
FLIGHT TO SAFETY SENDS INTEREST RATES PLUNGING

London, 1 August 2012 - Investors' flight to safety could send the return on U.K. gilts plunging through zero into negative territory with positive effects for homeowners with mortgages but serious consequences for millions of pensioners, warns a City pension consultancy. Redington sees 'a mixed blessing' of U.K. bond rates crashing below zero within months with potential knock-on effects that could force the pensions industry to scramble to find new ways to achieve positive returns for their customers.

Robert Gardner, co-CEO of Redington, said gilts are set to follow Swiss and German government debt into safe-haven status in which investors accept negative returns in exchange for security of capital.

Two-year gilts currently return just 0.09 percent because "significant political risk throughout the Eurozone is helping UK assets appear very attractive to investors," Gardner said.

Negative gilt yields would increase the value of pension scheme liabilities "piling pressure on scheme sponsors to fund that cost through alternate sources of income, he said. "The silver lining for pension funds is that non-gilt assets continue to offer attractive risk-adjusted returns. For example, corporate credit spreads are far wider than during the previous downturn. A package of long-dated corporate bonds and inflation assets currently provides a real yield of around 2 percent.

"This low-to-negative yield environment highlights the need for schemes to source exposure to positive real returns from non-traditional assets. The Pension Infrastructure Platform being put together by the NAPF (National Association of Pension Funds) and PPF (Pension Protection Fund) may well be one source for schemes to access these real returns."

"We are seeing a paradigm shift with the continued knocking down of widely-held assumptions about the economy and financial markets. There is no script to deal with these issues.

"Less than 12 months ago, many perceived that real yields could not go below zero. That proved to be untrue. The common perception now is that nominal yields cannot go below zero but this myth has already been busted by a number of European countries."

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Note to editors:

About Redington

Redington is an award-winning, independent Investment Consultancy providing strategic advice and asset and liability management expertise to UK and European pension schemes and insurance companies. The company employs 47 people and has over £220bn in assets under consulting with a client base including many of the UK's largest DB pension schemes.

Redington is the market leader in "fusion consulting", combining capital markets and investment banking experience with traditional actuarial analysis and consulting - effectively harnessing the technology of investment banks and asset managers to provide clients with a wide range of solutions. The Company was founded in 2006 by two ex-investment bankers, Dawid Konotey-Ahulu and Robert Gardner, formerly of Merrill Lynch where they spent many years advising on risk management strategies for their clients and, in 2003, devised and implemented the first full LDI risk management transaction by a pension fund, Friends Provident Pension Scheme.

Redington is a huge advocate of social media and web 3.0 and how it can be used to bring about innovation and collaboration in the pensions community. In December 2009 it launched and spun off mallowstreet.com, a targeted community that brings pension fund decision makers and product providers together in a unique way, both on-line and in-person.

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