



## Pension Corporation helps Threshers pension fund trustees enhance funding levels in turbulent times

4 March 2008

Pension Corporation, which acquired Threshers in June 2007, has assisted the pension fund trustees in enhancing the funding levels, relative to the FRS17 benchmark, despite the turbulence in global credit and equity markets over the last few months. This achievement is in marked contrast to the experience of other pension funds, many of whom have experienced sharp falls in funding levels, and reflects the success of the integrated asset-liability management approach utilised by Pension Corporation.

Financial markets have remained volatile over the last quarter, with confidence in the banking system at a low ebb. Northern Rock continues to dominate the headlines and more credit losses have been reported globally. What is now clear is that we are in a phase where the excess leverage built up in the financial system over the last few years is being unwound. What is less clear is how much further this has to run and whether this could lead to a recession. In this environment, pension funds holding equities and corporate bonds have seen further deterioration in their funding position.

Pension Corporation has made available state-of-the-art asset and liability management to the trustees, in order to outperform volatile markets and increase the funding levels of the Threshers fund. Investment risk within the portfolio was reduced by selling all of the fund's equities, which had comprised 60% of investments. This also allowed the fund to avoid the current market downturn. The Pension Corporation team also helped the trustees ensure that the fund was not exposed to any subprime or sub-investment grade credit.

Interest rate and inflation risks were then hedged by the trustees by using long dated swaps on 7th August, which stabilised its funding level. So far, Pension Corporation has helped the trustees improve the net funding level of the Threshers pension fund and this is a record of which we are proud in current markets. The key element of the strategy is the reduction of volatility of the Fund's liabilities. To that end, the swap portfolio – implemented to minimise the Fund's sensitivity to interest rate and inflation movements – has proved its worth as it has protected the portfolio and its surplus from the violent shifts in interest rate and inflation expectations over the past five months.

Since then investments have been made very cautiously by the trustees, reflecting the view that markets are likely to be in for a turbulent time. Credit exposure remains minimal and there is no direct long equity exposure in the Fund. Over 55% of the Fund is defensively invested today in money market instruments and with the benefit of Pension Corporation's market access, the trustees have started to build a very diverse portfolio using absolute return seeking assets. The trustees are considering proposals to extend this approach towards building a portfolio that no longer depends on the market direction for investment returns, and is constructed to minimise risk in a wide variety of market environments, including the turbulent time we are now in.

By hedging out the unrewarded risks of interest rates and inflation and taking a cautious investment approach, Threshers pension fund has shown it is possible even in extremely difficult markets to stabilise pension scheme funding levels.

To ensure best practice corporate governance, Pension Corporation has also supported the appointment of an additional and highly experienced professional trustee – Independent Trustee Services Limited – to the Trustee Board of the Threshers pension fund. The trustees have also been provided with free and unfettered access to the collective investment expertise of the personnel within Pension Corporation.

Edmund Truell, CEO of Pension Corporation said:

“We are absolutely delighted with the continued successful performance of the Threshers pension fund amid volatile markets. We are pleased to have been able to offer support as well as a wealth of excellent asset and liability management expertise to the Trustee Board over the last 9 months. This has helped to preserve both the funding levels and the security of members' benefits. We look forward to continuing to work with the trustees of the fund over the coming months and years”.

#### **Enquiries**

Pension Corporation

Petra Peliskova

+44 20 7105 2142

#### **Notes to Editors**

- Immediately prior to acquisition (31st May 2007), the Threshers pension fund had assets of £63.1 million
- Pension Corporation believes assets and liabilities must be run together as the key metrics for pension funds are prudence and solvency margin. The keys to running any portfolio successfully are simple:
  - reduce assets slower than liabilities over time;
  - avoid catastrophic losses though the taking of unintended risks;
  - remove all of these unwanted risks wherever possible.
- It is our belief that using the latest portfolio construction techniques and knowledge of asset classes at our disposal, we can help trustees hedge out or counterbalance the inherent risks within their portfolio (both market risks and hidden risks), while still generating returns in excess of Libor to close deficits and match those liabilities which are difficult to hedge, in particular, longevity.