

FOR INVESTMENT PROFESSIONALS ONLY, NOT FOR ONWARD DISTRIBUTION

Liability Driven Investment (LDI) is established as a leading investment approach for defined benefit pension schemes, aiming to provide a more effective framework for managing pension risks than traditional approaches. Insight has been at the forefront of developing and evolving LDI in the market by creating innovative strategies that go further than simply matching the duration of a bond to the liabilities.

## What is LDI?

It is about...	It is not...
Managing risk	Eliminating all risk from a scheme
Minimising unrewarded risk	Locking-in existing funding levels, raising long-term funding cost
Diversifying sources of return	Investing purely in bonds

## The Funds

LDI Solutions Plus is an innovative range of 30 pooled funds created to help UK defined benefit pension schemes manage the risks inherent in their unique liability profile with a high degree of precision. These funds offer our clients and their consultants a comprehensive set of building blocks that can be used to meet a wide range of funding requirements.

## Investment philosophy and process

An LDI solution may be viewed as having two components: a liability-matching portfolio and a return-seeking portfolio.

The liability-matching portfolio is designed to match the profile of a scheme's projected liability cash flows. The return-seeking portfolio is intended to generate growth in the value of the scheme's assets above the change in value of the scheme's projected liabilities.

We address inflation, interest rate and reinvestment risk and tailor our solutions to a scheme's individual liability funding levels and willingness or capacity to take on risk.

We do not rely on any third parties for assistance in the modelling and construction of our strategies, therefore, we are fully accountable for our solutions.

Insight has won LDI Manager of the Year at the 'Financial Times Pension and Investment Provider Awards' for an unprecedented three years in a row. This highlights our strong performance, technical skills and innovation.

➤ A BNY MELLON COMPANY<sup>SM</sup>

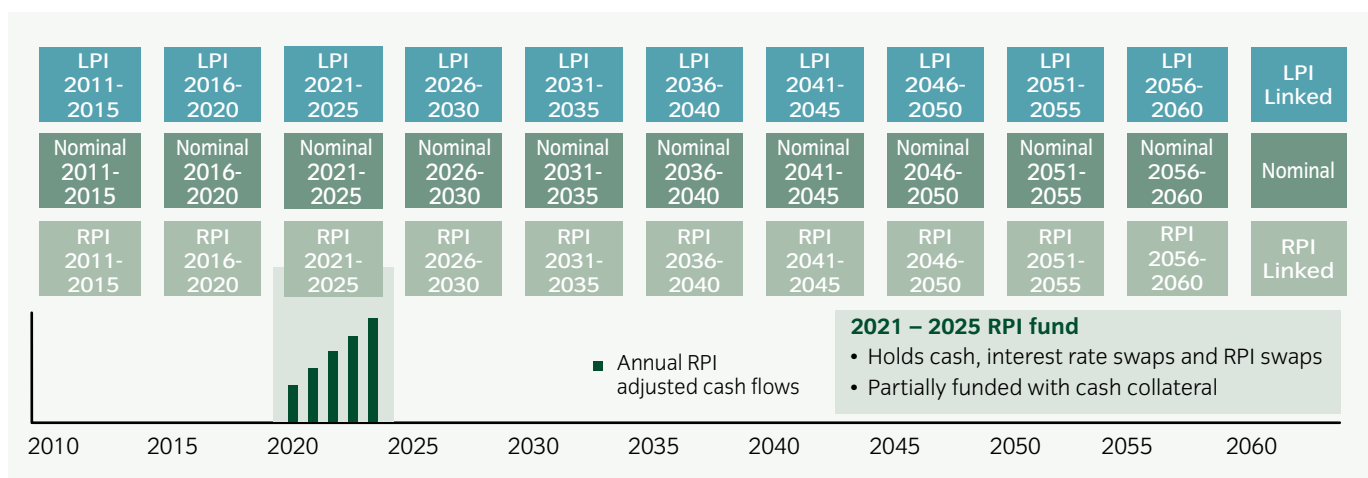
## Key benefits

- Provide fixed and inflation-linked annual cash flows
- Partially funded, giving potential for enhanced returns
- Comprehensive range of maturity profiles offering flexibility and precision
- Dedicated team of professionals with expertise in derivatives and market leading risk management experience



# Liability matching

Liability matching is achieved by investing across a range of funds, tailored to match cashflow projections. The diagram below illustrates the full range of funds and highlights the RPI 2021-2025 Fund.



## Fund structure

Each fund comprises of liquid or near cash instruments together with interest rate and/or inflation swaps which are designed to provide cash flows at specific maturity dates.

Effective LDI solutions are implemented by mixing a selection of individual funds that in aggregate match the liability profile of a pension scheme.

### The LDI Solutions Plus Nominal range

Comprises of ten funds that generate annual cash flows for each consecutive five-year period between 2011 and 2060. This range of funds can be used to match pension liabilities that are fixed monetary amounts.

### The LDI Solutions Plus RPI range

Comprises of ten funds generating annual cash flows that are designed to increase in line with Retail Price Inflation (RPI) for each consecutive five year period between 2011 and 2060. This range of funds can be used to match pension liabilities linked to RPI.

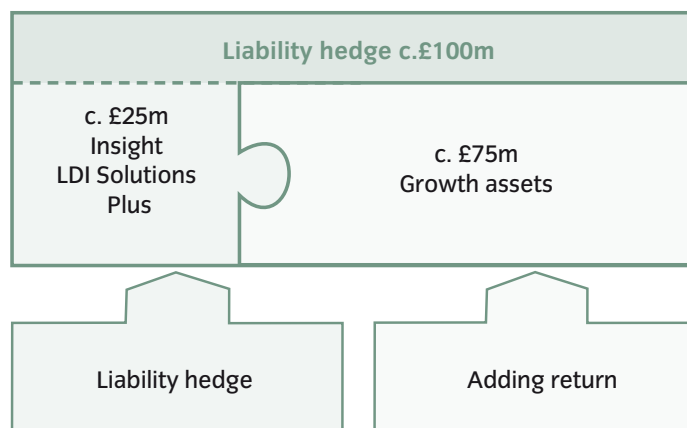
### The LDI Solutions Plus LPI range

Comprises of ten funds generating annual cash flows that are designed to increase in line with Limited Price Indexation (LPI) for each consecutive five year period from 2011 to 2060. This range of funds can be used to match pension liabilities linked to LPI where the increase each year is subject to a cap of 5% per annum and a floor of zero.

# Hedging

By way of example, a pooled fund solution could enable a pension scheme to hedge c.£100m of liabilities through a c.£25m investment in our LDI pooled fund range. The remaining c.£75m can be invested in an extensive range of funds targeting various outperformance objectives that can be used to generate alpha. This is commonly referred to as an extended hedge overlay or leveraged solution. Alternatively, trustees have the flexibility to consider investing the remaining c.£75m in the same cash vehicles as those held within the LDI pooled funds. This is commonly referred to as an unleveraged solution.

## Extended hedge overlay



The comprehensive nature of our LDI pooled funds enables interest rate and inflation risk (both RPI and LPI) to be hedged effectively overall (to reduce duration mismatch) and counter adverse changes in the shape of the interest rate and inflation curves. As the value of the liabilities change due to movements in interest rates and inflation expectations, the value of the portfolio of hedging assets held within the LDI solution change on the same basis.

## Fund specifics

### Dealing and distributions

All the funds have a weekly dealing cycle. The funds are designed to be held until maturity but early redemptions are permitted. Each fund will make an annual distribution e.g. the RPI 2021-2025 Fund will pay out annually from 2021 to 2025 inclusive.

### Ongoing management

Insight's discretionary management service involves a dedicated LDI investment manager monitoring the LDI Solutions Plus funds alongside the client's projected liabilities. This facilitates prompt and effective re-balancing where necessary; for instance, following the introduction of new long-dated funds or a revision to the liability projections.

The construction and monitoring process uses Insight's estimates of the sensitivities of each fund to changes in interest rates and inflation. Risk measures, including these sensitivities, are available daily and are published monthly for all LDI Solutions Plus funds.

## Key fund facts

Fund:	LDI Solutions Plus
Objective:	The objective of these Funds is to reflect the change in value of a partially funded five year deferred annuity. The annuity consists of five consecutive annual payments which are either fixed or referenced to RPI or LPI over the Maturity Period of each Fund. The Funds are designed to reflect the economics of investing in a partially funded deferred annuity, which if combined with a LIBOR return on the unfunded portion, would deliver an equivalent return to that achieved through investment in a fully funded five year deferred annuity
Investment Team:	Insight's Financial Solutions Group
Universe:	The Funds seek to achieve their investment objective by investing in derivatives (interest rate and inflation swaps), money market funds, liquid or near cash instruments, and ancillary liquid assets
Domicile:	Ireland
Listings:	Irish Stock Exchange
Pricing:	Weekly GBP NAV calculation
Custodian:	Northern Trust Custodial Services (Ireland) Limited
Minimum Initial Investment:	£10 million across the fund range
Liquidity:	Weekly subscription and redemption

## About Insight Investment

Insight Investment is a specialist asset manager at the forefront of designing investment solutions to meet our clients' needs. Launched in 2002, Insight is a leading asset manager, with £88.1 billion in assets under management<sup>1</sup> across fixed income, liability driven investment, cash management, multi-asset, absolute return and specialist equity strategies. We manage money for private investors, pension funds, sovereign wealth funds, insurance groups, local government, charities and other financial institutions.

<sup>1</sup>As at 31 December 2009.

This document is only directed at investors resident in jurisdictions where our funds are registered. It is not an offer or invitation to persons outside of those jurisdictions. Insight Investment reserves the right to reject any applications from outside of such jurisdictions. Issued by Insight Investment Management (Global) Limited. Registered office 33 Old Broad Street, London EC2N 1HZ. Registered in England and Wales. Registered number 827982. Authorised and regulated by the Financial Services Authority.

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## Our team



**Andrew Giles**  
CIO – Solutions

Our capabilities and credentials in relation to the design and implementation of LDI solutions are exceptionally strong. Insight stands out in the investment management industry as perhaps the only major company to have restructured its entire investment platform specifically to provide clients with access to effective investment solutions. Our 22-strong Financial Solutions Group (FSG), headed by Andrew Giles, and created in 2003 manages all aspects of the design, implementation and ongoing management of liability risk management solutions. The team's specialist skills encompass risk management, derivatives, quantitative analysis and modelling as well as actuarial and fund management expertise.

## Two ways to invest

Investing in the LDI Solutions Plus funds is a simple process. There are two ways of investing – discretionary management and execution-only.

The discretionary management service involves Insight's Financial Solutions Group (FSG) working directly with clients and their consultants to gain a detailed understanding of the interest rate and inflation risks inherent in their project liabilities. Insight's FSG will then construct and manage a portfolio designed to match either all of the liabilities or a portion of them.

## Find out more

For further information, please contact:

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Telephone calls may be recorded.