

Equity-Linked Dynamic LDI funds

An innovative hedging and growth strategy

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

Our equity-linked Dynamic LDI funds provide a solution to the investment needs of UK defined benefit pension schemes in the form of an equity investment that also hedges liabilities.

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Telephone calls may be recorded.

Key features

- > Capital efficient exposure to liability hedging and global equities in a single pooled vehicle
- > Liability hedging employs our popular Dynamic LDI strategy to target outperformance of liabilities
- > Futures used to deliver the equity exposure, maximising flexibility and minimising costs
- > Designed for efficient transition into other BMO pooled LDI funds as a scheme's funding position improves

Key risks

The value of investments can go down as well as up as a result of market movements and changes in interest rates (and inflation expectations). Investors may get back less than the original amount invested.

Gearing is used for investment purposes to obtain, increase or reduce exposure to an asset, index or investment. The use of gearing can enhance returns to investors in a rising market, but if the market falls the losses may be greater.

The challenge

The majority of pension schemes invest a proportion of their assets in bonds and swaps in order to hedge liability risk. The dilemma for trustees is that this often entails reducing the allocation to growth assets and the scope for higher long-term returns. This challenge becomes particularly acute as the hedge ratio rises.

The solution

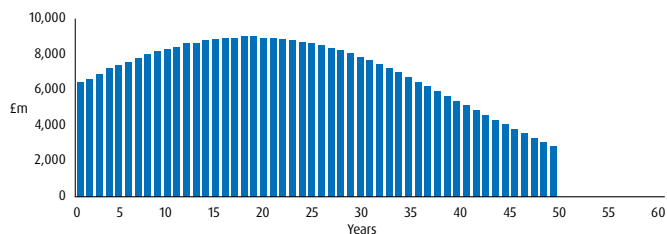
For every £100 invested, these innovative funds provide £100 of passive synthetic global equity exposure and c.£200 of liability hedging. This allows investors to hedge liabilities without foregoing equity returns, which are often an essential part of reducing the funding deficit.

The funds combine our tried and tested Dynamic LDI strategy, with global equity exposure delivered using futures, all within a straightforward and **governance friendly fund wrapper**. The funds form part of BMO Global Asset Management's extensive LDI fund range, which ensures **maximum flexibility for clients**. These funds can be **combined with other funds** in the range to create highly tailored LDI solutions. Additionally, it is **easy and cost efficient to switch** between these and other funds, for example as a scheme de-risks and reduces its equity allocation or to reflect a changing liability profile.

The hedging part – Dynamic LDI

The hedging component of the funds follow our popular flagship Dynamic LDI strategy and provide hedging across the full maturity spectrum. The liability benchmarks have durations of 22 and 18 years respectively for the Real and Nominal funds, which is in line with a typical UK pension scheme. The funds provide two times leveraged exposure to this benchmark and employ the same robust leverage monitoring and rebalancing process that is applied to our wider LDI fund range. The funds’ liability profiles are illustrated to the right.

Cashflow profile



Source: BMO Global Asset Management, for illustrative purposes only

The funds employ our Dynamic LDI strategy to target outperformance of the liability benchmark

Yield enhancement

By biasing the allocation towards the cheapest hedging asset, or combination of assets, at each maturity point, we can construct a portfolio that exhibits a higher yield than a 50:50 blend of gilts and swaps.

Switching between assets

As the relative price of gilts and swaps changes we gradually sell out of the more expensive asset and buy into the cheaper, higher-yielding asset, resulting in a capital gain.

Systematic implementation

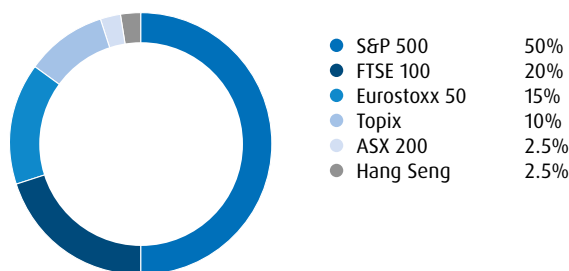
This systematic strategy is not dependent on speculative position-taking to add value in the way that a traditional “active” strategy would be.

The equity exposure part – futures

The equity overlay is achieved by investing in a basket of equity futures to reflect a well-diversified global portfolio. The key features of the equity overlay are as follows:

- > Use of futures ensures maximum liquidity and minimal dealing costs
- > Futures provide a total return i.e. including anticipated dividends
- > Collateral pool shared with LDI allocation for efficiency
- > Currency exposure is hedged back into sterling
- > Regular rebalancing of regional market exposures and overall equity exposure

Target equity exposure



Source: BMO Global Asset Management

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.



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.



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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

