LDI differentiator: the implementation manager role

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This mini-series of short articles shines a light on often under-discussed but important factors to think about when structuring your LDI portfolio framework. Here we look at the benefits of employing an implementation manager.

In our previous 'LDI differentiator' paper we talked about the importance of integrating third-party funds into the LDI portfolio framework[1]. The implementation manager role takes things one step further and can help simplify the governance structure for pension schemes, whilst potentially improving investment outcomes and reducing trustee risk.

Under such a solution, the large majority – if not all – of the scheme's holdings move into the LDI portfolio/wrapper so that the LDI manager can implement the trustees' investment strategy for them. Manager selection and strategic advice is still provided by the scheme's investment adviser, and decision making continues to be owned by the trustees, but the LDI manager is then responsible for implementation within a rules-based framework.

The benefits

There are several benefits for pension schemes of having an implementation manager:

1. **Speed and efficiency** of trading execution, maximising opportunity and capture
2. **Maximised likelihood of hedge retention** (especially in stressed market conditions)
3. **Reduced governance burden** and operational risk for trustees

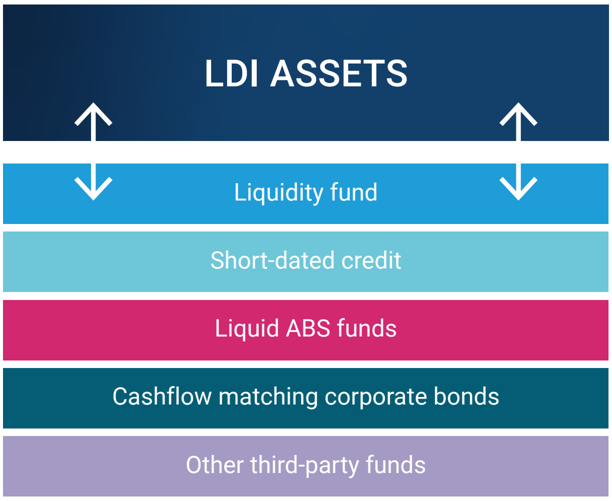
[1] Columbia Threadneedle Investments, **LDI differentiator: the holding of third-party funds**, March 2025

Some of the actions an implementation manager can carry out for a pension scheme include: automatically de-risking in response to market level and/or funding ratio triggers; rebalancing to an agreed strategic asset allocation; supporting the drawdown and payback of cash to and from private market investments; and managing aggregate cashflows to facilitate benefit payments.

How does it work in practice?

These services can be delivered via a traditional segregated portfolio or via a fund-of-one. The latter approach is normally preferred if the scheme does not already have a custody account, as custody is provided by the fund wrapper.

In the case of a fund-of-one it will be a **daily priced/traded fund structure with no upfront set-up costs and full integration of all assets in the LDI hedge design**. It is an open architecture structure that can hold a wide range of liquid and illiquid third-party funds, with full flexibility on investments and service options depending on requirements.



Whether a segregated account or fund-of-one is used, the key to delivering implementation manager services is the holding of third-party funds within the matching portfolio, as illustrated by the chart below.

Closing thoughts

So, there are multiple merits to having an LDI manager that can additionally act as an implementation manager. **Such a set-up allows trustees to retain full control over their investment strategy, while significantly simplifying governance and reducing operational risk.**

In conjunction with our ability to integrate third-party funds, this is another example of how we have developed a flexible, effective and tailored LDI offering that is adapted to a constantly moving marketplace. In the final paper of this mini-series we will explore the benefits to pension schemes of holding their investment grade credit allocation with their LDI manager.

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