HYMANS ROBERTSON

LARGE DB SCHEME CASE STUDIES

Creating value through a dynamic investment framework

In the UK, a significant proportion of defined benefit (DB) scheme assets are held by a small number of large schemes. These large schemes have unique needs and face different challenges compared to smaller ones. As advisers to half of the 20 largest schemes in the UK and one in five with assets above £1bn, we understand these different needs and want to share our insights through a series of case studies.

In this case study, we explain how we designed and implemented a dynamic investment framework to create value, increase liquidity and improve strategic flexibility.

The client's challenge

A longstanding trustee client with a large, well-funded pension scheme approached us with a clear strategic challenge. They wanted to reduce a significant allocation to illiquid assets, in a controlled and value-preserving way, without compromising funding strength or future endgame options.

The trustees didn't want to rush into an endgame decision. Instead, they wanted to create time and flexibility to assess their options properly. Crucially, the journey needed to work for both the trustees and the sponsor. Maintaining endgame flexibility, while navigating competing priorities around liquidity, return and risk, was a key requirement.

What did we do?

We worked closely with the trustees to design and implement a dynamic investment framework tailored to their needs. We focused on improving liquidity, maintaining return potential and ensuring decisions could adapt to changing market conditions.

A clear picture of the illiquid run-off

We began with a detailed analysis of the illiquid portfolio to understand the timing and scale of expected cash flows. This included assessing the natural run-off profile of underlying assets and identifying selective secondary market opportunities to bring forward distributions. We considered whether there was sufficient liquidity or an attractive opportunity to sell without incurring a large cost or haircut, exploring a range of potential brokers and counterparties.

This work provided a clear and evidence-based view of how the portfolio would evolve. It showed that the value of illiquid assets would run down materially over time, from £2bn to around £1.4bn within 18 months, with a steady flow of cash proceeds of around £300m–£400m pa.

Crucially, this analysis provided the foundation for a more proactive, dynamic investment strategy. By giving clarity on the size, timing and reliability of illiquid cash flows, we helped the trustees plan ahead with confidence.

Identifying the target portfolio

A key part of the project was to help the trustees define a long-term target portfolio aligned to their objectives. This included setting a new long-term return target of gilts +0.75% pa and designing a more liquid portfolio capable of delivering this outcome.

We modelled a range of options to balance return, liquidity and diversification. The agreed target portfolio built on the strengths of existing allocations while introducing new mandates, particularly in diversified fixed income, alongside a measured reintroduction to equities.

Importantly, we recommended a gradual transition. This allowed the scheme to retain higher returning illiquid assets in the short-term before gliding towards the lower-risk, more liquid target portfolio over time.

Designing a dynamic investment framework

We then designed and implemented a dynamic framework to guide how cash flows from the illiquid assets would be reinvested, allowing for the relative value of different market opportunities.

This framework brought together three key elements:

- the long-term target portfolio
- the timing and size of available cash flows
- the relative value of market conditions across the different asset classes

Using this dynamic framework, the trustees could easily prioritise the most attractive opportunities over time, rather than follow a fixed transition plan. This helped capture additional, tangible value for the scheme. The framework was also designed to protect collateral and liquidity to support the scheme's hedging programme.

Key deliverables: tangible value for the scheme

- reduced illiquid assets from 45% to around 30%, in line with the trustees' objectives.
- a clear defined target portfolio, providing a strong foundation for future strategy and decision-making.
- preserved return potential, with around £20m pa of additional expected return compared to a low-risk, insurer-ready portfolio.
- established a clear and repeatable framework for redeploying illiquid cash flows, simplifying decision-making and governance.
- increased flexibility and choice, leaving the scheme well positioned to adapt its endgame strategy over time.

A great outcome for the client

Through our guidance and advice, the scheme successfully transitioned hundreds of millions of pounds from illiquid assets into more liquid investments. In turn, capturing value and maintaining a robust funding position.

The dynamic investment framework has given the trustees confidence in their decision-making. This has allowed them to preserve returns, take advantage of market opportunities and keep their endgame options open for the future.

To discuss this dynamic investment framework or hear more about our insights from advising a wide range of large DB schemes, please contact one of our experts below, or get in touch here.

Susan McIlvogue
Partner and Head of Large DB Schemes Solutions
susan.mcilvogue@hymans.co.uk

Russell Chapman
Partner and Head of Investment Risk Transfer
russell.chapman@hymans.co.uk

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London | Birmingham | Glasgow | Edinburgh T 020 7082 6000 | www.hymans.co.uk