

Dynamic LDI Funds

BMO Global Asset Management is a leading provider of Liability Driven Investment (LDI) funds in the UK marketplace with a reputation for innovation and client-focused solutions.

Our Dynamic LDI Funds provide a flexible, long-term hedging solution, by systematically switching into the cheapest hedging instrument while always maintaining a low-risk hedge.

Contact us

Institutional business:

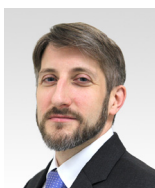
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Telephone calls may be recorded.

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Our Dynamic LDI Funds have transformed the LDI market place. These Funds provide trustees with a straight-forward product that allows clients to benefit from differences in costs between equivalent low-risk hedging instruments.

Alex Soulsby, Head of Investment Solutions EMEA

Key risks

The value of investments can go down as well as up as a result of market movements and investors may get back less than the original amount invested. Changes in interest rates and inflation expectations could also have an effect on the value of your investment.

Introduction to Dynamic LDI

Trustees have a range of different hedging strategies available to them. Choosing the right one can add significant value. One such strategy, switching between hedging assets, has previously been the preserve of larger schemes. Our Dynamic LDI approach offers this in a straight-forward pooled fund format making it accessible to pension schemes of all sizes. The approach ensures that schemes will be invested in the most cost-effective hedging asset whilst still taking into account the instruments' liquidity, funding and transaction costs. Our Funds dynamically transition from a more expensive instrument into a cheaper one, adding incremental value in a systematic and orderly way, using a clearly articulated investment process.

Hedging liabilities effectively

The liabilities of a pension scheme are cash flows that are due to be paid to members at different points in the future. These cash flows will be fixed or inflation-linked. In that sense, the cash flows are very similar to those of a bond or an equivalent swap and will increase in value as interest rates fall (or inflation expectations rise) and vice versa.

Key Features

- > Provide an opportunity to outperform liabilities
- > Offer an innovative, straight-forward approach to risk reduction
- > Allow trustees to delegate instrument selection within their LDI mandate

The range of low-risk assets that pension schemes may ordinarily use to hedge their liabilities is quite wide and can include: conventional gilts; index-linked gilts; interest rate or inflation swaps; total return swaps on conventional gilts or index-linked gilts and repurchase agreements (repo) on conventional gilts or index-linked gilts. A pension scheme should look to implement a hedge using the cheapest of these hedging assets. This decision will change at each maturity point as the best asset to use at short maturities will not necessarily be the same as the best asset to use at longer maturities. In addition, the best asset for interest rate hedging may not be the same as the best asset for inflation hedging. Therefore, pension schemes are faced with complex decisions when designing and maintaining their optimal hedging strategy.

The Dynamic LDI Funds solve this problem. Day-to-day decision-making is delegated to market-facing professionals so that the pension scheme always favours the cheapest hedging asset.

Why is BMO Global Asset Management's Dynamic strategy beneficial?

Our Dynamic LDI strategy can benefit pension schemes in three main areas:

- **Capturing returns:** By combining the cheapest hedging asset at each maturity point, we can construct a portfolio that always exhibits a higher yield than a 50/50 blend of gilts and swaps.
- **Switching between assets:** As the returns between gilts and swaps change, we gradually sell out of the more expensive asset and buy into the cheaper, higher-yielding asset, resulting in a capital gain.
- **Combining assets:** By looking at the full range of hedging assets we are able to construct a more attractive portfolio than would be the case if we were constrained to a binary choice between gilts and swaps.

The Dynamic LDI strategy is designed to be a long-term added value liability hedging strategy. Over the short-term, it may exhibit volatility compared to a pure gilt or pure swap-based hedging strategy.

Leaders in LDI

A market leader with a reputation for innovation, BMO Global Asset Management has a strong derivatives execution pedigree and is regarded by many clients as their derivative fund manager as well as LDI manager. We have a track record for delivering effective synthetic equity, foreign exchange and options-based solutions as well as offering the full range of traditional LDI solutions.

Forefront of the
market since
2003

£138bn
of pension scheme
liabilities under
management

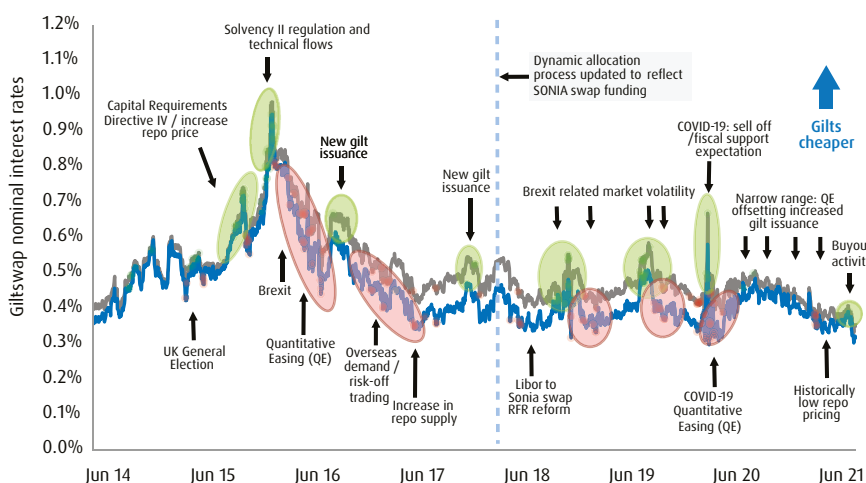
More than
580+
clients

Dynamic LDI in action

The chart below shows the extra yield available for holding long-dated gilts compared to swaps when hedging interest rate risk. To put it another way, the higher the line the cheaper gilts are compared to swaps. The green areas show where we have purchased gilts and sold swaps and the red areas show the opposite trade (buy swaps and sell gilts). Generally, we buy gilts as they cheapen and then sell them again as they become expensive compared to swaps. The chart illustrates a number of useful points:

- A gradual switching process is important as it allows us to take advantage of both a trending market and shorter-term volatility.
- The opportunity set is meaningful but one needs to move quickly to take advantage of it. Hence why delegating instrument selection to your LDI manager makes good sense.
- Switching opportunities are persistent and are often caused by non-LDI market factors such as gilt issuance, central bank activity, regulatory changes, safe haven investing and repo pricing amongst other things.

Interest rate trading activity



— Swap spread: 30yr gilt - 30yr swap ● Buy gilts / Sell swaps
 — Swap spread: 40yr gilt - 40yr swap ● Buy swaps / sell gilts

Source: BMO Global Asset Management, Barclays Live as at 30-Jun-21. Trading activity for the Real Dynamic LDI Fund.

Team and resources

Led by Alex Soulsby, the Investment Solutions team includes 28 investment professionals dedicated to LDI mandates. 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.



Fund characteristics

Fund choices:

- BMO Real Dynamic LDI Fund (targeting real interest rate risk of RPI-linked liabilities)
- BMO Short Profile Real Dynamic LDI Fund (targeting real interest rate risk of RPI-linked liabilities)
- BMO Nominal Dynamic LDI Fund (targeting interest rate risk of nominal liabilities)
- BMO Short Profile Nominal Dynamic LDI Fund (targeting interest rate risk of nominal liabilities)
- BMO Inflation-only Dynamic LDI Fund (targeting inflation-only risk of RPI-linked liabilities)

Fund vehicle: Luxembourg FCP

Leverage target:

Real, Nominal and Inflation-only Funds: approximately 3 times

Short-Profile Real and Nominal Funds: approximately 4 times

Dealing Frequency:

Daily

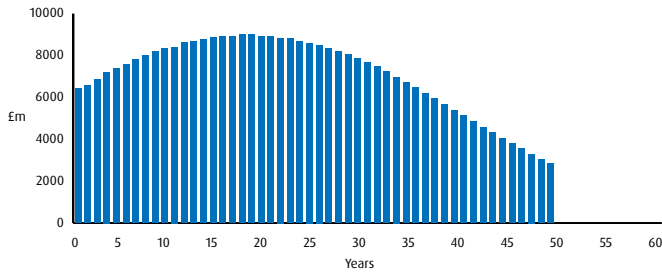
Permitted instruments:

- Conventional gilts and index-linked gilts
- GBP denominated interest rate swaps and inflation swaps
- Gilt futures
- Total return swaps on conventional gilts or index-linked gilts
- Repo on conventional gilts or index-linked gilts
- AAA-rated supranational/sovereign-guaranteed Sterling bonds
- AAA-rated overseas government bonds hedged back to Sterling
- Money market instruments

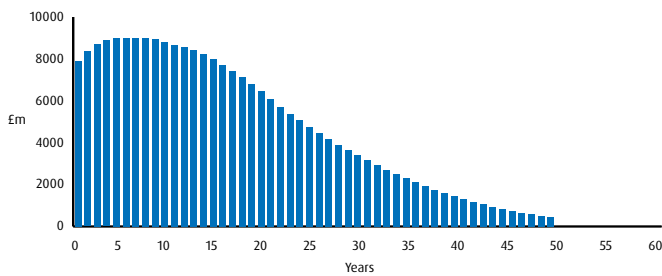
Fund benchmarks

The Funds aim to track a set of liability cash flows resembling a typical defined benefit pension scheme. The cash flows in the benchmark mature through time.

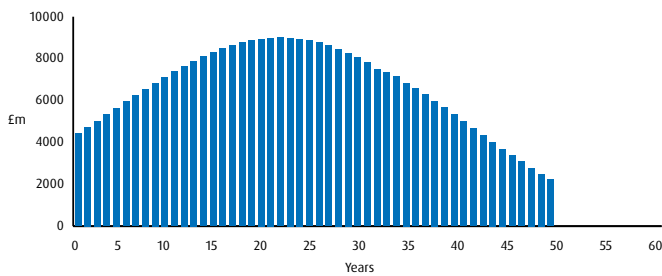
Cashflow Profile: Real & Inflation-only Dynamic LDI Funds



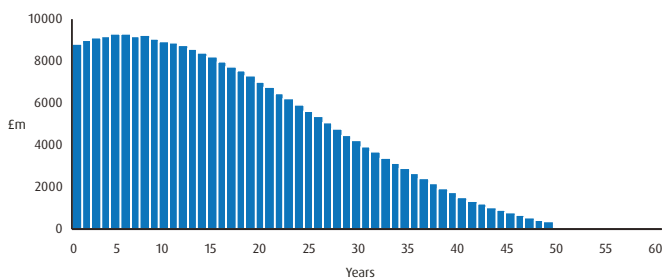
Cashflow Profile: Short-Profile Real Dynamic LDI Fund



Cashflow Profile: Nominal Dynamic LDI Fund



Cashflow Profile: Short Profile Nominal Dynamic LDI Fund



Source: BMO Global Asset Management. For illustrative purposes only.

Past performance should not be seen as an indication of future performance.

LDI Manager of the Year 2021 and 2020



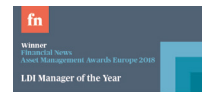
LDI Provider of the Year 2019, 2017, 2016, 2015, 2014, 2013 and 2012



Asset Manager of the Year 2019



LDI Manager of the Year 2019 and 2018



Risk Management Provider of the Year 2020, 2018, 2017 and 2015



UK LDI Manager of the Year 2018 and 2017



UK LDI Manager of the Year 2016



LDI Manager of the Year 2013, 2012 and 2011





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The Fund is a sub fund 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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