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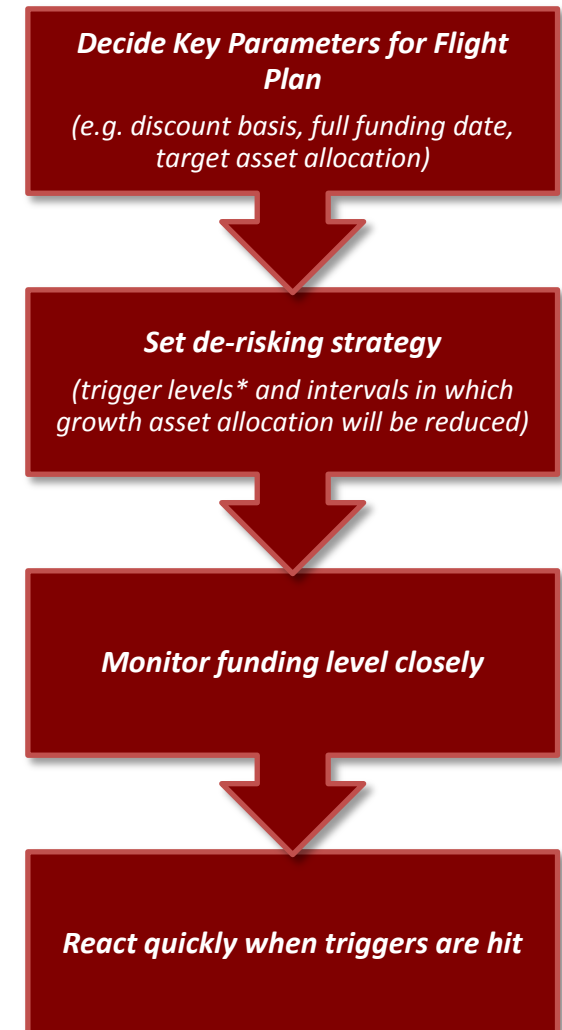
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Redington **Dynamic De-risking Case Study**



Dynamic De-Risking

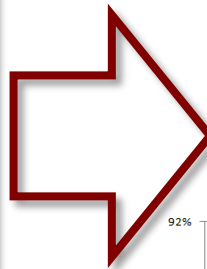
- Dynamic de-risking enables schemes to **capture improvements in the funding level** and **reduce risk at the same time**.
- Where **the funding level improves** above that described by the Flight Plan, the **required return on assets to achieve full funding over a given time period falls**. Consequently, a scheme can reduce its allocation to growth assets and still meet the required return on assets.
- Any **freed-up cash** can be **allocated to matching assets** such as nominal or index-linked gilts.
- This allows schemes to **lock in gains in the funding level** and to **reduce** their interest / inflation risk.
- Two **crucial considerations** are:
 - **Trigger levels**
Funding levels that will trigger a de-risking exercise. These should get tighter as the scheme approaches full funding.
 - **Governance resources**
Close monitoring and the ability to make decisions quickly are essential. A scheme must therefore have the necessary governance resources.
- The following slide sets out a case study for a dynamic de-risking exercise that we undertook for a UK pension scheme.





Case Study: Dynamic De-Risking

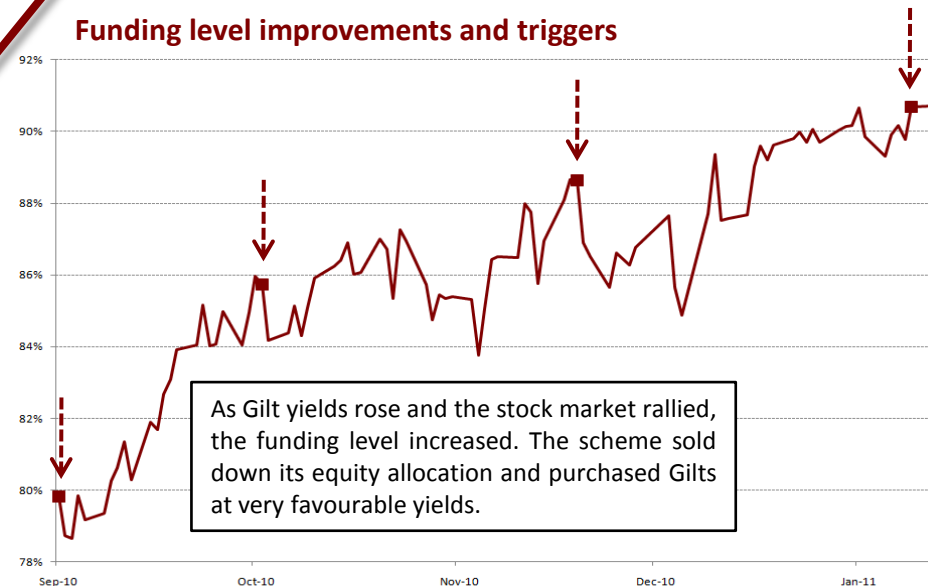
Starting Point	
Background	<ul style="list-style-type: none"> Value at Risk (VaR) of over 30% of liabilities Large allocation to equity and therefore considerable equity risk
Overall Objective	To be self-sufficient by [2020] on a Gilts + 50bps basis
Triggers	Triggers are set to tighten as the funding level rises
Governance	The Investment Committee implemented the process on a recourse basis – the Trustees wished to be consulted before a decision was taken. Later, an automated process was implemented.



Result
<ul style="list-style-type: none"> Redington worked with the client to take advantage of improvements in the funding level. Equity allocation was step by step reduced from 85% of total assets to 40% (at the points shown in the graph below) as the funding level increased from 80% to 91% of liabilities VaR fell by one third, from 33% to 23% of liabilities.

	Sep 2010	Oct 2010	Dec 2010	Feb 2011
Funding level	80%	86%	89%	91%
Equity Allocation (% of assets)	85%	65%	60%	40%
VaR (% of liabilities)	33%	29%	25%	23%

Funding level improvements and triggers

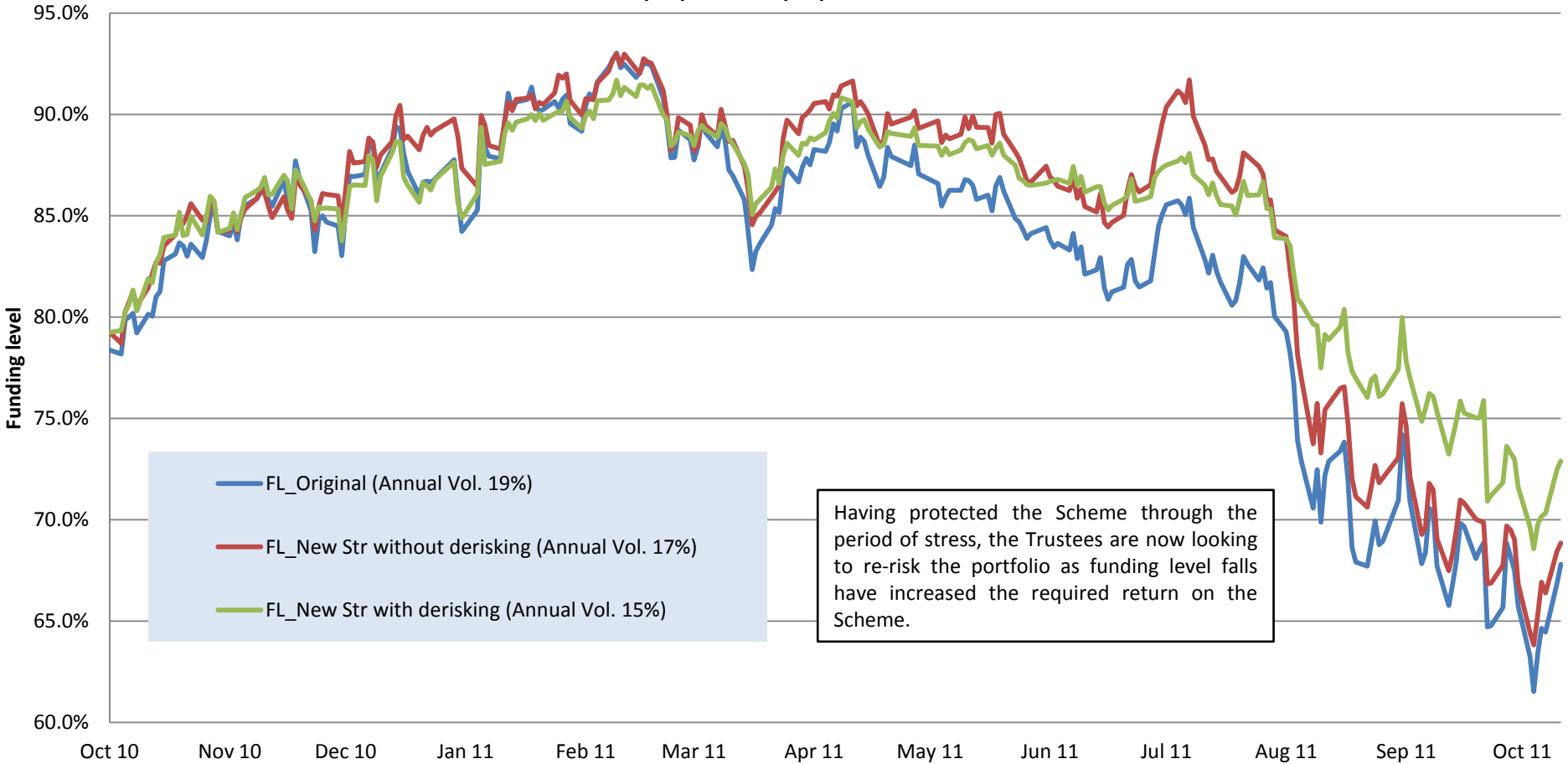




Measuring the benefit of Dynamic De-risking

Funding level comparison

01/10/2010 - 11/10/2011





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- Co-Founder and lead investment consultant
- Previously managing director of Merrill Lynch Pensions & Insurance Solutions Group in Europe where he implemented the market's first full derivatives LDI hedge for FTSE 100 Defined Benefit Pension Scheme
- Worked as Head of UK FIG Derivatives Marketing and various other positions at NatWest Capital Markets
- Qualified as a Barrister of Lincoln's Inn in 1987
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Robert Gardner

- Co-Founder and lead investment consultant
- Previously a Director in the Insurance & Pensions Solutions Group at Merrill Lynch and has many years experience implementing and executing ALM derivative solutions across a range of asset classes
- Worked in the Relative Value Group at Deutsche Bank, Global Markets in London.
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