LGIM Self-sufficiency fund range

Flexible solutions to help meet your scheme's cashflow requirements

Legal & General
INVESTMENT MANAGEMENT

Are you considering your cashflow requirements?

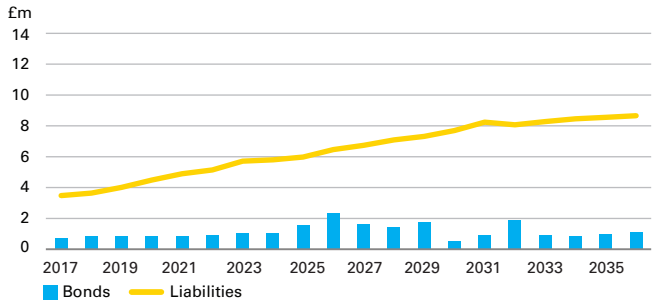
As more and more pension schemes are closed to future accrual, there is an increasing reliance on selling assets to meet benefit payments, as opposed to using ongoing contributions. If schemes sell assets to meet benefit payments at reduced levels (i.e. stressed market environments), this could have subsequent knock-on implications for their longer-term funding position.

By focusing on an investment strategy that combines the ability to better align the cashflow profile of the assets to the liabilities (cashflow–matching), as well as matching changes to interest rates and inflation expectations (LDI), pension schemes can be more certain of meeting benefit payments.

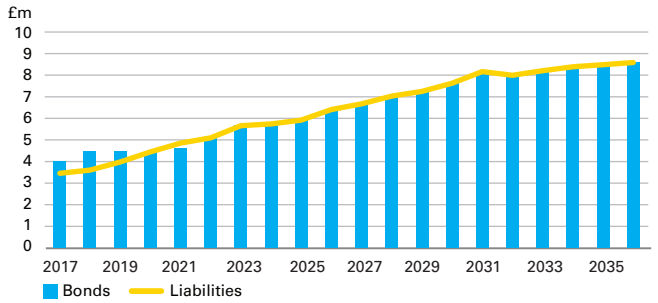
The outcome is a reduced reliance on requiring further contributions, enabling schemes to use their assets to pay liabilities in a self-sufficient manner.

WHAT DOES CASHFLOW MATCHING LOOK LIKE?

Traditional index approach*



Tailored cashflow match profile



For illustrative purposes only

*Coupon income only

LGIM SELF-SUFFICIENCY FUNDS

We have designed a range of self-sufficiency funds that allow schemes to better ensure they meet liability payments as they fall due.

The funds can be combined to address a scheme's specific cashflow and hedging requirements. Each quarter the funds will pay out cashflow in line with the liability profile. By having both Gilt and Credit versions of the funds, there is flexibility for schemes to meet their individual return target.

1. Helps you match your cashflow liabilities

Secure your cashflow pay-outs while reducing both costs and the chance of being a forced seller of assets.

2. Hedge your scheme liabilities

Achieve full matching of interest rate and inflation sensitivity of scheme liabilities.

3. Generate returns

Aims to generate returns above gilt-based liabilities, depending on the individual self-sufficiency objective.

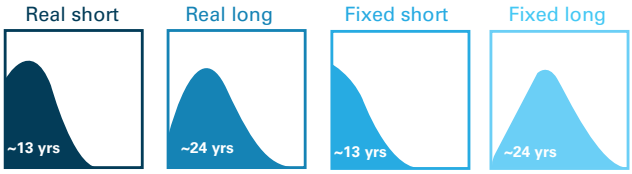
How can these funds aim to meet your requirements?

The fund range comprises eight funds across two fund types, Self-sufficiency Gilts and Self-sufficiency Credit.

Each fund type has four funds, managed against short/long and fixed/real liability profiles.

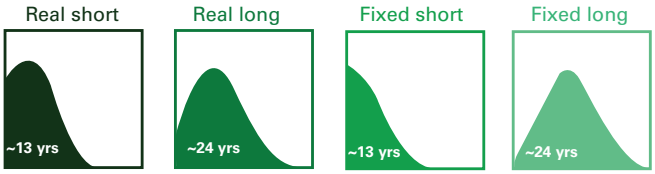
These can be combined to achieve a tailored solution that reflects the proportion of a scheme's liabilities that are real (i.e. inflation-linked) or fixed (i.e. with no inflation linkage), the life expectancy of its membership and the return target of the scheme.

Self-sufficiency Gilts



The Gilt range of funds will allocate predominantly to Gilts, using LDI where necessary

Self-sufficiency Credit

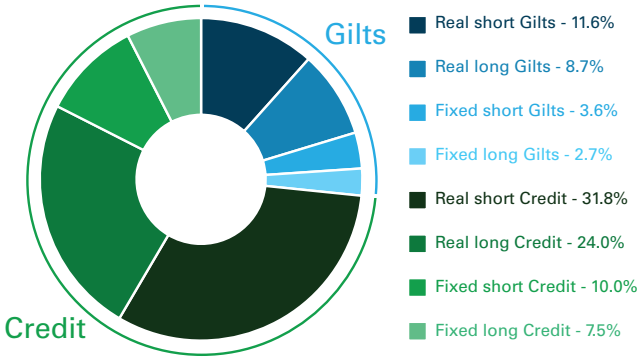


The Credit range of funds will allocate to Gilts, LDI and Buy and Maintain Credit. This is a diversified and liability aware credit portfolio

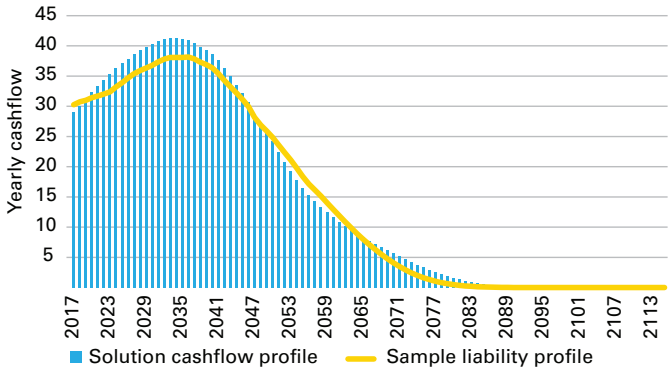
Using the funds in practice: case study

18 years duration, 75% real liability profile. Liability discount basis gilts+0.5% p.a.

Asset allocation



Cashflow match profile



Outcomes

1. Cashflow

Cashflows matched in line with liability profile

2. Liability hedging

100% hedging of scheme assets on both interest rates and inflation

3. Investment returns

Able to generate an expected return of gilts+0.5% p.a.

OUR EXPERIENCED SOLUTIONS TEAM

We believe that LGIM maintains its position at the forefront of developing DB pension scheme solutions because we are driven by the changing needs of our clients. Our experienced Solutions team is at the core of our success, forming an integral part of LGIM's overall business strategy and product offering to pension funds.

We have the skill, scale and experience available to offer efficient implementation, portfolio management and to trade with excellent market access. As the UK's largest LDI manager[1] we have a strong market footprint and manage more than 25% of the index-linked gilt market and 17% of the UK corporate bond market[2]. This has helped us save our clients an average of £50m per annum across all strategies by making use of internal crossing[3].

DEDICATION TO CLIENT SERVICE

Our quality of client service enables us to build strong partnerships with you and your consultants, demonstrated by the fact that more than 80% of our new business comes from existing clients. We carry out over 200 de-risking training sessions every year, providing you with direct access to our investment professionals.

KEY TEAM MEMBERS

Peter Knight
Lead Fund Manager

Graham Moles
Head of Portfolio Solutions

Jeremy Rideau
Head of Solutions Fund Management

AWARDS

1. Source: 2016 KPMG LDI Survey
2. Source: LGIM as at 30 June 2016
3. Data based on three years to 31 December 2015

Contact us

For further information, or to see how these funds could be modelled for your sitiuation, please contact:

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Important Information

The value of these investments and the income they provide may go down as well as up and may return less than invested.

The Funds are designed to meet the cashflows of their specific liability profile, which may be taken from capital.

The asset allocation for the Fund is based on an average of individual defined benefit (DB) pension scheme liability profiles appropriate to the specific fund objective. By considering the average, each Fund will seek to broadly mitigate the relevant risk(s) for a large number of DB schemes at an acceptable cost. The profile of the average DB pension scheme cannot by definition be the same as for every individual DB pension scheme and therefore there is a risk that the objective of the Fund will not necessarily match each DB pension scheme's member profile and/or investment term horizon.

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