



Press Release

REAL YIELDS ON ALL SWAPS FALL BELOW 0% FOR FIRST TIME EVER

The real yield - or the yield above inflation - on UK swaps fell below 0% p.a. across the whole yield curve on Friday, for the first time ever said Cardano, the leading investment adviser and fiduciary manager.

Ralph Frank, Head of Solutions at Cardano UK, explained: “The yields on interest rate swaps, commonly used by pension funds to hedge the interest rate and inflation risks in their liabilities, have fallen dramatically in the last few months, to around 3.5% p.a. or lower for all swaps. This is mainly due to concerns in the near term about the European debt crisis and stalling global economic growth as well as longer-term deleveraging. At the same time, the banks that sell inflation swaps are holding their pricing at around the 3.5% p.a. level for longer-dated inflation swaps. They appear to be assuming that 3.5% is a key trigger level for pension funds to buy inflation protection. The result is that the real yield – the difference between the interest rate and inflation swap rate – is negative across the whole yield curve.

Interestingly, the yield on index-linked gilts has not fallen to nearly the same extent. This means that index-linked gilt yields currently look very attractive compared to the equivalent swaps, at 0.3 - 0.4% p.a. higher.

Although it may seem like a very bad time to hedge liability risks now, negative real swap yields could be with us for some time. Many pension funds have failed to allow for the likelihood of interest rates remaining very low for many years to come. For our Solvency Management clients we have been practically fully hedged so far this year,



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and remain fully hedged. We have also proposed that our advisory clients hedge a significant proportion of their liability risks for some time.”

-ENDS-

Contacts

Media contacts:

For all media enquiries please contact Kate Boyle or Ellie Bennett using the details below.

Kate Boyle: kate@kateboyle-pr.co.uk 07930 442 883
Ellie Bennett: ellie@kateboyle-pr.co.uk 07968 480 133

Alternatively, contact Kerrin Rosenberg (CEO of Cardano UK), Richard Dowell (Head of Clients), or Phil Page at Cardano, London +44 (0)20 3170 5913

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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,

Cardano – 5th Floor - 55 Gracechurch Street - London EC3V 0JP – United Kingdom
Phone: +44(0)20 3170 5913 - Fax +44(0)20 3170 5911
Email: info@cardano.com - www.cardano.com

Cardano - Beurs World Trade Center - Beursplein 37 - 3011 AA Rotterdam - The Netherlands
P.O. Box 30173 - 3001 DD Rotterdam - The Netherlands
Phone: +31 (0)10 243 4747 - Fax: +31 (0)10 466 0907
Email: info@cardano.com - www.cardano.com



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providing both advice and full implementation. They work with over 35 major European pension funds and insurance 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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