February 2026

Making LDI work for you

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Ready for the journey: Keeping LDI roadworthy

Background

New regulatory guidance, product innovation and market opportunities mean 2026 is the year to look under the bonnet of your scheme's LDI portfolio, because a quick tyre-kick is unlikely to keep your portfolio roadworthy.

1 Regulatory guidance - Pass your MOT

Is your Scheme meeting regulatory guidance?

Establish collateral waterfall and test resilience

Ensure diversification and flexibility of collateral assets

2 Product innovation - Time for a full service

Segregated LDI now viable for smaller schemes

Credit repo and total return swaps widely available

3D cashflows can enhance robustness of hedge

3 Market opportunities - Upgrade to a new model

Expand LDI mandates to capture structural premia

Gilt-swap pricing presents market opportunities

Government debt pressures leading to high yields

Pass your MOT - Regulatory guidance on collateral

Following the 2022 gilts crisis LDI portfolios have come under greater scrutiny from regulators, and TPR recently put out its report on trustees' preparedness for further LDI shocks, which we summarised **here**

The key action for trustees is to review and stress test the robustness and efficiency of their arrangements. Diversified and flexible collateral waterfalls may enable a reduction in overall buffer levels, contributing to overall portfolio returns.

Time for a full service - Product innovation in LDI mandates

We recently wrote **here** about how lower minimum fees are making segregated LDI portfolios more attractive for smaller investors due to improved efficiency through lower collateral requirements.

Segregated arrangements can enable more precise hedges to be constructed and allow for greater flexibility and control with integration of corporate bond repo or ABS Total Return Swaps (TRS) to avoid selling assets during market stress.

Additionally, upgrading from '1D' to '3D' cashflows can create more robust LDI benchmarks, capturing changes in inflation expectations, the shape of the inflation curve and volatility assumptions.

What are 3D cashflows?

3D cashflows break schemes' liabilities down across three dimensions factoring in not only time to payment, but also member tranche and time to retirement for non-pensioners.

Road testing – Putting ideas into practice

Combining collateral guidance and product innovations can increase efficiency. Our strawman below can increase both collateral and return, for minimal extra risk.

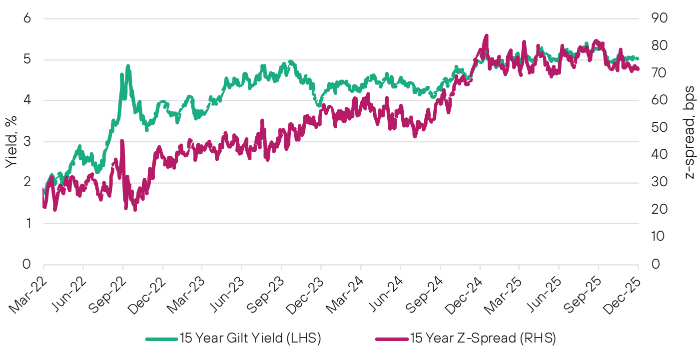
Current – 600bps headroom, lower return	Strawman – 1000bps+ headroom, higher return	
Investment grade corporate bonds – unsuitable as LDI collateral as part of liability hedge	**Investment Grade corporate bonds – repo can create headroom**	Flexibility from corporate bond repo or ABS TRS avoids forced sales of credit in market stress
Cash collateral 200bps+	**Investment Grade ABS – next 300bps+ headroom**	Liquid, low volatility ABS generates additional return vs cash / gilt collateral
LDI 400bps headroom	**AAA/AA ABS 150-200bps headroom**	Segregated LDI can enable lower LDI headroom and increase control
	LDI 250-300bps headroom	Changes add £0.3-0.4m pa return to a £100m Scheme for minimal extra risk

Upgrade to a new model - Taking advantage of market opportunities

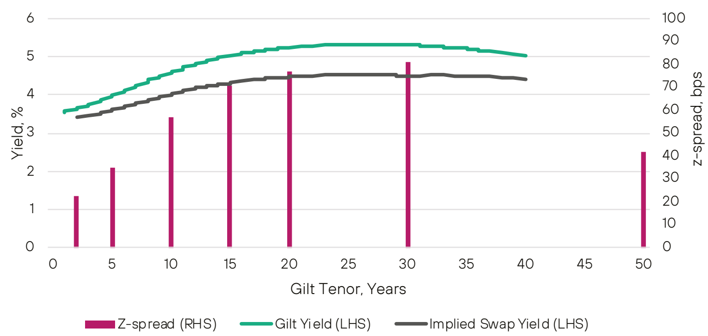
Market opportunity:

In the UK and the world over government concerns over debts are putting pressure on bond yields and driving divergences in gilt and swap yields – per the charts below.

15 Year Gilt Yields and Z-Spreads, 31 Mar 2022 to 31 Dec 2025



Gilt Yields and Z-Spreads by Tenor, 31 Dec 2025



How to take advantage:

Schemes should consider expanding mandate guidelines and manager discretion to take advantage of structural market opportunities (as opposed to active positioning).

Recent opportunities include increasing exposure to fixed gilts vs interest rate swaps (which is exactly what insurance companies are now doing) and hedging inflation risk using inflation swaps rather than index-linked gilts.

For a £100m scheme, the combined opportunity could be £100k-200k pa. on returns or 1-2% on funding level if the actuary updates their funding assumptions. If these positions reverted back to historic norms, the scheme would benefit further. Similar opportunities are expected to emerge as markets evolve and returns from these trades can cover implementation costs many times over.

Key takeaways for trustees

We believe all trustees should at a minimum undertake a "MOT" review of their LDI arrangements in 2026, and probably have a full service to really get under the bonnet. So, the only question is whether you want to consider an upgrade to a new model which could more than pay for itself? The overall impact could be up to £500k pa for a £100m Scheme:

- Follow tPR's guidance to stress test collateral waterfalls to ensure these remain efficient and robust. Add diversity and flexibility to your collateral asset pool, including with ABS and use of credit repo/TRS.
- Utilise the new product innovation now available to improve the structure and design of your LDI approach, including considering whether a segregated LDI approach could offer better flexibility and value for money.
- To benefit current market opportunities consider upgrading your LDI manager's toolkit

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