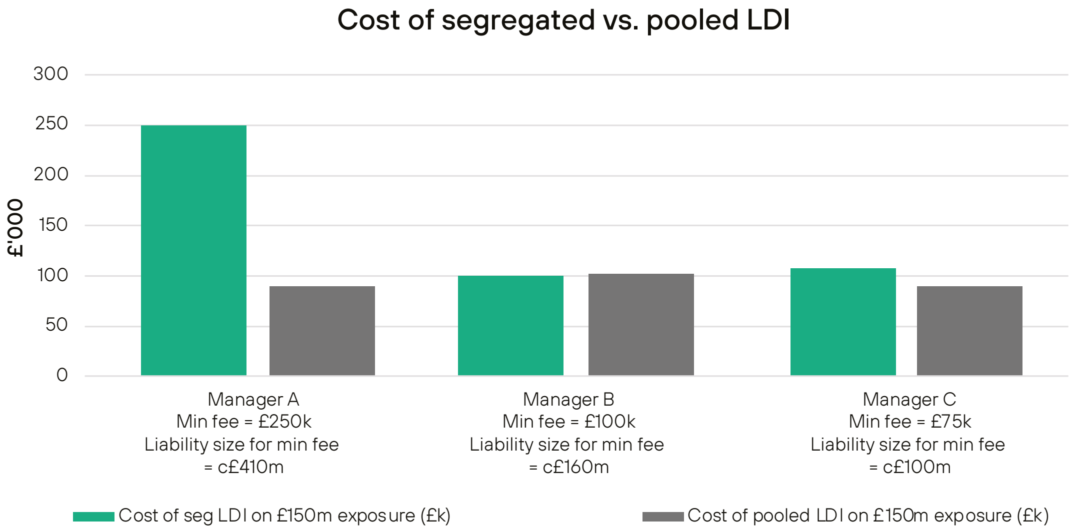
Segregated LDI Solutions: Smaller Scheme, Bigger Potential

Why lower minimum fees means smaller schemes can now also benefit from bespoke LDI solutions

What is segregated LDI?

An LDI portfolio bespoke to an investor's individual circumstances and preferences, with the Scheme directly owning all the underlying assets (rather than owning units in a pooled fund).

Why all schemes should reassess a segregated LDI solution



Key take aways

Reduced minimum fees means segregated LDI is likely to be cost-effective for schemes from £100m in size.

What are the benefits?

Efficiency

Potentially earn additonal returns

Precision

Having a bespoke hedge to you

Control

You retain control of the decisions made around your LDI portfolio

More details are given overleaf.

What are the benefits?

1

Efficiency

- Lower collateral requirements = free up capital to invest in return-seeking assets, unlocking 5-10% of assets and potentially generating an additional £200k pa of return for a £100m scheme
- Sharing of collateral pools across different mandates (e.g. currency hedging or synthetic equity / credit)
- Ability to access additional instruments to reduce ongoing costs of LDI funding or to take advantage of market opportunities

2

Precision

- More accurate LDI hedge, bespoke to your scheme's liabilities
- Additional flexibilities during the buy-in process, including more precise matching of price lock portfolios and use of in-specie transfers to reduce risks and costs

3

Control

- Trustees retain control of actions (e.g. hedge ratio reductions and ability to use collateral buffer during times of market stress)
- Wider collateral flexibility means avoiding being forced seller of assets such as corporate bonds or ABS in times of market stress

Other considerations

Custodian – will need appointing to hold the LDI assets on behalf of the scheme which could lead to additional setup and ongoing costs (though solutions to minimise these costs exist).

Ongoing governance – ultimate responsibility for updating portfolio documentation lies with the scheme rather than being automatically updated on its behalf by the LDI manager (unlike in pooled funds).

Our view:

We see significant benefits to schemes of around £100m or more using segregated LDI rather than pooled funds. For schemes under this size, other governance-friendly options are available too that are likely to be more cost effective.

Please speak to your usual Isio contact to discuss how this might work for your scheme.

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