

Buyout with Illiquid Assets

case study

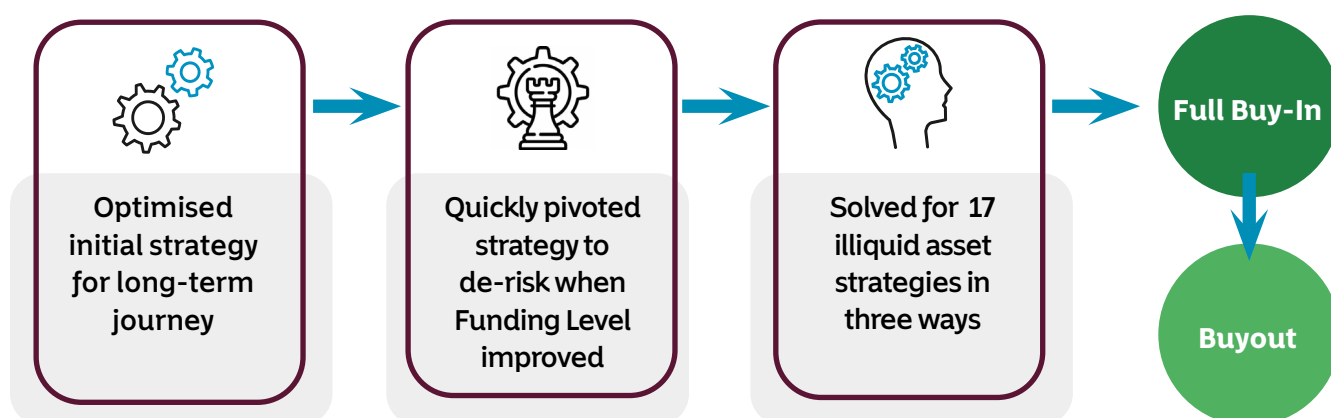
Many Trustees of DB schemes have overseen improved funding levels, especially in light of the rapid rise in interest rates witnessed during 2022. This has had implications for funding timelines and strategy.

Appetites for holding high return or illiquid assets have changed, buy-in is nearer and more affordable.

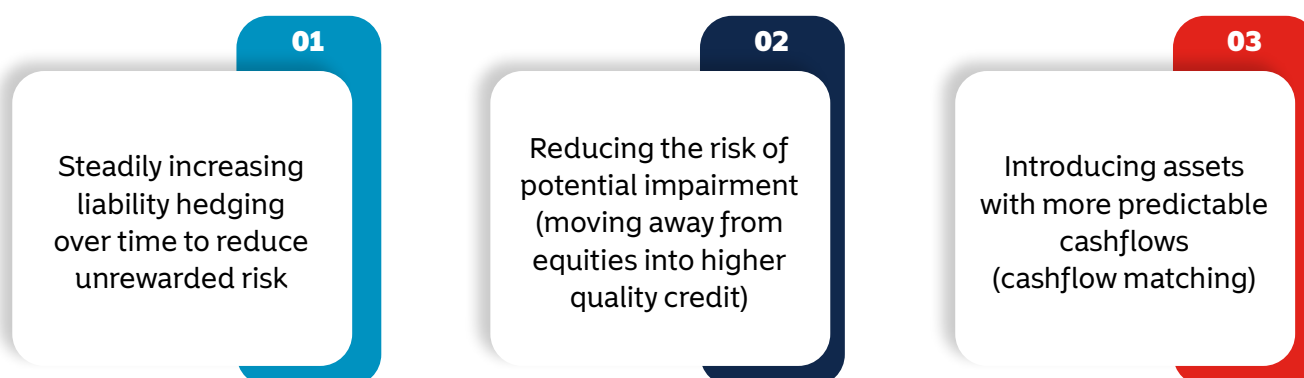
Here we outline how we worked to resolve some complex challenges faced by a DB pension scheme that held material illiquid assets and yet wanted to move quickly to secure buy-in and ultimately buyout.

The concepts work for a range of scheme sizes. The conclusion, illiquid assets needn't always hold up buyout.

What did Momentum do



At the outset of our appointment in 2017, there was a long-term journey to full funding (>10 years), and we advised on several strategy changes including:



2022 was a year of significant change:

- » Ukraine was invaded by Russia
- » Truss / Kwarteng budget
- » Rising gilt yields: BoE intervention
- » The Sponsor enjoyed a windfall
- » Buy-in became more affordable

10-Year Gilt Yield



Source: Bloomberg Finance L.P.

The Sponsor was suddenly keen to pursue a pensioner buy-in. We quickly concluded that with material illiquid assets, pursuing this approach would leave a poor residual strategy, and that full buy-in pricing changes meant it was now more achievable, if only we could resolve the illiquid asset challenge.

Over ~9 months, considerable work was undertaken through innovative solutions:

- » Liability hedging was increased to 100% on a buyout basis in favour of LDI while lowering LDI leverage overall (achieved quickly)
- » A phased disposal of liquid and semi-liquid assets e.g. multi-asset credit and property (c25% assets)
- » Illiquid assets (c30%) across 17 strategies were addressed in 3 ways:

Insurer accepted

6 strategies:
Infrastructure
Distressed Debt
Private Debt

Deferred premium

5 Strategies:
Backed by semi-liquid assets incl. Property, Credit, Insurance-Linked Securities (ILS)

Sponsor purchase

6 strategies:
Infrastructure
Private Debt

The insurer was encouraged to take c50% of illiquid AUM, a deferred premium element was backed by c20% semi-liquid assets and the Sponsor purchased c30% of assets.

Overall, there were 17 distinct illiquid strategies from Ground Leases to Care Homes, Renewable Infrastructure to Farmland, Private Debt to ILS.

A full buy-in was achieved. *Nearly there...*

Final stages...

More than half of the deferred premium was paid down in one quarter. 100% has since been paid. The Scheme has now moved to full buyout. Momentum are monitoring brokers for small collection of residual assets with the Sponsor.

Conclusions

Although the illiquid assets had represented a potential obstacle, we were able to work with the client stakeholders and our industry partners (insurer, brokers, alternative asset buyers) to overcome these challenges quickly and creatively. Key to this was:



Nimbleness:

Acting quickly, flexing to the new circumstances.

01

02

Hard work:

A considerable amount to transition into a new strategy quickly.



Innovation:

Implementing with creativity.

03

04

Collaboration:

All key stakeholders satisfied.



Overall, the team have experience of taking >£10bn to buyout in the past 5 years. Momentum work with both small and large schemes (<£10m through to >£10bn) also advising clients who seek to run-on. We focus on Bespoke Strategy, Quality Service, and Independence.

Q What size of scheme was this?

A c£2bn AUM before the Sponsor contribution.

Q Can this work for smaller schemes?

A Yes. A prompt transition to hedge 100% of buyout liability risk and a reduction of liquid growth assets can typically be achieved for schemes of any size. With regards to illiquid assets:

- » Insurers will often take some illiquid asset types
- » Deferred premium is an increasingly common feature
- » Your Sponsor taking on assets is case specific

Q What about insurance capacity issues, and should I just wait?

A The market is busy: c£40bn+ DB AUM is being insured annually (c250+ deals p.a.). However, with the right advisors, you can make progress. Buyout values today are historically attractive.

Q Should I buyout or run-on?

A A lot has been said on this topic. Overall, you pay a premium for buyout. However, we advise schemes pursuing both. There are a few simple calculations and a finite number of questions to answer to take an informed view, and ensure all paths are duly appraised for your members. We can walk you through this.

This document is only intended for use by the original recipient, either a Momentum Global Investment Management (MGIM) client, prospective client, professional or institutional investors and authorised financial advisers and does not constitute an offer or solicitation to any person in any jurisdiction in which it is not authorised or permitted, or to anyone who would be an unlawful recipient. The original recipient is solely responsible for any actions in further distributing this document, and in doing so should be satisfied that there is no breach of local legislation or regulation. This document should not be reproduced or distributed except via original recipients acting as professional intermediaries. This document is not for distribution in the United States.

Any opinions expressed herein are those at the date this document is issued. Data, models and other statistics are sourced from our own records, unless otherwise stated. We believe that the information contained is from reliable sources, but we do not guarantee the relevance, accuracy, validity or completeness thereof. Unless otherwise provided under UK law, MGIM does not accept liability for irrelevant, inaccurate, invalid or incomplete information contained, or for the correctness of any opinions expressed.

There can be no assurance that future results or events will be consistent with any opinions, forecasts or estimates contained in this document, therefore MGIM cannot be held liable for any loss arising directly or indirectly from the use of, or any action taken in reliance on, any information appearing in this document.

Provision of this document does not constitute a binding agreement by MGIM to provide any of the services that are hereby referred to within and it may be superseded by agreements outlining the agreed commitment of the parties. The value of investments, and the income derived, may fluctuate and it is possible that an investor may incur losses, including a loss of the principal amount invested. Past performance is not generally indicative of future performance. Investors whose reference currency differs from that in which the underlying assets are invested may be subject to exchange rate movements that alter the value of the investments.

Momentum Investment Solutions & Consulting is a trading name of Momentum Global Investment Management Limited (Company Registration No 3733094 which has its registered office at 3 More London Riverside, London, SE1 2AQ. MGIM is authorised and regulated by the Financial Conduct Authority in the United Kingdom. ©MGIM 2025.



Raj Goswami, CFA, CAIA
Senior Consultant



Fraser Price, FCA
Consultant



Gary Yeaman
Head of UK Pension
Scheme Relations



+44 (0)207 618 1834



gary.yeaman@momentum.co.uk



www.momentum.co.uk