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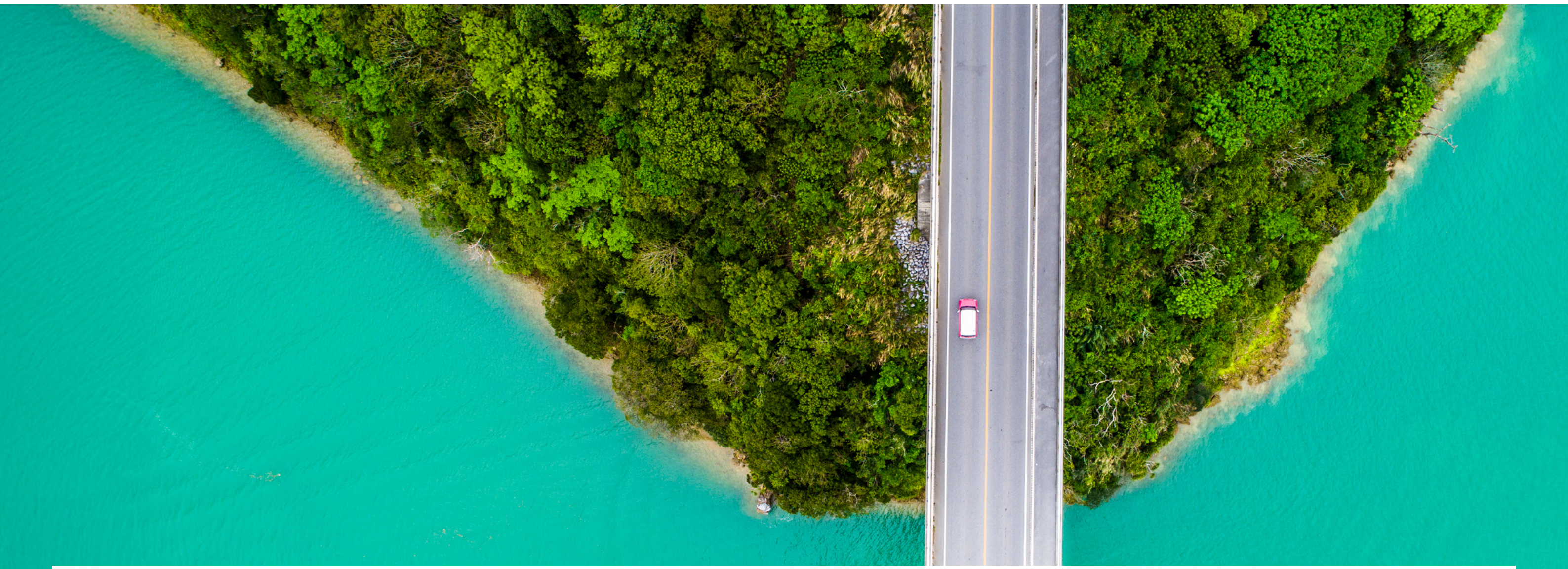

LDI differentiator: using a Reorganisation Fund

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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 investments. In this paper we will discuss disinvestments.

The focus of our previous 'LDI differentiator' papers has been on structuring a pension scheme's investment portfolio[1] and/or simplifying governance.[2/3] The goal of this paper is to discuss the step that pension schemes take prior to entering into a buy-out transaction with an insurer. This involves restructuring their assets to the agreed price-lock portfolio and how, in this situation, the use of an LDI Reorganisation Fund can be extremely helpful.

Buy-outs explained

The 'endgame' for a lot of UK defined benefit pension schemes is to adopt a pension risk transfer strategy known as a buy-out – this is basically the transfer of the pension scheme's assets and obligations to an insurer, who then assumes responsibility for paying member benefits.

Once a transfer date is set, pension schemes need to rejig their portfolios towards the 'price-lock' – this is a portfolio agreed with the insurer that closely matches how the price quoted to enter into the buy-out transaction may change with market movements. At the point the scheme holds the price-lock portfolio, the scheme is locked into the price such that market movements cannot cause it to move in a way that might diminish affordability.

[1] Columbia Threadneedle Investments, LDI differentiator: the benefits of an integrated solution with credit, May 2025
[2] Columbia Threadneedle Investments, LDI differentiator: the holding of third-party funds, March 2025
[3] Columbia Threadneedle Investments, LDI differentiator: the implementation manager role, April 2025

Moving to the price-lock portfolio means pension schemes need to restructure their investment strategy by liquidating most of their holdings and buying new assets that meet the required criteria. **This can be quite complex to manage and may also incur significant transaction costs when not managed well**. This is where using a Reorganisation Fund may help.

The CT LDI Reorganisation Funds (formerly called LDI Transition Funds) were the first of their kind to come to market. They were developed to help pooled LDI clients navigate the complexities of the buy-out process. Before this innovation, **pension schemes would have to sell their fund holdings at the point of buy-out, only for the insurer to then have to buy the underlying hedging positions back in another form**, incurring round-trip transaction costs. The insurer would also assume worst-case costs when pricing the transaction, which could be disadvantageous. Furthermore, the scheme would have no means of constructing a price-lock portfolio, creating the risk that the insurer price moves away from them.

Reorganisation Funds mean pension schemes can avoid out-of-market risk, minimise transaction costs and create certainty around affordability

By using an LDI Reorganisation Fund, pension schemes can avoid out-of-market risk, minimise transaction costs and create certainty around affordability by building a price-lock portfolio. This is **achieved by transferring the hedging positions associated with a scheme's LDI pooled fund holdings** (instead of disinvesting, therefore not incurring transaction costs), into a separate LDI Reorganisation Fund. As such, **the assets are restructured in line with the price lock**. The investor would be the sole user of the LDI Reorganisation Fund for this period, facilitating an entirely tailored transition, something that historically has not been available to pooled fund investors.

Closing thoughts

So, LDI Reorganisation Funds can be extremely helpful to pension schemes looking to enter into a buy-out with an insurer, by avoiding out-of-market risk and minimising transaction costs. At Columbia Threadneedle Investments, we have helped many pension schemes reach their endgame and, through the use of our LDI Reorganisation Funds, have saved them from dealing with undue complexity. To-date we have managed 31 client transitions to insurers and look forward to working on many more.

The next paper in this mini-series will discuss run-on investment strategies and how pension schemes can structure their portfolios given recent market developments.

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