

LDI Equity-Linked Bond 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 Equity-Linked Bond Funds are designed to provide a solution to the investment needs of UK pension schemes in the form of an equity investment that also reduces liability risks.

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Telephone calls may be recorded.

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Our Equity-Linked Bond Funds can be considered as a core equity replacement strategy providing exposure to equity markets whilst still improving the hedge of a scheme's liability values.

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.

The challenge

Most pension schemes invest part of their assets in government and corporate bonds in order to match the performance of their liabilities over time. The dilemma for trustees is that this often entails reducing investment in growth assets and hence giving up the expectation of higher long-term returns.

The solution

Our Equity-Linked Bond Fund range gives trustees a new option. The funds allow pension schemes to hedge their liabilities while still providing exposure to equity markets. They offer the choice of either conventional or inflation-linked gilts combined with exposure to UK or overseas equities using exchange-traded equity futures.

By offering a choice of four funds, trustees can “mix and match” their investments according to their risk appetite and liability profile. By holding government securities, exchange-traded equity futures and high quality cash instruments, the daily-priced funds also offer high liquidity and low counterparty risk.

- > An approach which provides full equity market participation combined with bond exposure
- > Efficient use of assets: maintain return assets whilst reducing risk
- > Daily dealing through an OEIC structure
- > Security of a UCITS regulated investment

Equity-Linked Bond Funds

Our Equity-Linked Bond Funds can provide exposure to either conventional or inflation-linked gilts, and to UK or overseas equities. The four different pooled funds are:

- BMO UK Equity-Linked Gilt Fund
- BMO Overseas Equity-Linked UK Gilt Fund
- BMO UK Equity-Linked Inflation Fund
- BMO Overseas Equity-Linked UK Inflation Fund

Each fund is a UK registered OEIC and is UCITS compliant. The funds are structured such that 25% is invested in high quality money market instruments and the remaining 75% is invested in either conventional or inflation-linked gilts. In addition, each fund aims to provide 100% exposure to equity markets using equity futures. The margin calls on the equity futures arising as a result of underlying equity market movements are funded from the 25% held in money market instruments.

The equity overlay is achieved by either investing in FTSE 100 futures in the case of the UK equity funds or in a basket of equity futures for the overseas equity funds. The overseas basket was chosen to reflect a well-diversified portfolio with an asset allocation of 33% USA (S&P 500), 33% Europe (Eurostoxx 50), 17% Japan (Topix), 8% Hong Kong (Hang Seng), and 8% Australia (ASX 200) futures.

The government bond portfolios are managed on a passive basis against market standard benchmarks. The nominal gilt funds invest in conventional gilts with a maturity of over 15 years, meaning that the bond profile will reflect the long-dated fixed liabilities of most pension schemes. The inflation funds match an index of inflation-linked gilts of over five years to maturity, which provides similar matching to pension scheme liabilities that are linked to inflation.

The money market portfolio is invested in highly liquid, low-risk instruments. The fund has a maximum weighted-average maturity of 60 days at the portfolio level, and a target maturity of 30 days. Permitted investments are cash deposits, commercial paper, certificates of deposits and short-dated gilts.

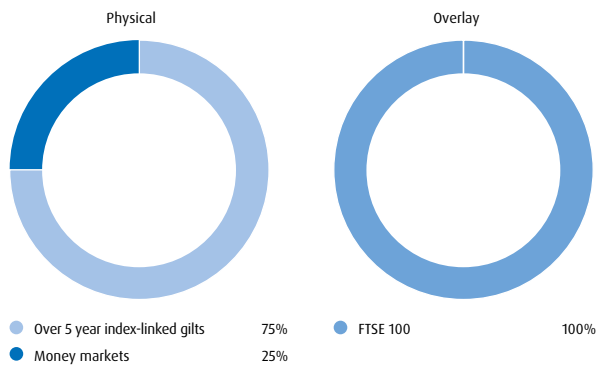
The funds are rebalanced monthly to return the asset allocation to the target weights. For example, if the original investment into the fund was £100m and gilts rose by 10% while equities and cash remained constant, at month end the fund would be worth £107.5m. So the exposure of the equity futures contracts would be increased by £7.5m to £107.5m, and £1.875m of gilts would be sold and invested into the money market fund. Conversely if equities rose 10% while cash and gilts were unchanged, at month-end an extra £2.5m would be invested in the money market fund and an additional £7.5m of gilts would be purchased. The equity exposure would automatically have risen to £110m.

The 25% 'cash' amount has been calculated to provide an adequate buffer such that the fund is not a forced seller of gilts due to a sharp downward movement in equities. In the event of an extreme market event, the fund may be rebalanced intra-month to maintain the target asset allocation.

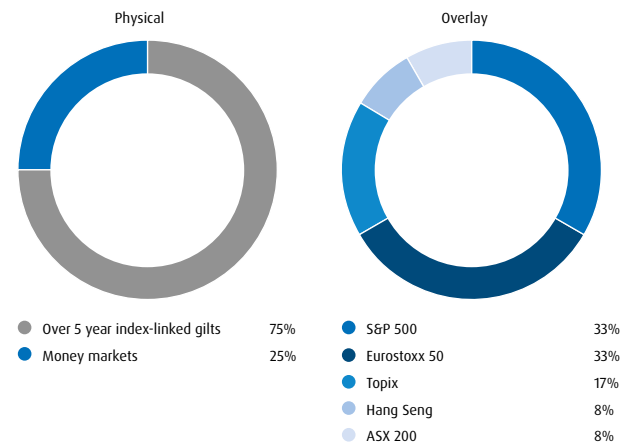
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Physical equity can be replicated by holding gilts, cash and equity futures. The result is a pooled fund solution that provides full equity exposure with the benefit of better liability matching.

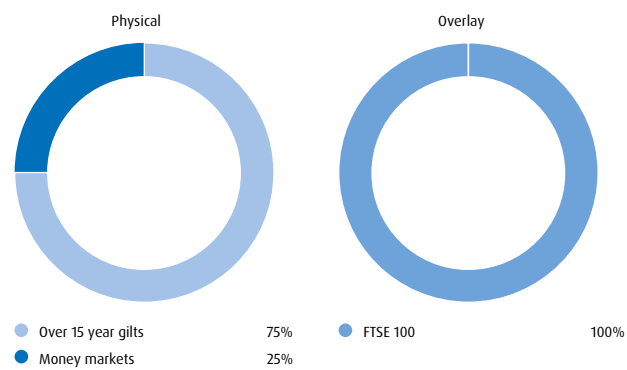
BMO UK Equity-Linked Inflation Fund



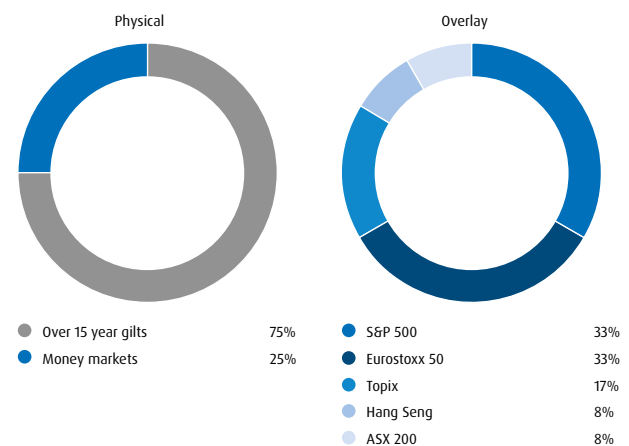
BMO Overseas Equity-Linked UK Inflation Fund



BMO UK Equity-Linked Gilt Fund



BMO Overseas Equity-Linked UK Gilt Fund



Target allocation for illustration purposes only. Source: BMO Global Asset Management

Example:

Current strategy

Liabilities	£100m
Assets	£80m
Funding level	80%
Asset allocation	
Equities	60%
Bonds/Gilts	40%
Bonds duration	10
Overall asset duration	4
Liability duration	20
Asset liability hedge %	20

* Estimated duration. Source: BMO Global Asset Management

Example:

Strategy with Equity-Linked Bond Funds (ELBF)

Liabilities	£100m
Assets	£80m
Funding level	80%
Asset allocation	
Equity-linked bond funds	60%
Bonds/Gilts	40%
Equity-linked bond funds duration*	12
Bonds duration	10
Overall asset duration	11.2
Liability duration	20
Asset liability hedge %	56



Interest rate and inflation risks of liabilities have been significantly reduced whilst keeping the same exposure to equities

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

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

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.

BMO  **Global Asset Management**

Part of



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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.

The information provided in the marketing material does not constitute, and should not be construed as, investment advice or a recommendation to buy, sell or otherwise transact in the Funds.

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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

