We offer a full range of endgame solutions for our clients, drawing on our experience of managing investment and longevity risks. This paper focuses on how we can support our fiduciary management clients in managing their liquidity requirements on the journey to endgame.
Managing liquidity for our fiduciary clients
We manage portfolio liquidity by comparing both predictable and unpredictable liquidity requirements against expected and potential liquidity availability, and considering how a liquidity shock could impact the portfolio. We also consider how the scheme’s liquidity requirements are likely to evolve as it matures, and whether it undertakes liability management exercises or is aiming for a buyout.

Where appropriate, we use income-generating assets to meet predictable pension payments cost-effectively. We employ different methods to achieve this, including harvesting coupon income and releasing equity dividends. We invest primarily in liquid weekly-dealt funds, and are also able to cross trades across our large client book to increase liquidity and reduce transaction costs.
Cashflow matching investment
Schemes that are not aiming for a buyout in the near term but have significant cashflow needs may consider introducing a cashflow matching portfolio; effectively, this portfolio will line up inflows from assets to meet the scheme’s cash outflows. Drawing on our expertise in managing our own £72 billion annuity book¹, we can create effective and innovative cashflow matching strategies for pension schemes.

The chart shows an example of how we can build a relatively low cost pooled fund approach to matching cashflow needs for our fiduciary clients. This cashflow matching portfolio uses our target-date buy and maintain credit funds and takes into account deficit reduction contributions and income distributions from infrastructure assets.
Summary and next steps
Once a pension scheme is closed to new entrants and future accrual, liquidity pressures can increase as the scheme matures. This means that you need to manage both the predictable and unpredictable cashflows. For our fiduciary clients, we stress test portfolios to assess whether there is sufficient liquidity, and where there are known events (such as transfer value exercises), we can dynamically manage both assets and liability hedging. Our insurance experience provides a solid foundation on which we look to build bespoke cashflow matching portfolios.

If your scheme is starting to mature and/or liquidity management is presenting challenges, then please get in touch to discuss how our fiduciary management team can help you position your portfolio and put in place the governance to better aim to achieve your goals.

Contact us
For further information about LGIM, please visit lgim.com or contact your usual LGIM sales representative. Alternatively please email FiduciaryManagement@lgim.com or visit https://www.lgim.com/uk/en/capabilities/defined-benefit/fiduciary-management/