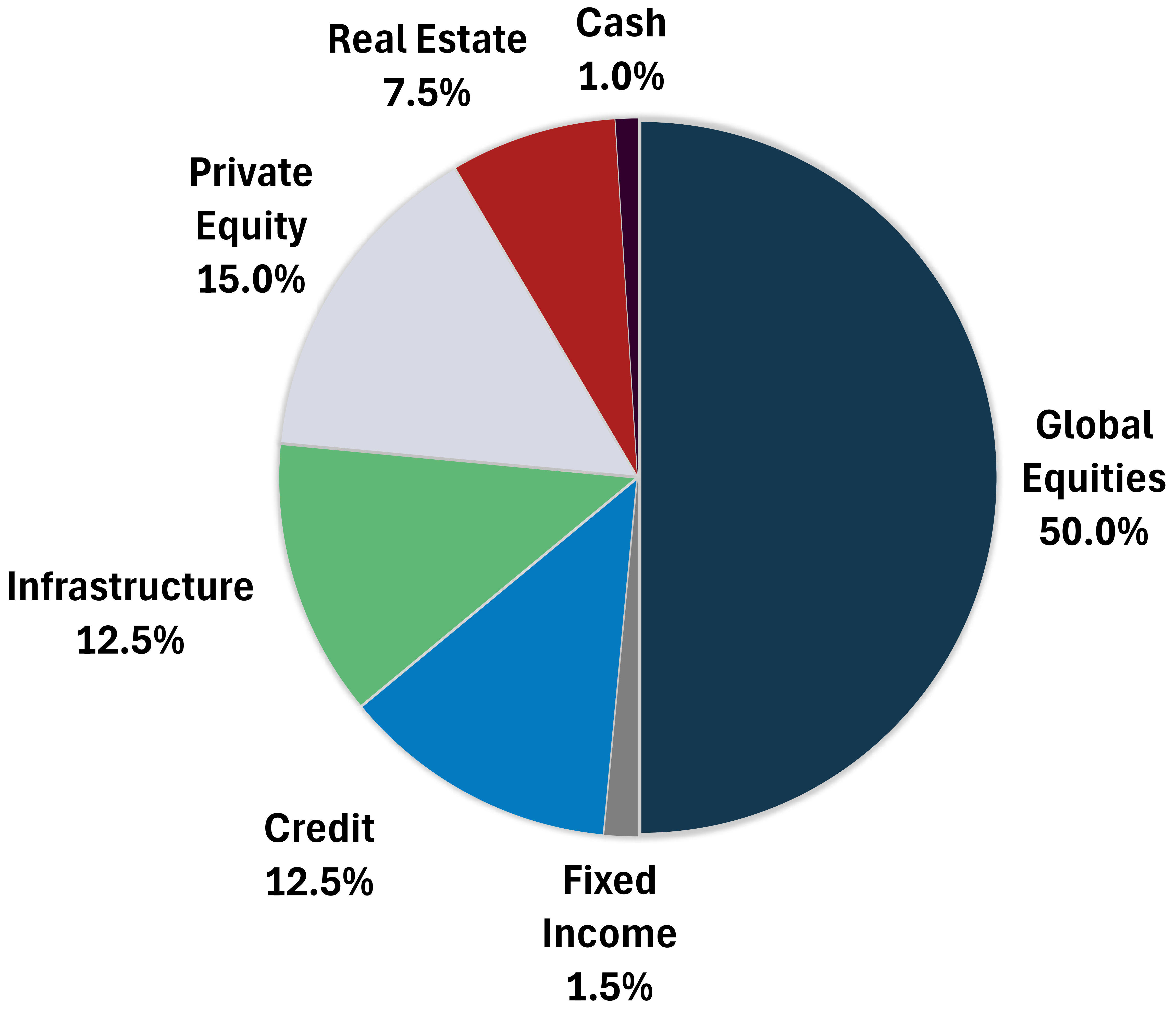
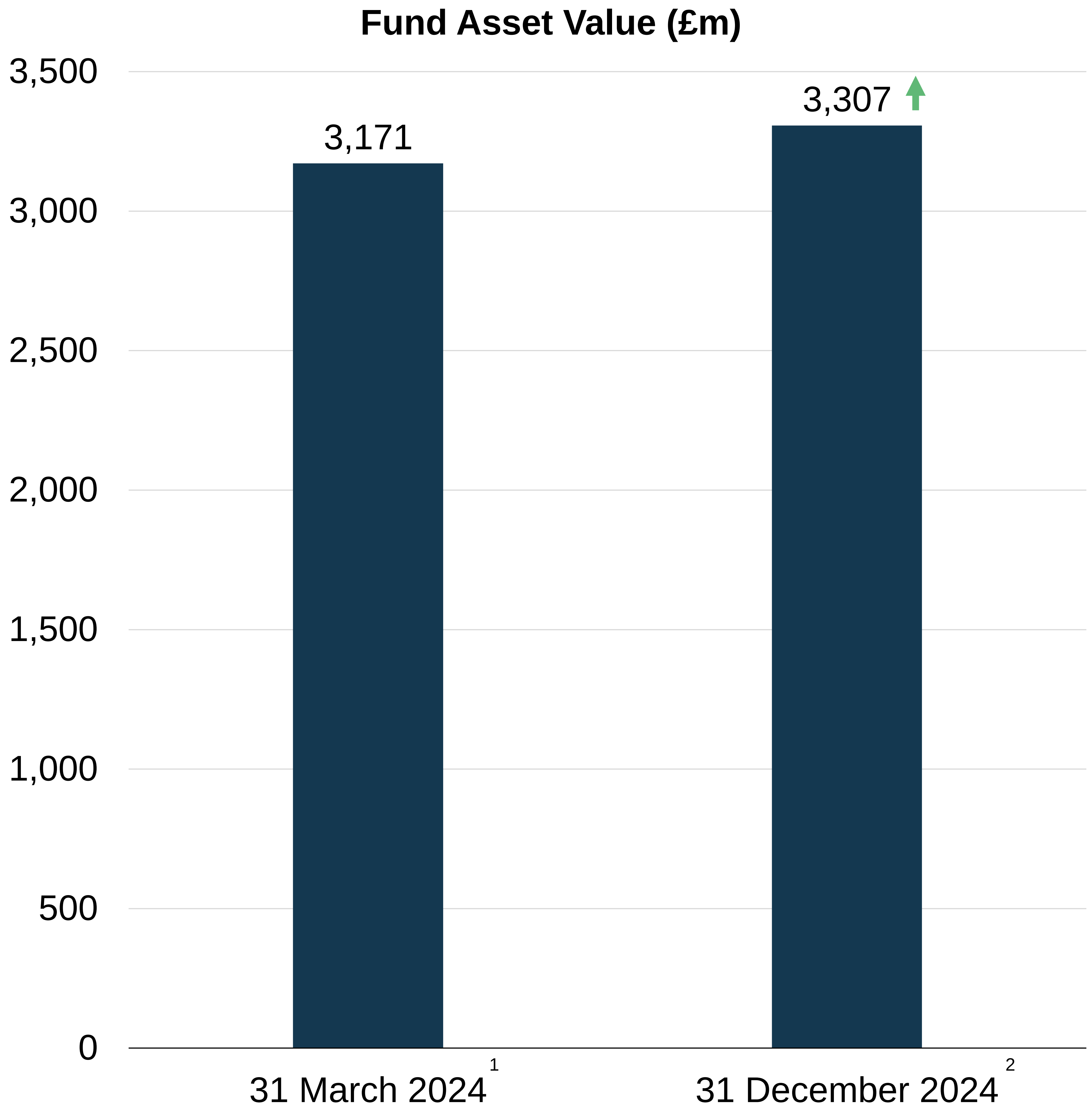
Strategic Asset Allocation & Fund Value





Source: LPPI and Fund custodian.
Note: Totals may not sum due to rounding.
Capital at risk, investments can go down as well as up.

Source: 1: Fund Draft Annual Report and Accounts 2023/2024
2: Fund custodian

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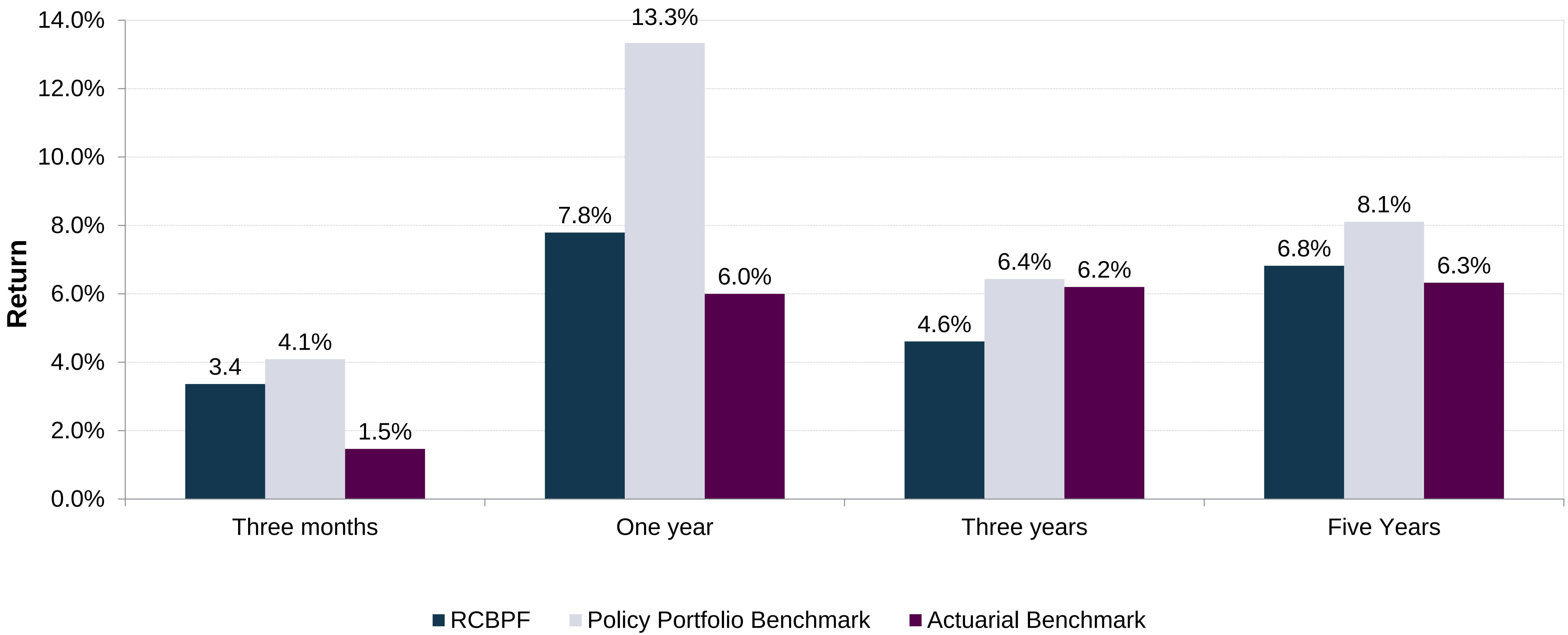
Performance to 31 December 2024



Source: LPPI and client's custodian.
Notes:

- Total Fund relative return is being measured against the Policy Portfolio Benchmark (PPB) and an Actuarial Benchmark (AB)
- PPB is a weighted composite of all Asset Class Mandate benchmarks. It is a benchmark that is used to measure the expected change in the Fund's asset value over a period of time based on the Fund's Strategic Asset Allocation.
- The Fund's AB is a blend of 6.0% p.a. (equivalent to 2.9% (long term CPI assumption) + 3.1% at 31st March 2022) from April 2023, 6.5% p.a. (equivalent to CPI +3.75% p.a. at 31st March 2019) between March 2019 and April 2023 and CPI +4.5% prior to this date. AB is not the actuarial discount rate used to value the Fund's liabilities. As stated in the Fund's Investment Strategy Statement dated March 2023, the AB is the required rate of annual return to achieve a 100% funding level at the end of the deficit recovery period (31 March 2040) without additional deficit recovery (secondary) contributions from employers.

Capital at risk, investments can go down as well as up.

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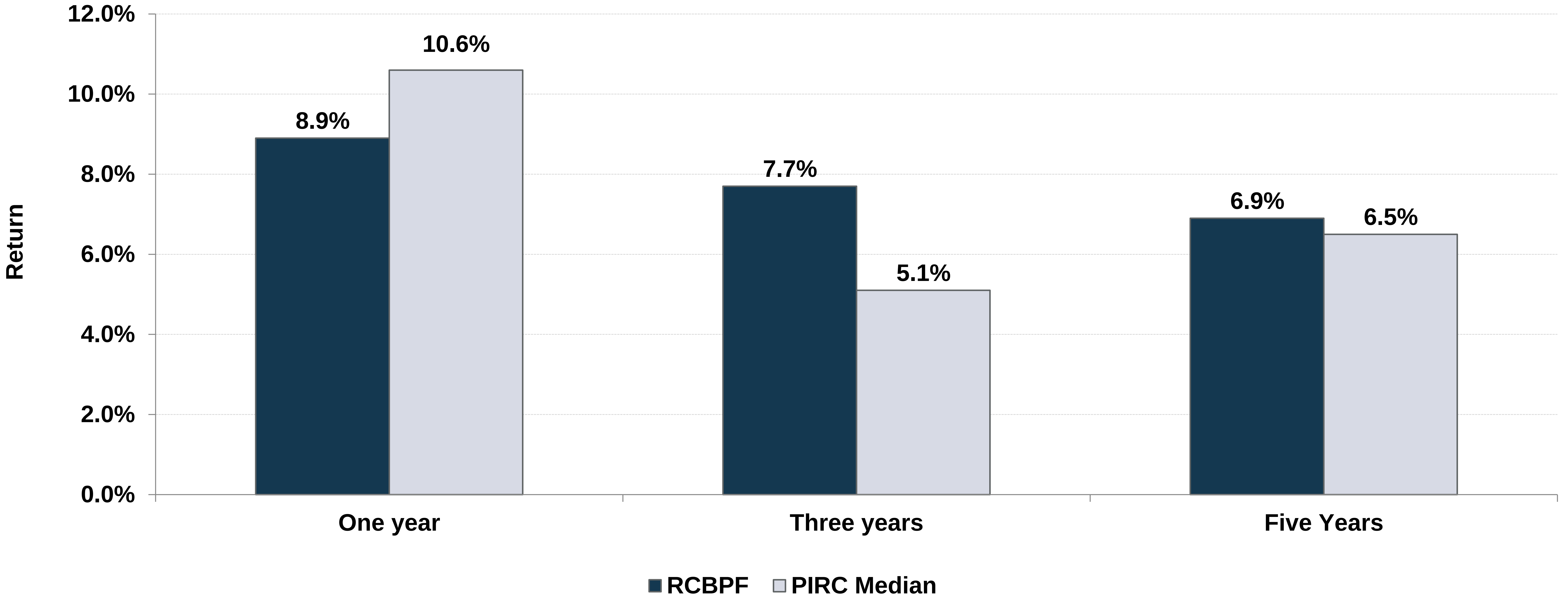
Performance to 31 March 2024 – vs LGPS peer group



Source: LPPI, client's custodian and PIRC.
Notes:
- Total Fund relative return is being measured PIRC Universe average as reported in PIRC's Local Authority Fund Statistics Performance Report to 31 March 2024.

Capital at risk, investments can go down as well as up.

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'Fit for the Future' Consultation

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LGPS ‘fit for the future’ pooling consultation

Timeline

- **14 Nov ‘24** LGPS Consultation launched at Mansion House Dinner
- **16 Jan ‘25** LGPS Consultation submission deadline
- **01 Mar ‘25** Pool Transition Plan submission deadline
- **Late spring / early Summer ‘25** Consultation response from Government
- **TBC ‘25** Pensions Reform Bill
- **31 Mar ’26** Pooling to be completed

- On the 14 November 2024 the Government announced its long-awaited consultation on LGPS Pooling reforms titled the ‘Fit for the Future’ Consultation and stated that the deadline for pooling should be completed by 31 March 2026.
- In the consultation, a number of key areas were identified for pools to provide comments on, including the following:
  - Reforming the LGPS asset pools by mandating certain minimum standards deemed necessary for an optimal and consistent model
  - Boosting LGPS investments in their localities and regions in the UK
  - Strengthening the governance of both LGPS Administrating Authorities ("AA") and LGPS pools, building on the recommendations of the SAB in their 2021 Good Governance Review

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LGPS Pooling Consultation

- The **‘Fit for Future’** consultation seeks to re-address and bring about **significant change** in the way in which the pooling of LGPS assets are currently organised. LPPI is one of eight existing pools and is **closest to the model the government appears to be aiming for**.
- LPPI **agrees with the government** on the importance of simplifying processes, reducing duplication, and improving collaboration between LGPS funds and pools to ensure funds are invested professionally and cost-effectively.
- By setting common standards, aligning investment expertise with decision making, and encouraging further collaboration, the proposals aim to **drive greater scale and efficiencies** that will ultimately drive better outcomes for LGPS members and employers, and taxpayers.
- The prescriptive set of standards for asset pooling included both **governance and organisational structure**, these standards **align with the approach taken by RCBPF and LPPI**:
  - Pools must form Investment Management companies which are **FCA regulated**
  - Pools must be the **principal advisor** to the Administering Authority (“AA”)
  - AA’s must **delegate management** of all of their investments to Pools
  - Including **on-balance sheet/legacy assets**
  - Pools must be able to provide, manage and oversee **local investment** opportunities
  - Pools must have successful **internal investment** teams
- In addition to the consultation, the Government have also requested for **Pools to complete a Transition Plan** that seeks to evaluate pools on 4 factors: **Benefits of scale, Resilience, Value for money and Viability against deadline**. LPPI have completed their transition plan and LPPI (as currently operating) meets they key criteria set out in the Fit for Future consultation, and so is **already ‘compliant’**. In addition, **LPPI is willing and open to collaborate with others**; ranging from a pool/ Fund merger (at one end) to additional investors in GLIL (as another example).
- The Government has said that it aims to share feedback on the Consultation in **late spring / early summer 2025**.

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The 1957 LP

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1957 LP – Investing Locally

What does the 1957 LP seek to do?

Target return: CPI +3-5% per annum over rolling 10-year periods

100% of investments targeted within the Royal County of Berkshire

Portfolio Mandate

The Fund has a target allocation of £70m. The three properties held as at 31 December 2024 had a total value of £24.9m. Following a period of falling capital values between September 2022 and June 2024 *(source: MSCI UK Property Quarterly Index)* the investment program is now progressing. The original investment period of 24 months from November 2022 has been agreed to be extended until May 2026 with an interim target for 75% of the allocation to be invested by the end of Q2 2025.

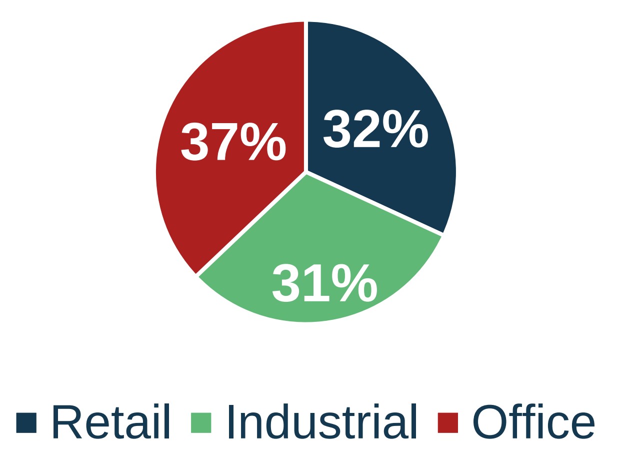
Portfolio Facts

Key statistics
(31 December 2024)

- £1.13m annualised passing rent
- 4.25% NIY (6.7% RY)
- 4.3 years WAULT
- 0.0% vacancy rate

Source: KFIM

Sector Breakdown*
(31 December 2024)



*Total may not sum perfectly due to rounding

Positive Social Outcomes

- Tavistock Industrial Estate, which was recently acquired, comprises 12 units that are suitable for small, local companies in an area with limited supply of units suitable for this type of occupier. This aligns with the fund objective to have a positive social impact.
- Thatcham, one of the new purchases that is under offer (see below) strongly aligns with the desire to create positive social outcomes. The tenant, Thatcham Research, a major local employer with 250+ staff, is a socially responsible, not-for-profit automotive risk organisation with global influence and a low risk of business failure. Demonstrating an environmentally conscious outlook, the tenant has confirmed reinvestment plans, including roof works and PV installation. The tenant also provides apprenticeships and graduate schemes.

Portfolio in Review

- The Fund has exchanged on the purchase of a hotel let to Travelodge for 22.5 years in Slough, which is expected to complete on or before 26th March 2025. A single-let industrial unit in Thatcham, let to Thatcham Research for 10 years, is under offer. Exchange and completion are expected during February 2025.
- These two transactions will increase the value of the portfolio to £40.2m, taking the fund to 57% invested. These two transactions will improve the asset concentration and the sectoral diversity as well as significantly improving the WAULT. They provide core income and, whilst this will slightly dilute the initial yield by c20bps, they are strongly reversionary and are expected to deliver income growth over the next few years.
- Active asset management is underway at Tavistock Industrial Estate, where negotiations are progressing with the tenant of units 7 & 8 regarding a lease renewal.
- KFIM have further pipeline assets that they are analysing, including a Premier Inn hotel and several industrial assets, most of which are off-market.

Notes: - NIY: Net Initial Yield; annual passing rent as a proportion of capital value net of assumed purchase costs of 6.8%
- RY: Reversionary Yield; ERV as a proportion of capital value net of assumed purchase costs of 6.8%
- WAULT: Weighted Average Unexpired Lease Term, indicator of the average remaining life of the leases within a portfolio
- ERV: Estimated Rental Value, the current rent at which space within a property could reasonably expected to be let given current market conditions.
- Capital at risk, investments can go down as well as up

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1957 LP – Asset Map

#	Address	Town	Sector	% portfolio
1	Units 1-3, Oxford Road Retail Park	Reading	Retail	32%
2	1 Bell St	Maidenhead	Office	37%
3	Tavistock Industrial Estate	Twyford	Industrial	31%

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Questions

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IMPORTANT INFORMATION

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