Fiduciary Management
Investment solutions tailored to your needs
Welcome

Trustees and sponsors of defined benefit (DB) pension schemes face a difficult environment. There is more pressure than ever to control risks and costs, and to put in place a clear plan for delivering member pensions in full.

As the largest manager of UK pension scheme assets, LGIM is here to help. Through our fiduciary management service we can provide clear investment advice to help you define your objectives, and then take responsibility for meeting those objectives through the day-to-day management of your scheme’s overall investment portfolio.

You may have already heard about fiduciary management, perhaps from your investment consultant or other providers. We believe that our approach is truly unique. In this brochure, we explain how our scale and experience in managing the full spectrum of DB pension scheme investments means that we can avoid the unnecessary risks and costs faced by other providers, and can ensure that asset allocation receives the specialist focus that it requires. We provide a bespoke and truly holistic service designed to deliver exceptional results and great value for our clients.

Paul Docherty
Head of Fiduciary Management
The pension challenge

No two pension schemes are exactly alike, and the needs of individual schemes will typically change over time. Many schemes have a greater need than ever to grow their assets, but are less able to cope with market shocks and increasing investment and regulatory complexity. At the same time, more mature schemes face increasing cashflow requirements to pay pensions, and a need to successfully navigate the route to ultimate scheme buy-out.

For scheme sponsors, higher liabilities are placing a strain on company balance sheets, and in many cases greater contribution requirements are threatening profits. Political and media scrutiny has put the issue of employee pensions centre-stage. We believe an integrated approach to risk management is key to delivering successful outcomes for all stakeholders.

Tim Dougall
Head of Investment Advisory
The fiduciary management solution
A dedicated risk manager who really understands your scheme

**Professional Risk Management**
Pension scheme assets and overall investment risk are professionally managed, relieving the trustee burden without sacrificing control.

**Resources, Focus and Expertise**
A specialist can offer invaluable support by providing expertise and day-to-day oversight, combined with an in-depth understanding of the challenges faced.

**Unlock Potential Efficiency Improvements**
An outsourced approach can reduce costs and also opens up the possibility of more efficient investment structures and better risk-adjusted returns.

**Fiduciary management can have benefits for trustees and scheme sponsors**
Effective delegation can significantly reduce trustees’ governance burden whilst delivering a tailored investment approach to support members’ benefits and improve scheme funding positions.

For scheme sponsors, a fiduciary management arrangement can help deliver cost savings, a more stable corporate balance sheet, and improved security for employees.
Working in partnership with you

Our specialist team can deliver the expertise, resources, focus and time required to manage the complex financial burden that pension schemes impose. We work with trustees and scheme sponsors to define overall objectives, and then take responsibility for delivering them successfully.

1. OBJECTIVES

We will consider your scheme’s unique circumstances and sponsor covenant, and provide all the advice you need to agree clear objectives, along with a journey plan and portfolio to meet those objectives. We provide full Section 36 Pension Act 1995 investment advice, removing the need for a separate investment consultant.

2. MANAGEMENT

We implement and manage risk across your assets and liabilities. Our dynamic approach means that your portfolio constantly adapts as market conditions change, taking advantage of the investment knowledge and operational efficiencies available at the UK’s largest manager of pension scheme assets.

3. MONITORING

We constantly monitor your circumstances, quickly capturing further opportunities to dynamically de-risk as your funding level improves. You’re never left in the dark: comprehensive reporting provides full transparency and means you always know your latest position.

TRUSTEES

LGIM

DECIDE

ADVISE

LGIM IMPLEMENTS TO TARGET AGREED OBJECTIVES

REVIEW

REPORT
DETERING A TAILORED SOLUTION AND FIRST CLASS CLIENT SERVICE

Fiduciary management involves a true partnership between us and our clients. We work closely with you to understand your particular circumstances, attend regular trustee meetings, and provide ongoing training.

“LGIM provide a fantastic service! They are extremely flexible, adaptable and tailored everything to us while our circumstances changed rapidly”  Chair of Trustees

Our investment experts can increase the effectiveness of your assets and design a portfolio suited to your specific needs. Through significant diversification of growth assets and bespoke liability hedging we can aim to increase returns whilst dramatically reducing risk.

KEEPING YOU INFORMED

Bespoke summary reporting enables you to quickly see your current funding level and portfolio positioning at any time. We’re always on hand to explain our latest portfolio thinking, or you can explore our online investment blog at your leisure.
Our investment philosophy

Asset allocation, risk management, cost control

Investors have long been faced with a vast array of potential decisions when constructing portfolios – how much risk to take, which asset classes to hold, when to invest, and how to manage portfolio liquidity. Operational demands, tax implications and regulatory requirements pose their own challenges. Whilst all these factors are important, some investment decisions have a far greater impact on outcomes than others. Combined with decisions around objectives and overall portfolio risk tolerance, studies have long shown that the asset allocation decision typically accounts for over 90% of the variation in portfolio returns over time.

Despite this evidence, many investors and fiduciary managers focus on choosing underlying managers, even when this leads to conflicting investment beliefs within portfolios, is detrimental to costs, increases operational risks, limits the ability to manage portfolios holistically, and - crucially - makes it more difficult to dynamically manage asset allocation.

At LGIM we can do things differently. Our broad expertise across the full spectrum of asset classes means that we have no need to sub-delegate the management of client investments to third parties. This enables us to take a genuinely holistic approach, and deliver real value to our clients.

WHAT REALLY DRIVES BETTER OUTCOMES FOR PENSION SCHEMES?

- Governance and objectives
- Risk management
- Asset allocation
- Cost control
- Cashflow management
- Manager structure

- Ability and resources to make informed, timely decisions
- Full understanding and management of risks
- Diversification, hedging, navigation of market cycles
- Control of cost leakage to gain risk free return
- Efficiently balancing competing demands for capital
- Less fragmented structure reduces costs and risks

Dynamic risk management

INVESTING THROUGH A TYPICAL ECONOMIC CYCLE
Different asset classes perform better at different points in a typical market cycle, but judging the cycle requires skill, research, and a deep understanding of the behaviour of different economies, governments, central banks, and other market participants. New risks can emerge rapidly and have a significant impact on portfolios, but you can harness our market knowledge and expertise to better protect your scheme’s investments.

The ability to react quickly and adjust asset allocation to changing market conditions is hugely beneficial, but can be very difficult and expensive within a fragmented portfolio structure. In contrast, our flexible investment platform allows us to implement investment decisions quickly and efficiently, enabling us to avoid unnecessary barriers to dynamism.

<table>
<thead>
<tr>
<th>Economic growth</th>
<th>Expansion</th>
<th>Early cycle</th>
<th>Mid cycle</th>
<th>Late cycle</th>
<th>Contraction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit growth</td>
<td>Strong rebound</td>
<td>Consumption driven</td>
<td>Balanced growth</td>
<td>Becoming unbalanced</td>
<td>Collapse</td>
</tr>
<tr>
<td>Credit conditions</td>
<td>Negative</td>
<td>Weak</td>
<td>Strong</td>
<td>Excessive</td>
<td>Negative</td>
</tr>
<tr>
<td>Central bank interest rates</td>
<td>Low</td>
<td>Easy</td>
<td>Starting to tighten</td>
<td>Tight</td>
<td>Rapid loosening</td>
</tr>
<tr>
<td>Price inflation</td>
<td>Below target and falling</td>
<td>Low and stable</td>
<td>Around target</td>
<td>Above target and rising</td>
<td>Above target and falling</td>
</tr>
<tr>
<td>Yield curve</td>
<td>Extremely steep</td>
<td>Upward sloping</td>
<td>Gently upward sloping</td>
<td>Inverted</td>
<td>Fall at shorter maturities</td>
</tr>
<tr>
<td>Commodities</td>
<td>Collapse</td>
<td>Weak</td>
<td>Strong</td>
<td>Spiking</td>
<td>Collapse</td>
</tr>
<tr>
<td>Asset valuations</td>
<td>Sharp recovery</td>
<td>Low</td>
<td>High</td>
<td>Excessive</td>
<td>Sharp correction</td>
</tr>
<tr>
<td>Volatility</td>
<td>High and falling</td>
<td>Low</td>
<td>Average</td>
<td>Average</td>
<td>High and rising</td>
</tr>
<tr>
<td>Profit margins</td>
<td>Low and falling</td>
<td>Low and rising</td>
<td>High</td>
<td>High and falling</td>
<td>Falling</td>
</tr>
</tbody>
</table>
Expertise in asset allocation

SPECIALISATION AND COLLABORATION
We have deep expertise across economic analysis and asset allocation research. This is a key input into the dynamic capture of opportunities to achieve your investment goals. Our structured and research-driven approach leverages the experience and knowledge of our economists, strategists and fund managers to target investment returns for our clients.

Strong track record of delivering for our clients


“Asset allocation is one of the most important elements of an investor’s investment strategy that can impact returns over time”
Bespoke liability hedging

**LIABILITY DRIVEN INVESTMENT (LDI)**
We will build on our expertise as the UK’s largest LDI manager* to protect against interest rate and inflation risk and match your scheme’s liability cashflows using the optimal mix of gilts, swaps and bonds. We will design and implement a bespoke liability hedge for your scheme, and manage it over time to ensure it remains appropriate.

**CASHFLOW AWARE**
As your fiduciary manager we would manage liquidity across your whole portfolio, taking into account the need to pay pensions, rebalance assets and manage collateral, as well as to meet less predictable cashflow requirements such as member transfers.

**LARGEST UK LDI MANAGER**
Our scale and experience makes us unique, allowing greater market insight and trading efficiency. We manage 25% of all index-linked gilts and 17% of all UK corporate bonds**.

---

*Source: KPMG LDI Survey 2017
**Source: LGIM
Defined Benefit Pension Schemes

Easy route to buy-out

Whether your ultimate goal is self-sufficiency or full buy-out, we will be able to adapt your portfolio over time as your needs evolve. As part of the wider Legal & General Group we are one of the only organisations that can provide solutions at every stage of a pension scheme’s journey.

Our heritage and deep knowledge of the bulk annuity market means that we are uniquely placed to deliver your scheme towards a buy-out objective. Our clients can transition smoothly and efficiently to buy-out with Legal & General, or we can build a bespoke bond portfolio which can be easily transitioned to other buy-out providers.

Objective: Pensioner buy in or full buy out

Set buy-out objective and time horizon

Investment strategy: buy-out aware

Invest matching assets in buy-out aware strategy

Buy out process

Seek buy-out pricing and price monitoring

Transaction execution

Transfer assets to insurer or sell for cash

**Buy-out aware investment** We can invest in order to better match changes in buy-in and buy-out prices, selecting insurer-friendly bonds appropriate to your scheme’s liabilities, whilst still generating a return to improve your funding position.

**Price monitoring, de-risking triggers and Legal & General price lock** We can dynamically de-risk as your funding position improves, and also monitor buy-out prices, notifying trustees of opportunities to transact. Legal & General could lock the buy-out price to movements in the value of the fiduciary portfolio to help manage execution risk.

**Lower buy-out cost** An insurer-friendly bond portfolio can be transferred to a buy-out provider directly, avoiding unnecessary transaction costs.
Avoiding hidden costs and risks

Under some investment approaches fees and hidden costs can be very large, and with a higher cost drag investors have to take much more risk to target the same return. This effect can be very significant - for example, to target offsetting costs of 1% pa an investor would have to hold an additional 25% of total assets in equities rather than government bonds (based on a typical 4% pa equity risk premium assumption).

In contrast, our approach is to avoid unnecessary fees and costs wherever possible, removing the need to take unnecessary risk. Costs are certain, and avoiding them produces the only guaranteed source of risk-free returns for investors.

Scale is the key to reducing both visible and hidden costs. Our unique investment approach and our position as the UK’s largest pension fund asset manager means that we can avoid multiple complex layers of management, custodian, legal and administration fees. Through the use of a dedicated trading team and highly efficient common trading platform across our large client base, we avoid a high proportion of hidden costs by allowing clients to cross trades directly.

In contrast, our approach is to avoid unnecessary fees and costs wherever possible, removing the need to take unnecessary risk. Costs are certain, and avoiding them produces the only guaranteed source of risk-free returns for investors.

With lower fees and hidden costs, less risk must be taken to target the same net return.
Active and influential
Focusing on our responsibility to enhance long-term value

“LGIM exists to help clients achieve their long-term financial goals. We aim to make a real difference to their lives, as well as to our industry and the wider community. It is a testament to this approach that a significant proportion of our new business comes from existing clients”.

Mark Zinkula
CEO, LGIM

ACTIVE MANAGEMENT
Millions of people trust us to manage, safeguard and help grow the value of their assets. We use our scale and influence to ensure that companies integrate material environmental, social and governance factors into their everyday thinking. We are committed to holding boards to account, creating sustainable value and promoting market resilience on behalf of our clients.

SUSTAINABILITY
We work together with our stakeholders to deliver sustainable long-term returns for clients. Through real assets we have a clear connection to our communities and the real economy. Investments in infrastructure and real estate provide reliable returns, improve communities and stimulate economic growth.

EFFECTIVE INDUSTRY ENGAGEMENT
We are a voice of influence across the pensions landscape. As well as engaging with companies, we are key industry influencers on our clients’ behalf. Our investment specialists meet with regulators, policy makers and central bank officials on a regular basis.

Drawing on our scale and heritage...

to influence the present...

and shape the future

Defined Benefit Pension Schemes
Why choose LGIM?

UNDERSTANDING OF YOUR NEEDS
Our highly experienced pensions and investment specialists understand the many challenges faced by both pension schemes and sponsoring companies, and can help you navigate them effectively.

DELIVERING GENUINE VALUE
We provide a clean fee structure, and our scale means that we can avoid multiple layers of hidden costs that can cause other managers to take unnecessary levels of risk in their portfolios.

CLOSER TO MARKETS
Our breadth of expertise means that we do not have to sub-delegate investment decisions. You benefit from the most up to date information and thinking, with decisions executed quickly and efficiently.

ROUTE TO BUY-OUT
As part of the wider Legal & General Group we are one of the only organisations that can provide solutions at every stage of a pension scheme’s journey, and are uniquely placed to deliver your scheme to buy-out.

“We were introduced to fiduciary management by our investment consultant, but we ultimately chose LGIM because they were clearly best suited to meet our pension scheme requirements”
Scheme sponsor and company-nominated trustee
LGIM at a glance

We’re a major global investor, and specialise in helping UK defined benefit pension schemes.

£983bn
Assets under management^A

1836
Legal & General Group founded

350+
Investment professionals

17%
of UK corporate bond market managed by LGIM^D

275
Client servicing support staff

2.6%
of the FTSE All-Share Index managed by LGIM^B

3000
Clients across the globe^C

#1
UK LDI manager^E

---

^A. Source: LGIM internal data as at 31 December 2017. These figures include assets managed by LGIMA, an SEC Registered Investment Advisor. Data includes derivative positions

^B. Source: LGIM internal data and Bloomberg LP, as at 31 December 2017

^C. Institutional approximate clients. Source: LGIM internal data 31 December 2017

^D. Source: as at 31 December 2017

^E. Source: KPMG LDI Survey 2017
An award-winning fiduciary manager

LGIM is the **UK’s largest pension fund asset manager** with expertise spanning the full spectrum of asset classes. As part of Legal & General Group, we are one of the world’s largest insurance and investment management companies with a heritage dating back to 1836.

We have been providing **innovative investment solutions** to DB pension schemes for over 45 years. We pioneered UK index investment in the 1980s, LDI solutions in the early 2000s, and as part of the Legal & General Group now offer schemes a direct route to buyout. Today we have over 2,000 DB pension scheme clients.

We understand the business of **managing risks and liabilities**, and the problems faced by companies in this uncertain environment.

We believe in **doing the right thing for our clients**.