



Press Release

LDI STRATEGIES RETURN OVER 20% IN 2011, SAYS CARDANO

Liability Driven Investment (LDI) strategies that closely match the change in pension fund liability values typically returned over 20% in 2011. This return was far in excess of the average pension fund's return of around 3% (State Street estimate from WM UK Defined Benefit Pension Fund Universe).

Richard Dowell, Head of Clients at Cardano UK, explained: "LDI strategies have proven their worth over the last 12 months, helping pension funds to keep pace with fast-rising liability values. This highlights the importance for pension schemes to seriously consider the amount of liability hedging they are undertaking, particularly given the current economic uncertainty. It also raises the old question of whether most pension funds should continue to run three large bets – on equity markets, interest rates and inflation expectations - rather than having a more diversified and all weather approach. Pension funds increasingly need to put safety first, rather than trying to shoot the lights out."

Keith Guthrie, CIO of Cardano UK said: "For our Solvency Management clients we were pretty fully liability hedged through 2011, and remain fully hedged in 2012. Some of our delegated clients have therefore seen returns of over 25% in 2011. We have also proposed that our advisory clients hedge a significant proportion of their liability risks for some time."

LDI strategies performed very well as the yields on swaps, index-linked gilts and conventional gilts fell dramatically, pushing prices up. Pension funds which had LDI portfolios covering a large part of their liabilities therefore enjoyed very high returns relative to the average fund, as well as lower volatility of their asset vs liability returns.



Press Release

The real yield on all index-linked gilts and swaps, which pension funds use as part of an LDI strategy to hedge inflation-linked pensions, is now below zero. In addition, the yield on most conventional gilts, which are used to hedge fixed pension increases, is below 3%.

-ENDS-

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Notes to Editors

Cardano offers investment advisory, Solvency Management and risk management services. Solvency Management is a comprehensive type of fiduciary management, which involves managing pension fund assets against liabilities in a risk-controlled way. Cardano offers clients specialised, integrated investment and risk services, providing both advice and full implementation. They work with over 35 major European pension funds and insurance

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companies including a number of household names in the UK. They are the European market leader in modeling, implementing and managing tailor-made derivatives overlay strategies.

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