

An introduction to the BMO Low Dependency fund range



Why a low dependency solution?

All defined benefit pension schemes are on a path towards reduced dependence on their sponsor.

Clear regulatory push for de-risking towards a low dependency portfolio, in line with scheme maturity.

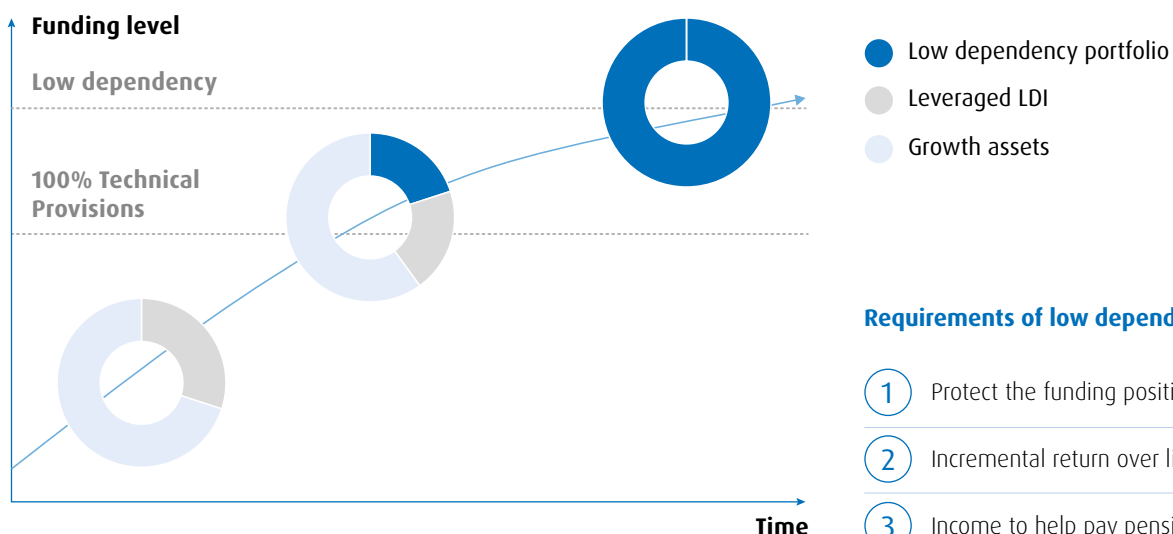
The low dependency portfolio should hedge liabilities, deliver a modest excess return and provide cash to pay pensions.

BMO's new Low Dependency pooled fund range combines our award-winning LDI capability with our highly regarded credit expertise to target all these objectives, within a straightforward, low-governance fund framework.

What is a low dependency portfolio?

Initial high allocation to growth assets and leveraged LDI allows schemes to manage liability risk in a capital efficient way, whilst targeting growth, in order to reduce the funding deficit. As the deficit reduces and/or the scheme matures, it will gradually reduce its growth allocation and its use of leverage and move towards the low dependency portfolio. The low dependency portfolio will typically be a combination of credit and LDI. Integrating credit and LDI within the same fund/portfolio ensures a high level of hedge accuracy, reduces governance and reduces the likelihood of having to sell credit to support the hedging positions.

Building towards low dependency



Requirements of low dependency portfolio

- 1 Protect the funding position
- 2 Incremental return over liabilities
- 3 Income to help pay pensions

For illustrative purposes only.



Access to a flexible, start-to-finish hedging solution

- Consistent with our innovative and forward-thinking approach to pooled funds, the new funds replicate strategies previously managed for segregated clients.
- Clients can select:
 - different liability profiles in order to maximise hedge accuracy;
 - short dated or long dated cash-flow matching credit.
- Designed to allow easy switching and blending with other funds.



Our tailored fund solutions allow schemes to move towards their low dependency goals with the minimum of complexity and maximum efficiency.

**Simon Bentley, Managing Director,
Head of UK Solutions Client Portfolio Management,
BMO Global Asset Management**

Short dated or long dated credit?

Different schemes will have different preferences for long or short dated credit depending on their specific circumstances.

Short dated credit

- Permits a higher target return in comparison to longer dated credit, via a lower average credit quality.
- Well suited to buy-in/out aspirations as short dated credit is generally more liquid and cheaper to sell.
- More stable return profile than longer dated credit so well suited to schemes concerned with funding ratio volatility.

Long dated credit

- Cashflow matching approach eliminates credit reinvestment risk.
- Well suited to schemes targeting self-sufficiency.
- More volatile return profile relative to short dated credit so appropriate for well supported schemes that can afford some funding ratio volatility.



Key Risks

The value of investments and any income from them can go down as well as up and investors may not get back the original amount invested. Changes in interest rates and inflation expectations could have an effect on the value of your investment.

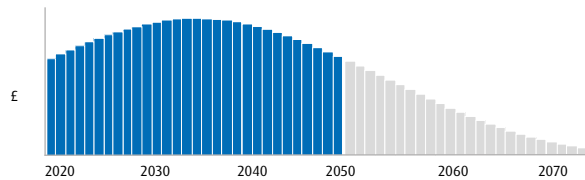
BMO Low Dependency range: 7 new funds to meet individual schemes' needs

Cashflow matching, buy & maintain credit solutions

Objective: A secure, long-term yield, to help meet future benefit obligations, whilst minimising liability risk.

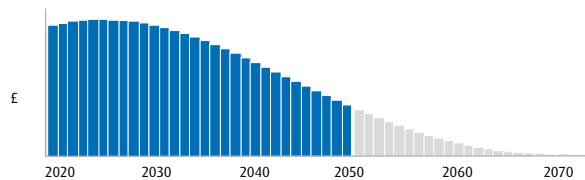
Standard maturity

- 1 **Real**
 - 50-60% credit allocation
 - 24-year liability duration
- 2 **Nominal**
 - 60-70% credit allocation
 - 20-year liability duration



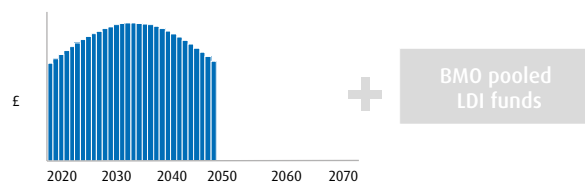
Short maturity

- 3 **Real**
 - 65-75% credit allocation
 - 17-year liability duration
- 4 **Nominal**
 - 70-80% credit allocation
 - 14-year liability duration



Credit only

- 5
 - 95%+ credit allocation
 - Credit combined with hedging strategy of clients' choice



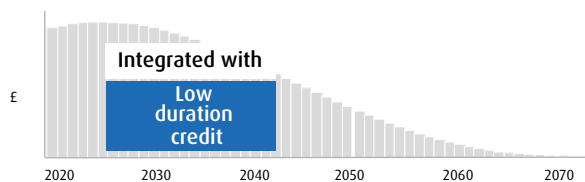
● Credit matching ● Gilts matching

Low duration credit solutions

Objective: Help to manage funding level volatility, whilst earning returns from the most attractive parts of the corporate bond market.

LDI + Low Duration Credit

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 - Real, short maturity
 - 70-80% credit allocation
 - 17-year liability duration



Low Duration Credit

- 7
 - Allocations can be client specific
 - Credit combined with hedging strategy of clients' choice



● Credit matching ● Gilts matching

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Responsible, innovative low dependency solutions

Market leading ESG integration

As with all our investment strategies, ESG considerations are integrated at all stages of the investment process. Utilising the expertise of our 22 strong team of responsible investment specialists, ESG factors are an explicit part of our credit assessment process as well as our counterparty assessment process. Furthermore, we pro-actively engage with all bond issuers and counterparties on ESG related topics, both thematic and entity specific.

This means that ESG risks are being given full consideration in our decision-making process, and additionally that clients are being responsible stewards of capital, using their influence to promote stronger ESG practices across the market.

Leaders in investment solutions

BMO Global Asset Management has been at the forefront of the LDI market since 2003. We are renowned within the industry for our innovation and have been first to market with a wide range of pooled fund solutions, in turn allowing schemes of all sizes to have access to strategies that have historically been the preserve of larger segregated schemes. The Investment Solutions team has been managing funds which blend growth and LDI strategies since 2009 and we already manage £3.1bn of assets in strategies similar to those described within this document (as at 30 June 2020).

Our innovation, client service and keen focus on risk management has led to us receiving a number of industry awards. This successful framework means that we now




manage solutions for over 580 clients and have implemented over £624bn in notional derivatives overlay transactions (as at 31 March 2021).

Team and resources

Led by Alex Soulsby, the Investment Solutions team comprises of 26 investment professionals. The team includes derivatives fund managers, quantitative analysts and investment specialists who are experts in derivatives, insurance, pensions, quantitative methods and fund management, with an average of 14 years in the industry. The team is well supported in its activities by the global rates, credit and dealing teams, as well as a deep pool of middle office and client servicing functions. The seamless delivery of investment solutions to our clients is underpinned by a first-class technology and systems infrastructure.

Contact us

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Further reading:

-  [About BMO Global Asset Management](#)
-  [ESG in Fixed Income](#)



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The funds are sub funds of BMO LDI Fund, a fonds commun de placement, registered in Luxembourg and authorised by the Commission de Surveillance du Secteur Financier (CSSF).

English language copies of the Fund's Prospectus can be obtained from BMO Global Asset Management, Exchange House, Primrose Street, London EC2A 2NY, telephone: Client Services on 0044 (0)20 7011 4444, email: client.service@bmogam.com or electronically at www.bmogam.com. Please read the Prospectus before taking any investment decision.

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