De-risking made easy

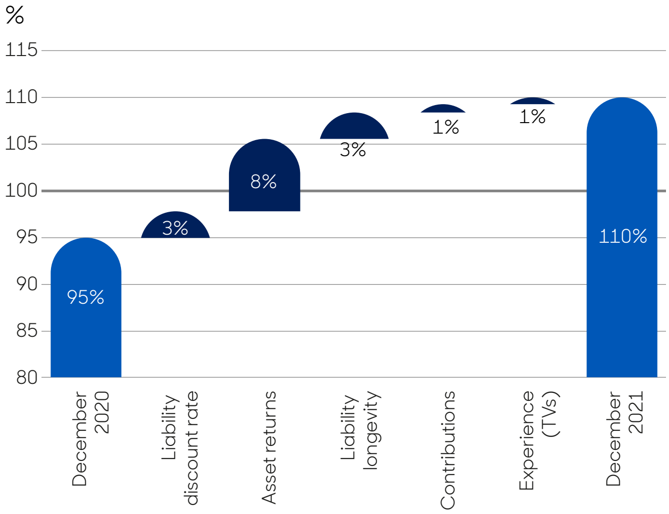
Liability aware solutions for the next steps in your journey

This communication is for investment professionals only and should not be distributed to or relied upon by retail clients. The value of investments and the income from them can go down as well as up and investors may get back less than the amount invested.

Strengthened funding positions

Typical scheme funding ratios have consistently improved over the last year. According to one commonly used measure, the aggregate funding level of UK defined benefit (DB) pensions is now well above 100%[1] , having increased by over 12% since December 2020.

Illustrative UK pension scheme funding level improvement over the last 12 months



Interest rates increased over the period. While this has been largely offset by rising inflation in real terms, nominal rates pushed down the overall value of liabilities, benefiting funding positions. A range of other factors also had a positive effect. Strong returns from equities have contributed to a growth in scheme assets, while improvements in experience, such as adjustments in longevity and members transferring out, eased liabilities. In addition, sponsor contributions, albeit perhaps still lower than before, helped further top up funding levels.

Planning for the long-term objective

In the current regulatory environment, schemes are being encouraged to capitalise on progress made and, where funding levels allow, reduce risk appropriately with a view towards a long-term position of higher resilience to risk and lower dependence on support from the employer.

Closed DB schemes, over time, become increasingly exposed to volatile experience and poor investment returns. As they mature, they gradually approach a point beyond which they no longer have time to wait for asset growth to replenish depleted reserves caused by adverse conditions. Not only is this a risk for scheme members, but a gamble for the employer and a burden on the Pension Protection Fund (PPF). It is also therefore an area the Pensions Regulator looks to address with its new Funding Code designed to encourage careful and detailed planning for a scheme's de-risking journey.

The regulator further emphasises the importance of a suitable investment governance model. Trustees need to ensure that their investment decisions, supported by appropriate advice, are made in a timely manner and implemented efficiently. It is therefore essential to find the right partner to work with.

abrdn's offering designed to meet your goals

With our extensive pooled fund range and enhanced scheme analysis tools, abrdn are well placed to help you take the next step in your de-risking journey.

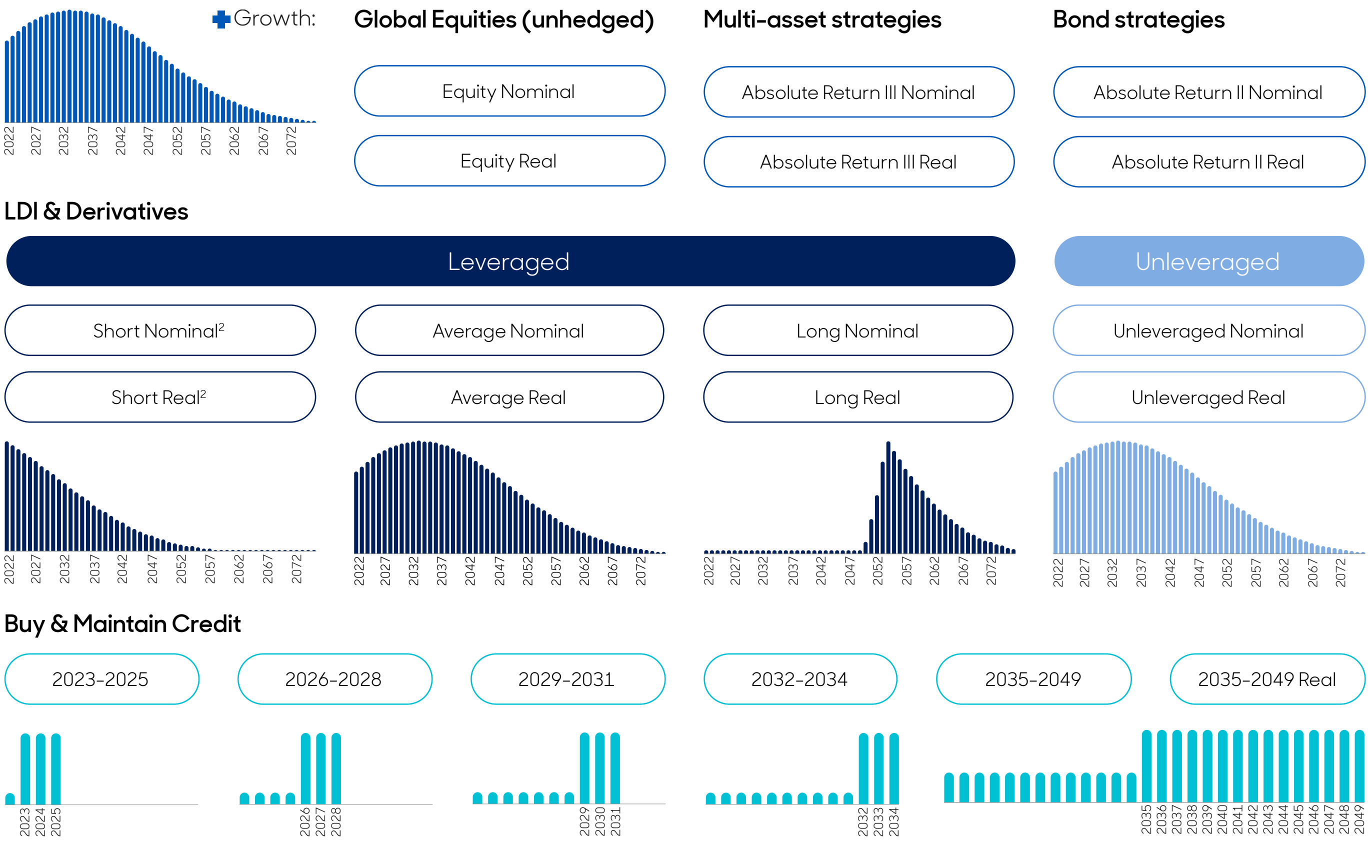
We work in partnership with our clients and their consultants to design investment solutions that meet scheme objectives, allow smooth transfer between pooled funds within our range, and help review the continued appropriateness of a scheme's allocation in light of changes to liability structure, market conditions and funding position.

[1] Schemes eligible for the Pension Protection Fund (PPF); as measured by the PPF 7800 Index, standing at 107.7% at 31 December 2021.

Our liability aware fund range

To help our clients take the next steps in their de-risking journey, we have significantly expanded our range over the last couple of years and offer a series of pooled fund solutions.

Together with our Integrated Liability Plus Solutions range, the new funds allow pension schemes of all sizes to create a bespoke solution to meet their specific de-risking objectives.



Source: abrdn, 31 December 2021.

[2] Scheduled for launch in H1 2022.

Liability aware solutions – a strategic priority at abrdn

The Liability Aware proposition is a strategic priority at abrdn. We have invested significant resource and experience into working with trustees and their advisers to deliver the right solutions and services for their scheme.

Our **dedicated Pensions Solutions team** will help design the optimal solution for your scheme, making use of our pooled liability aware fund range designed explicitly for UK DB schemes. Our approach to liability aware investing is designed to help pension schemes of all sizes meet their payment obligations towards members.

Implementing a liability aware solution is straightforward with our **free solution design service**. Please get in touch with your relationship contact or a member of our Pensions Solutions team to discuss how we can help.

We include a case study of how our funds may be used overleaf.

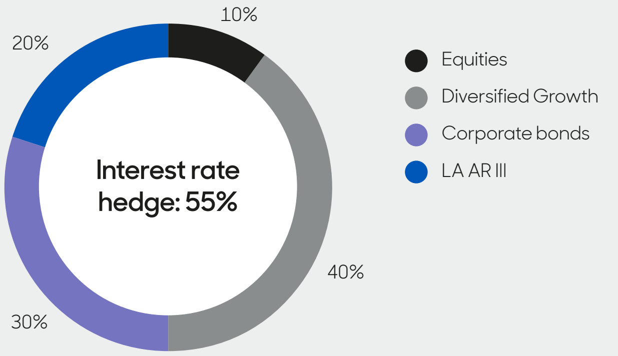
Case study

The below is an example to illustrate how our liability aware strategies can be used by pension schemes to help meet their evolving needs along their de-risking journey.

Typically, to the extent that they are not yet fully hedged and their funding levels allow, schemes are looking to increase their hedging levels as well as to refine their hedge in order to increase liability protection and reduce funding level volatility (Option 1).

In the meantime, as they mature, many closed schemes are starting to become cashflow negative. Instead of disinvesting to meet cashflow needs, schemes can invest in assets which produce a predictable income stream, such as high quality credit. The allocation to these can also be tailored such that the payments produced are used to match the scheme's annual cashflow requirement (Option 2).

Current strategy



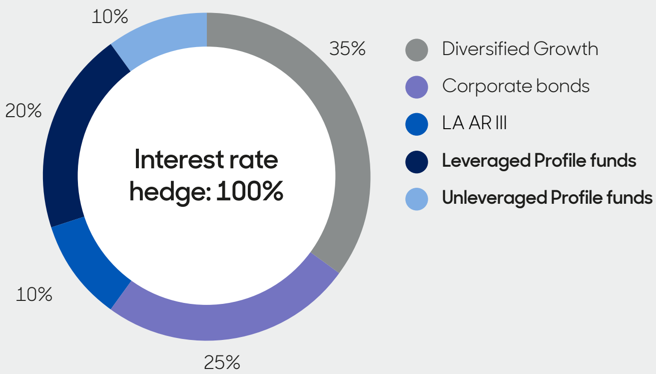
Source: abrdn, 2021.

A typical scheme with a funding deficit is likely to have an allocation to return-seeking assets (such as equities and diversified growth) and bonds. Alongside these, there may be an allocation to our Integrated Liability Plus Solutions (ILPS) funds.

As funding levels improve, schemes may be able to take more of the risk off - we illustrate two possible allocations below, please note these are examples only, any solutions will need to be bespoke for individual scheme requirements.

Option 1 – Increasing overall hedge ratio

Becoming fully hedged



Source: abrdn, 2021

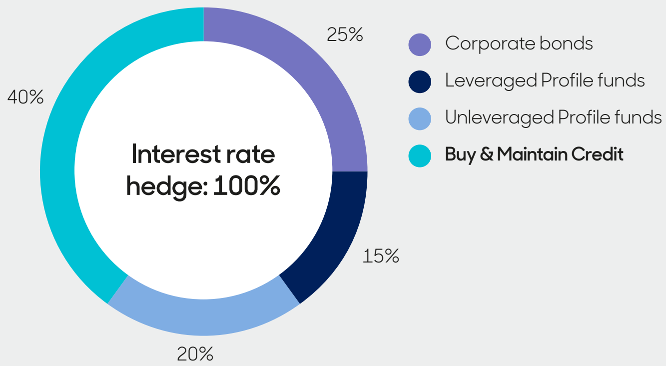
Introducing **Liability Aware Profile strategies**

These strategies are gilts-based 'pure vanilla' liability-driven investment solutions, and offer three leveraged profiles (short, average and long), as well as unleveraged profiles.

With the help of these, your scheme can achieve a close match to its liability profiles, providing a hedge against changes in interest rates and inflation.

Option 2 – Meeting income requirements

Investing for the endgame



Source: abrdn, 2021

Introducing **Buy & Maintain Credit strategies**

Disinvesting from assets to meet cashflows incurs transaction costs and introduces the investment risk of being a forced seller of assets.

Buy & Maintain Credit strategies produce a series of predictable cashflows to meet this need in a more targeted way, while accessing additional yield above gilts.

[3] Liability Aware Absolute Return III.

Moving between liability aware funds

By investing in, and transferring across the various funds within our liability aware range, you are able to access a range of benefits:

- **A full suite of pooled fund solutions** – a wide choice of interest-rate and inflation-hedging profiles, as well as cashflow-aware Buy & Maintain Credit funds, ensures that the needs of the scheme can be closely matched. Meanwhile, pooled funds allow clients of all sizes to access our solutions.
- **Easy transfer between funds** – once your account is set up, the investment process is quick and simple. The costs are expected to be low, with no transaction charges on entry to our gilts-based Liability Aware Profile funds.[4]
- **Competitive fees** – we offer competitive pricing across our Liability Aware Profile and Buy & Maintain Credit funds, including a reduced introductory annual management charge and competitive tiered fee scale applicable across your combined holdings in these funds.
- **Enhanced service at no additional cost** – the case study on the previous page illustrates how our solution design service can help clients find the optimal allocation. We offer a solution design service to help you build the optimal overall solution to meet your specific objectives.

[4] No transaction charges as at 10 March 2022. Subject to market conditions.

Contacts

Please get in touch with our Pensions Solutions team to discuss how we can help by emailing **pension.solutions@abrdn.com**.

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