KPMG
cutting through complexity

INVESTMENT ADVISORY

Navigating the UK LDI Market

2015 KPMG LDI Survey

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Executive summary

2014 saw continued exponential growth in the UK Liability Driven Investment (LDI) industry with the number of mandates increasing by over 200 and the total pension scheme liability hedged standing at £0.66 trillion.

LDI is arguably the largest single investment exposure that UK Defined Benefit (DB) pension schemes have today.

This year's growth has come from two primary sources. Firstly, a strong market rally inflated the existing exposure that pension schemes already had. Secondly, there has been a substantial increase in the number of mandates, with 208 new mandates awarded in 2014. This growth theme can be seen most clearly in pooled LDI where there was a 41% increase in the number of mandates over 2014. In particular, for the first time there are more pooled LDI mandates than segregated.

The major development in the pensions market over the year was the announcement of the changes to pension flexibility that have since come into effect in April 2015. As LDI is designed to hedge the expected cashflows of a pension scheme, the additional flexibility could have an impact on the timing and value of these cashflows. As it emerges, member experience will dictate whether LDI strategies need re-tooling in light of the new flexibilities. Furthermore, with the prospect of an increased level of transfer activity (which crystallises the market value of the whole future benefit stream on one day), trustees may place a greater emphasis on hedging interest rate and inflation risks going forward, bringing further demand for LDI.

Another key theme seen over the year, is the lack of new LDI market entrants. Given the instruments used within LDI, it is no coincidence that the successful LDI managers have significant operational, legal, structuring, execution and portfolio management resource and as a result new managers struggle to enter the market. Given these factors, the level of assets under management for an LDI business to break even is a prohibitive barrier to entry.

This year's survey builds upon our previous four KPMG annual surveys, seeking to create a broad-ranging snapshot of the LDI market as it stands today.

We would like to sincerely thank all managers for their participation in the survey and for their continued development and innovation within this exciting and growing asset class.

" "

KPMG has again produced the definitive snapshot of the UK LDI Market

" "

LDI in a wider strategy context – where will it stop?

Simeon Willis, Head of Investment Strategy

10 years ago when the LDI market started to gain a foothold in the UK, the numbers we are talking about today would have been simply staggering. Not least because the liability value now hedged through LDI is substantially greater than the combined value of all gilts in issue at that time.

We often concentrate on the demand side factors for hedging but fail to consider the supply, which can also respond to low yields. The government has publically acknowledged the appeal of issuing long dated debt at low yields, and the gilt market has grown 4 fold in the last 10 years. The pensions industry is increasingly becoming acclimatised to the new normal of low long term yields, continuing to increase hedging despite current market levels. Further, the supply side of bond markets has shown that it can grow in size to meet investor demand at these yields. With the importance of hedging increasing as schemes inevitably reduce their other risks, it is not unthinkable that in the next decade we'll get to a point where the typical scheme is fully hedged.

" "

This year's view on the LDI industry

Barry Jones, Head of LDI

As head of LDI research at KPMG, 2014 was a year that truly made the efforts in shaping our risk management proposition and engaging with clients and fund managers worthwhile. Pension schemes that invested significant amounts of time and effort to understand, structure and implement LDI solutions were rewarded significantly as the "insurance" was called upon. Thankfully, the LDI industry held up against this backdrop, with no noticeable liquidity issues in writing new business and no defaulting counterparties.

The main battleground for new mandates over 2014 was in the pooled space where more than 150 new mandates were awarded. There are now 6 main players fighting for market share and other credible providers bulking out their teams in the hope of breaking into this long term, lucrative market. Whilst similarities can be drawn between the various pooled fund offerings, each provider has their unique selling points that suit different governance structures and wider investment strategies. Where available, there appears to be a strong preference for pooled funds permitting discretion – an approach first brought to market in pooled form by F&C in late 2011. I expect the competition and product evolution in pooled mandates to continue into 2015 and beyond.

Pooled funds dominate the new business success and now there are more pooled mandates than segregated

> The growth reflects both the flexibility and sophistication within pooled fund ranges offered today and the fact that the largest area of hedging was for medium sized pension schemes.

> Of the 208 new mandates in 2014, 151 were in pooled mandates. Despite this growth, pooled mandates make up only 7.3% of the industry as measured by value of liability hedged.

The LDI Market continues its extraordinary growth – with £0.66 trillion of liabilities hedged and more than 1000 mandates

> 2014 witnessed further rapid growth of the LDI industry. The number of LDI mandates increased by 208 to 1,033 and the total liabilities hedged increased by £146bn to £657bn.

> Against a backdrop of record low yields, pension schemes continue to use LDI to de-risk. With triggers in place to extend further for 30% of existing mandates and the majority of managers expecting the largest source of new business to come from pension schemes new to LDI, we expect the industry to grow significantly in 2015 and beyond.

A Non Big 3 manager wins the most pooled mandates over 2014

> Whilst the "Big 3" (LGIM, Insight and BlackRock) remain firmly in place as the dominant providers of LDI in the UK, capturing 85% of the liabilities hedged, a manager outside of this trio, F&C, won the most pooled mandates in 2014.

> We attribute this success to F&C being first to market in 2011 with a discretionary pooled fund range, which have proved popular with investors.

	Total number of mandates		
	2012	2013	2014
LGIM	195	236	288
Insight	119	139	173
F&C	82	104	153
BlackRock	97	110	151
River and Mercantile	76	87	89
Schroders	36	59	79
State Street	25	27	29
PIMCO	9	15	17
Cardano	12	14	14
Standard Life	16	13	12
Aberdeen	n/a	n/a	10
Goldman Sachs	9	8	7
Axa	1	6	5
Aviva	2	2	3
Rogge	n/a	2	2
Ignis	4	3	1
TOTAL	683	825	1033

Note: This table includes figures provided for last year s survey.

Executive summary

Key headline trends

Small schemes remain the least represented

> Despite the strong growth in the number of pooled mandates, pension schemes smaller than £50m remain the least represented in the market both by liabilities hedged and number of mandates. We believe there is significant potential for growth going forward in this area.

Mixed growth in synthetic strategies

Equity growth:

> There has been a significant increase in the number and exposure of synthetic equity mandates over 2014. There was a 25% increase in the number of TRS and Futures based strategies and a 99% increase in the notional exposure to equity options.

Swaptions growth:

> 2014 saw the exposure to Swaptions increase by nearly 50% to £41.3bn, however the number of mandates fell from 25 to 24. With an average mandate exposure of £1.7bn Swaptions remain the privy of large schemes only.

Credit decline:

> The one area of retraction in 2014 was in synthetic credit strategies, where the number of mandates fell from 22 to 14 and notional exposure decreased by 60% to £2.2bn.

Pension schemes have equal demand for hedging inflation and interest rates in 2014

> Over 2014, the increase in liability hedging has been shared equally between inflation and interest rate protection with PV01 and IE01 both increasing by 41% and 38% respectively. This continues the trend from last year.

The fund management industry becomes even more pessimistic about the outlook for bonds

> 78% of institutional managers (across all disciplines) believe that yields will rise by more than is currently priced in over the next 3 years, a year ago the number of managers expecting this scenario stood at 55%.

£657,000,000,000
of liabilities hedged

30%
of mandates use triggers

151
new pooled mandates

1,033
LDI mandates

41%
growth in PV01 hedging

29%
growth in liabilities hedged

85%
'Big 3' count for 85% of market share

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What is LDI?

LDI or 'Liability Driven Investment' has evolved a number of definitions. It captures the ethos of investing with a view to meeting your future liabilities rather than simply delivering a positive investment return. This can be achieved using approaches ranging anywhere between simply increasing duration of a gilt portfolio, to the use of a more sophisticated overlay strategy using instruments such as swaps.

LDI is a key risk management tool given the impact that movements in liabilities have on scheme funding levels and deficits.

For the purposes of this survey KPMG has defined an LDI mandate as one which either has some sort of liability cashflow benchmark, or uses derivatives to gain exposure to nominal interest rate, real interest rate or inflation hedging, primarily for the purpose of liability risk management. Mandates simply with broad bond or gilt index benchmarks have been excluded, as have single stock funds.

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Liability Driven Investment is a vital risk management tool, but can be susceptible to acronyms and jargon

Key terms used in this report

LDI can be a technical topic, so for ease, we briefly define some of the key terms used in this report below.

> **Notional Value** This is the value of liabilities whose interest rate or inflation risk has been hedged.

> **PV01** A measure of the sensitivity of a pension scheme's asset or liability value to changes in interest rates. It is the change in present value of the asset or liability for a 1 basis point (or 0.01%) change in yields. It is commonly used in swap markets as a convenient summary measure of trade size as it captures both notional value and duration in one figure.

> **IE01** A measure of the sensitivity of a pension scheme's asset or liability value to changes in expected inflation. It is the change in present value of the asset or liability for a 1 basis point change in inflation, and is also known as 'Inflation PV01'.

> **Swap** A contract where two parties agree to pay the other a series of cashflows based on an agreed economic variable or interest rate. It is a way of trading different risks, for instance interest rate or inflation risks.

> **Synthetic** Derivative strategies that are designed to replicate the performance of an underlying asset without a physical holding.

KPMG and LDI

KPMG is a leading specialist advising pension schemes and sponsors in relation to asset and liability risk management.

We have been at the forefront of helping clients understand the benefits that an LDI approach can bring, and helping our clients to understand and implement the approach that is most suitable for them. Our annual LDI Survey is just one example of KPMG's commitment to investing in research to inform and underpin our specialist advice.

Further Development of our Tools

It is clear from the survey that LDI is one of the primary tools in setting a risk-controlled investment strategy.

We have evolved Fusion, our online asset and liability management tool, to incorporate a live journey planning module which assists in developing strategies.

Once the journey plan is formalised, the daily updates allow progress against this journey to be assessed, and surpluses and losses analysed and attributed, truly bringing risk management to life.

Visit KPMG Fusion
www.kpmgfusion.co.uk
for more information

KPMG Fusion
Best New Technology Solution of the Year
Engaged Investor Trustee Awards 2014

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Fantastic! A truly 21st Century tool, providing valuable insight in real time

Pensions manager for a FTSE 100 company

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Budget flexibilities impacting LDI Strategies

With the changes to pension flexibility announced in the 2014 Budget there is a risk that LDI solutions may need to be re-tooled to reflect how and when members actually take their DB benefits i.e. member choices will have an even greater impact on the risk of the pension scheme. With greater flexibility at retirement comes greater responsibility for trustees to support members in helping them make informed decisions.

At KPMG Pensions our proposition is to assist trustees to create holistic risk solutions (incorporating investment, journey planning, de-risking etc.). We have developed KPMG Pilot, an interactive tool to help members decide how and when they take all of their accumulated DB and DC benefits. KPMG Pilot provides education and support through a user-friendly portal. It then provides trustees with helpful management information on their members choices and behaviour to inform trustee decision making.

Visit KPMG Pilot
www.kpmg.com/uk/pilot
for more information

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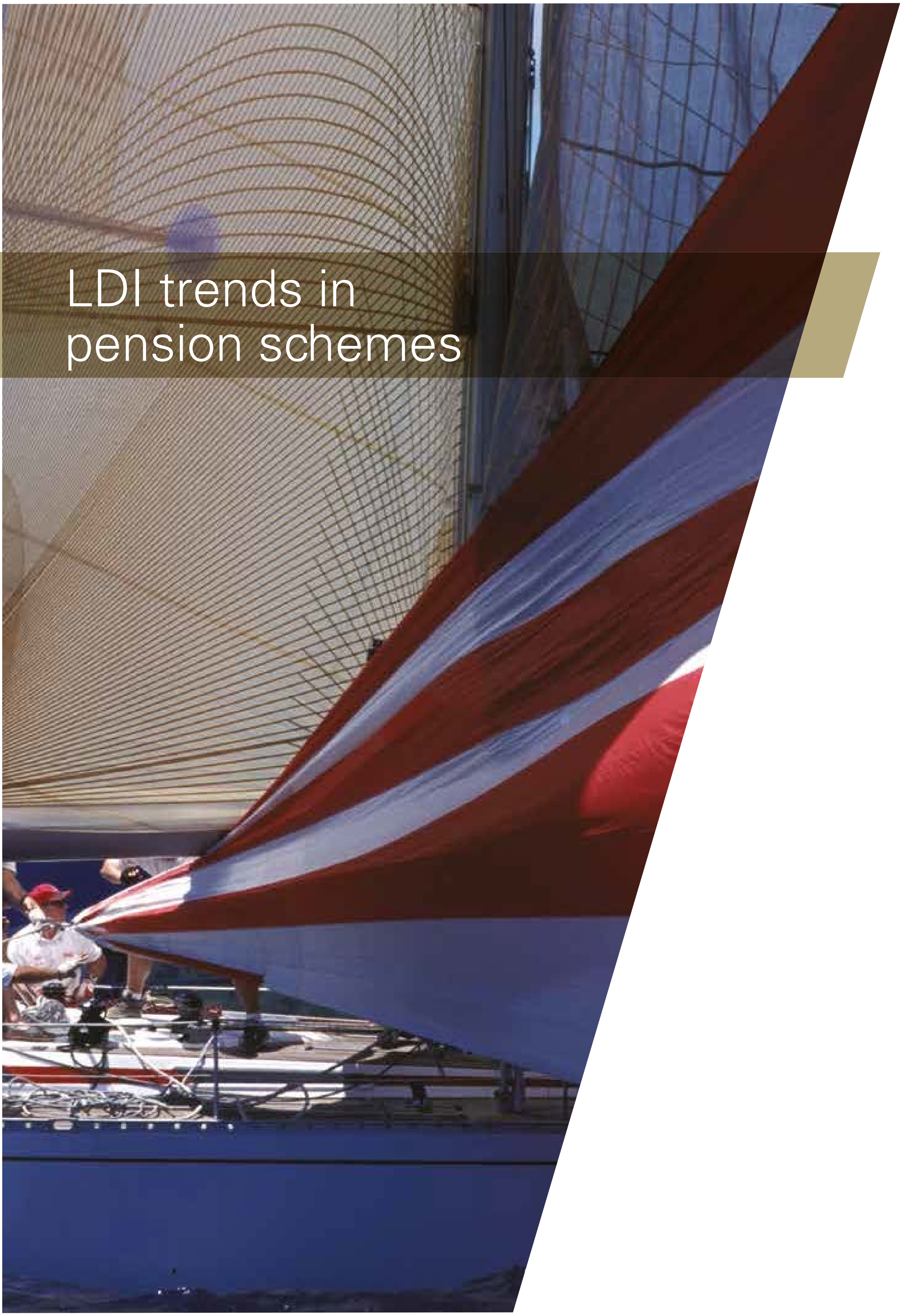
It’s very intuitive and looks easy to use, I really like it.

Pensions manager of UK DB and DC scheme with > 20,000 members



LDI trends in pension schemes

Growth

Over 2014 the total notional value of liabilities hedged by LDI strategies has continued to increase from £510bn to £657bn – an increase of 29%.

Using the level of hedging in place at the end of 2013 and the known market movements, we expect that the £147bn growth can be broadly attributed:

> c. £32bn from new mandates (of which there were 208 new LDI mandates) and extensions of existing mandates

> c. £115bn from market movements (yields falling).

This suggests that there were few new "mega-sized" mandates implemented over 2014. We note that the largest mandate (which is segregated) hedges circa £25bn of liability, this is the same as last year.

The numbers of new mandates

The largest area of growth in the LDI market has been in pooled space, where 151 new mandates were implemented. There were 208 new LDI mandates in total.

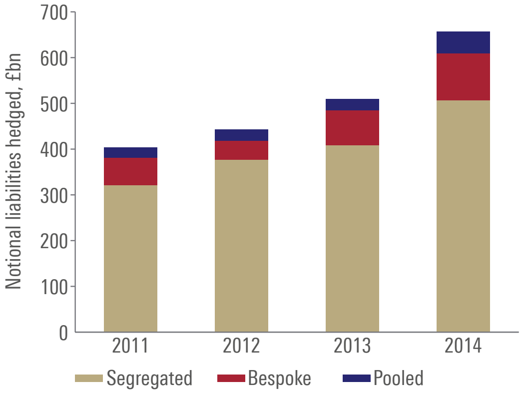
Pooled vs Segregated

As a result of substantial growth in pooled LDI mandates, the number of pooled mandates is now greater than segregated mandates with 523 and 417 respectively. This highlights the recent trend in increasing pension scheme demand for simple and low governance solutions to provide hedging, as well as more small/medium sized schemes.

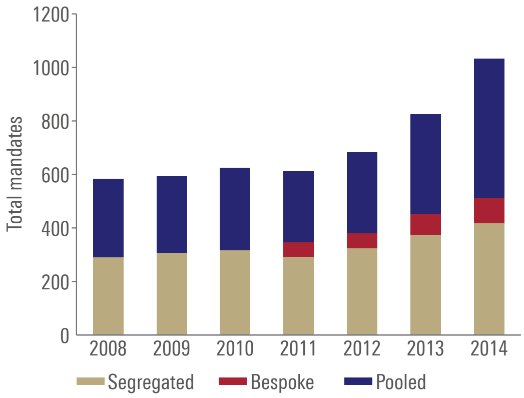
Inflation vs interest rate hedging

Over 2014 the level of PV01 coverage increased from £826m to £1,164m (a 41% increase) and the IE01 coverage has increased from £586m to £807m (a 38% increase). This continues the trend from last year of pension schemes hedging interest rate and inflation risks at the same rate and not accelerating the rate of hedging in favour of either element in isolation.

Notional amount of liabilities hedged for UK pension schemes split by type of mandate

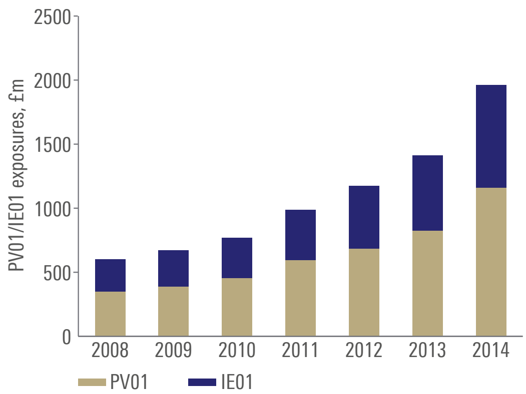


Total number of mandates under management



Note: Bespoke pooled data captured within pooled and segregated prior to 2011

Total LDI hedging by UK Pension Schemes - as measured by PV01 and IE01



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Triggers

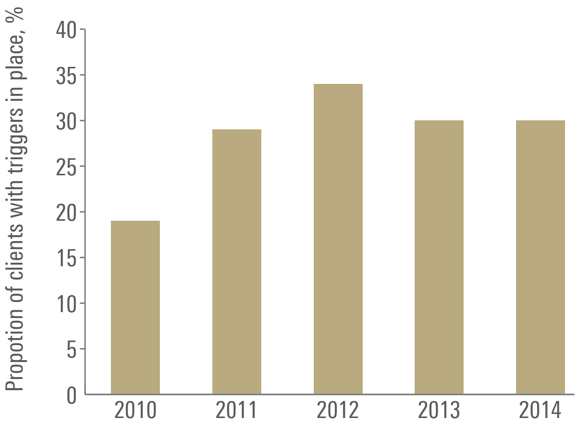
The overall number of mandates with triggers in place to extend the LDI coverage has remained constant at 30% of mandates. However there has been a slight change in the types of triggers in place where the proportion of mandates with time based extensions has increased from 3% to 12%.

From a base of 19% at the end of 2010, the proportion of mandates with triggers attached to them has stabilised at around the 30% mark. (Please note our statistic is likely to underestimate the true level as some managers have indicated use of triggers in general but without specific client numbers. In these instances we have assumed no triggers are in use.)

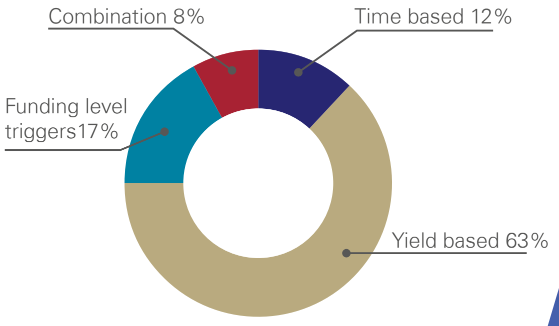
With yields falling sharply over 2014, yield based trigger strategies are unlikely to have delivered the protection desired.

Yield level triggers remain the most popular type of trigger strategy; however we have seen an increased popularity in time based extensions.

Proportion of clients with triggers in place



Mandates with triggers split by type of trigger, 2014



Which benchmark?

A key decision for pension schemes using LDI is what benchmark to use. Of the mandates surveyed, as at the end of 2014, around 38% were using a gilts based benchmark with 45% using swaps. The remaining 17% used a combination, sometimes referred to as 'best of both' approach. As would be expected, we have witnessed little change in these proportions since last year.

Discretionary or Execution-only?

Segregated and pooled LDI experienced diverging trends in the management basis of mandates over 2014.

In segregated LDI there has been little change in approach since last year. In pooled mandates there has been a significant swing from execution only/ semi passive mandates to the use of discretionary funds. Managers with pooled discretionary capabilities saw 88% of all the new mandates directed into these arrangements

	Segregated and bespoke			Pooled		
	2013	**2014**	**Growth**	**2013**	**2014**	**Growth**
Discretion	160	165	3%	84	151	+80%
Semi-passive	74	72	-3%	18	15	-17%
Execution only	49	42	-14%	112	154	+38%

Please note not all of the managers were able to provide the data on management bases for their mandates.

LDI trends in fund management

Background

- As we have seen previously in our past surveys, there continues to be a large concentration within the industry amongst the largest providers. However, we have seen that competition and innovation has meant that this concentration has reduced slightly, especially within pooled funds.
- We note that due to refinements in definitions within the questionnaire and reporting methodology for the asset managers, certain figures reported in previous surveys may differ in this survey.

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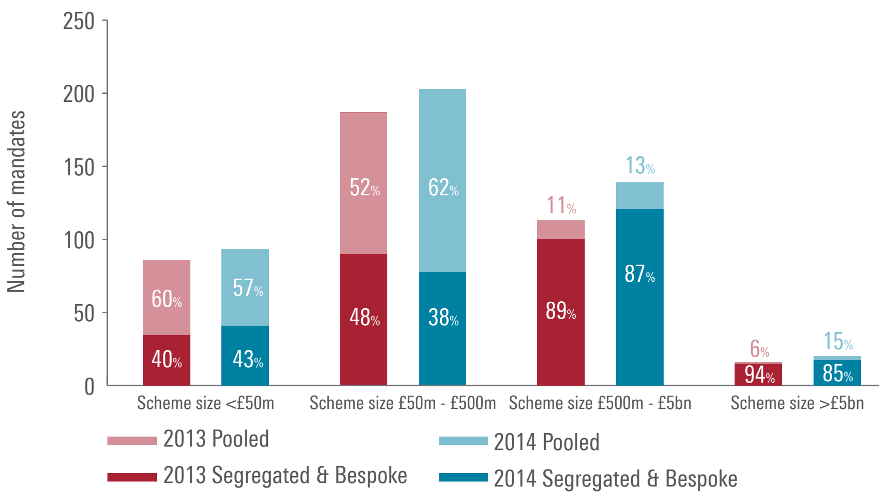
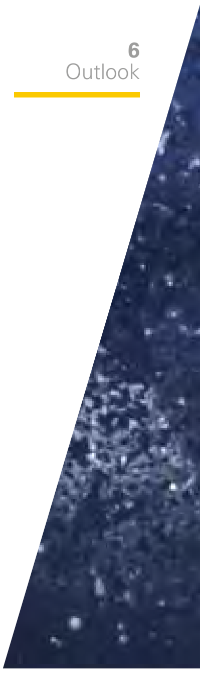
Number of mandates split by pension scheme size

- Following the addition to last year's survey analysing the breakdown of mandates by scheme size, we continue this analysis and now show how this is developing since last year. We note that two of "The Big 3" LDI managers cannot split their mandates out by size and therefore the information provided does not perfectly reflect the industry.
- Pension schemes within the £50m-£500m and the £500m–£5bn size range saw the biggest uptake of LDI over 2014.
- There were few new mandates in the <£50m category. We find this surprising as the minimum investment size into most pooled LDI ranges is not overly restrictive and from a risk perspective there is nothing immediately obvious as to why investment strategy decision making differs for smaller pension schemes. There is clearly an opportunity within this space for future growth with the right proposition (i.e. the education, advice and investment solution). We believe that it is the first two elements that need to be addressed.
- We have noted earlier in the report that pooled mandates have taken the lion's share of new mandates over 2014, this is most evident in the £50m-£500m space, where the proportion of pooled mandates has increased from 52% to 62%.

Number of mandates managed on behalf of pension schemes



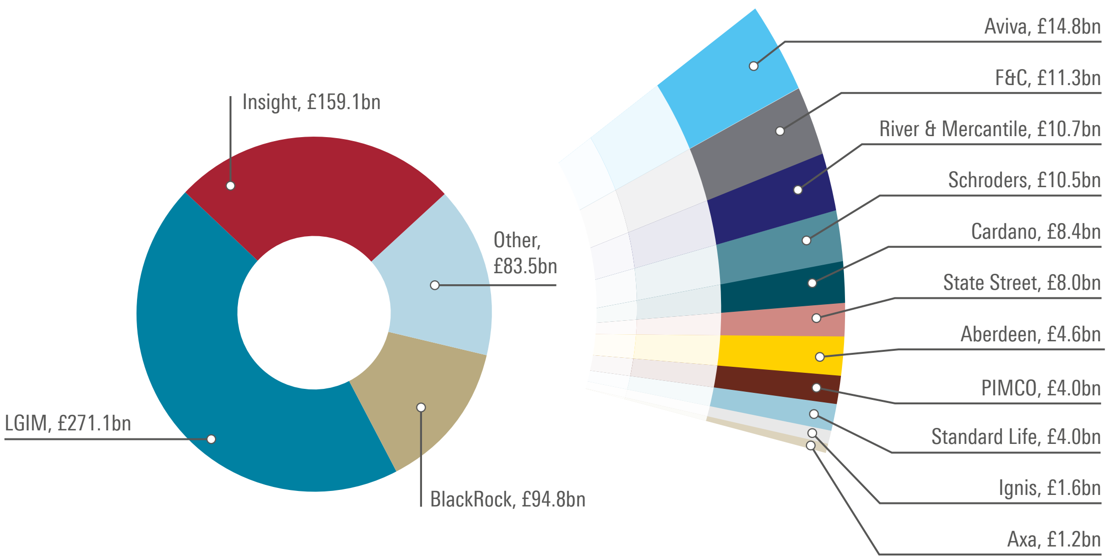


Segregated LDI

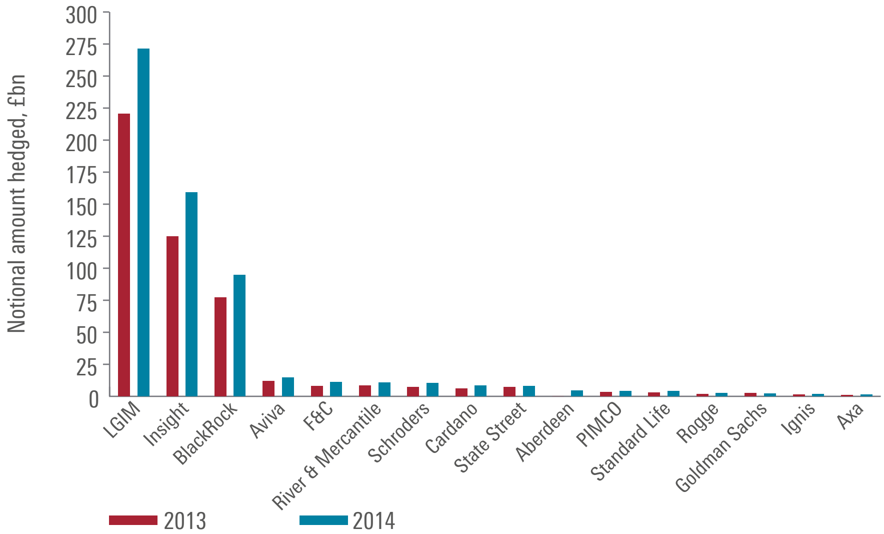
Key headlines

- The market share of the segregated and bespoke pooled fund market is illustrated below. We have used the amount of hedged notional liabilities as a measure of this.
- The segregated mandate market share remains concentrated, with the three largest providers accounting for 86% of the market using this measure.
- The number of segregated and bespoke mandates rose by 13% over 2014 from 453 to 510.
- As can be seen, other measures produce similar conclusions in terms of market growth and market share.
  - Total PV01 for segregated and bespoke mandates in 2014 was £1,067m; rising by 38% from £775m in 2013.
  - Total IE01 for segregated and bespoke mandates in 2014 was £738m which rose 34% from £552m in 2013.
- The smallest segregated mandate was £1m and the largest was c.£25bn, which demonstrates the wide range of mandates segregated LDI managers are able to accommodate, despite the pooled approach being favoured by small and medium sized schemes.

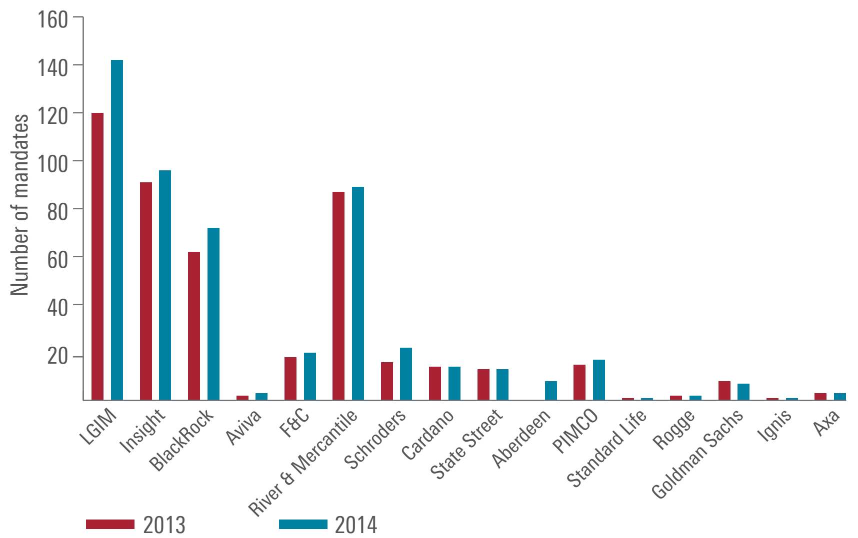
Notional amount hedged in segregated and bespoke mandates



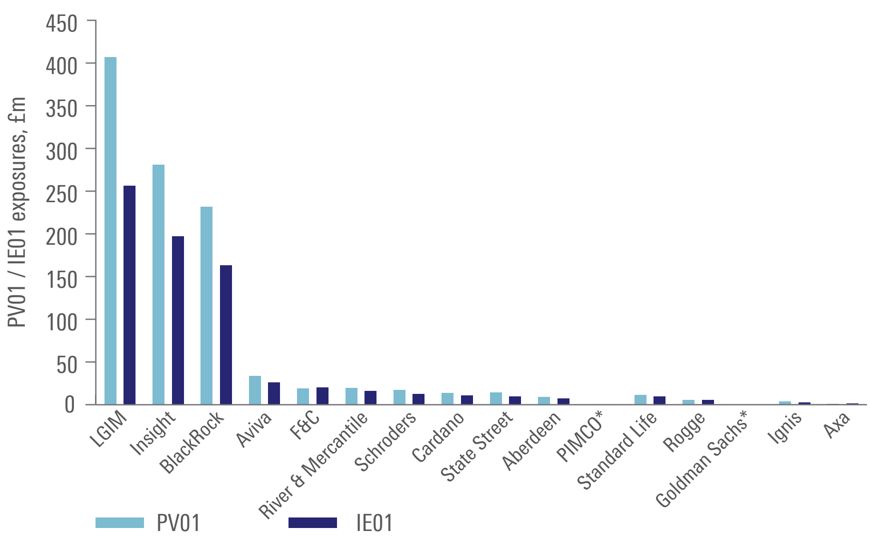
Notional amount hedged in segregated and bespoke mandates



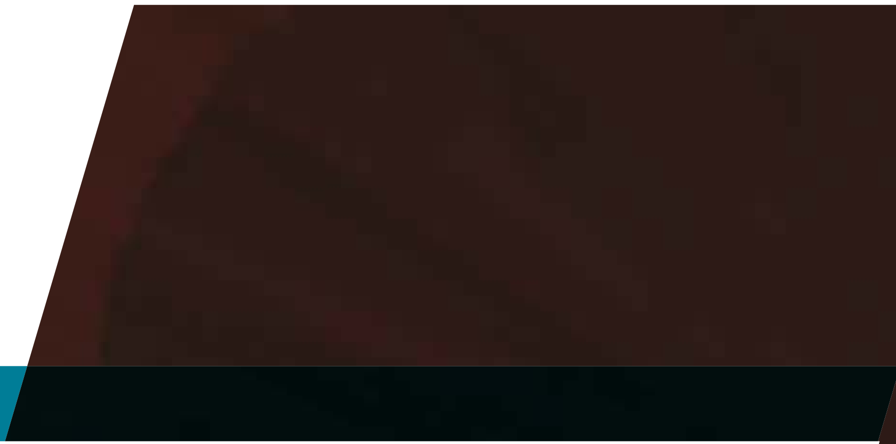
Number of segregated and bespoke mandates



PV01 and IE01 exposures across segregated and bespoke mandates



* Data not provided



Bespoke Pooled LDI

We have defined Bespoke Pooled arrangements as client-specific segregated mandates that are contained within a pooled fund structure. These can provide ease of access for schemes without lengthy legal setup and counterparty negotiation. Within the segregated data we have captured bespoke pooled mandates given the scheme-specific nature of the mandates and comparable skill sets required by fund managers. For completeness, we have carved out the managers that offer these structures and the number and size of the client mandates.

The table shows the significant growth in bespoke pooled mandates over 2014, with 14 new mandates and an increase of 34% liabilities hedged. Given the growth in LDI mandates in the £50m-£500m and the £500m-£5bn range it is no surprise to see this level of increase in the bespoke pooled segment of the market. We believe that significant further growth is possible from here, either from pension schemes new to LDI that are not quite large enough to justify a full segregated mandate or from existing pooled LDI clients flipping their arrangements over into bespoke pooled to access the greater flexibility within their LDI solution.

Manager	2013 Mandates	2013 LUM	2014 Mandates	2014 LUM
LGIM	34	£36.6bn	40	£51.2bn
Insight	17	£20.0bn	21	£25.8bn
BlackRock	18	£14.8bn	19	£19.4bn
F&C	6	£3.3bn	9	£4.4bn
State Street	1	£1.3bn	1	£1.2bn
Axa	2	£0.4bn	2	£0.5bn
PIMCO	1	£0.1bn	1	£0.2bn
Total	**79**	**£76.5bn**	**93**	**£102.6bn**

Pooled LDI

Key headlines

> In percentage terms, it is pooled LDI that has seen the largest growth and greatest change in user behaviour over 2014. Whilst we expect that segregated LDI will always dominate the total liability hedged tables and therefore grab the majority of headlines, pooled LDI is the most competitive and fastest evolving area of the industry at this time.

> Total liability hedged using pooled LDI increased by 85% over 2014 from £26bn to £48bn.

> The number of pooled mandates rose strongly over 2014 from 372 to 523, an increase of 41%.

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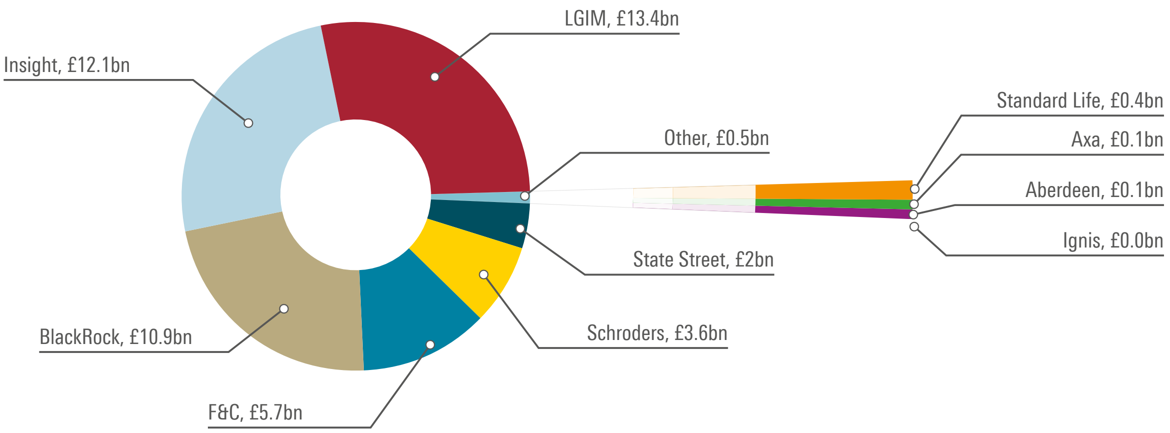
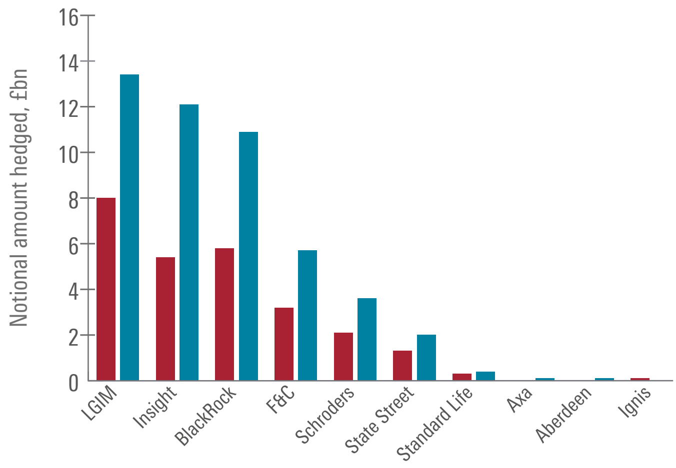
- Using the level of hedging in place at the end of 2013 and the known market movements, we expect that the £22bn growth can be broadly attributed to:
  - c. £16bn from the 151 new mandates
  - c. £6bn from market movements (yields falling).
- 94% of the pooled mandates are shared reasonably evenly between 6 providers; the "Big 3" plus F&C, Schroders and State Street. However, by liabilities hedged the market share remains concentrated in the "The Big 3", who account for 75% of the market.
- As illustrated, other measures produce similar conclusions in terms of market growth and market share.
- Total PV01 for pooled mandates in 2014 was £96.4m up by 106% from £46.8m in 2013.
- Total IE01 for pooled mandates in 2014 increased 116% to £68.6m from £31.7m in 2013.
- The smallest pooled mandate was £1m and the largest was £1.1bn. This highlights considerable overlap with use of segregated accounts, demonstrating the sophistication of the pooled funds to accommodate larger mandates even where segregated is a viable alternative.

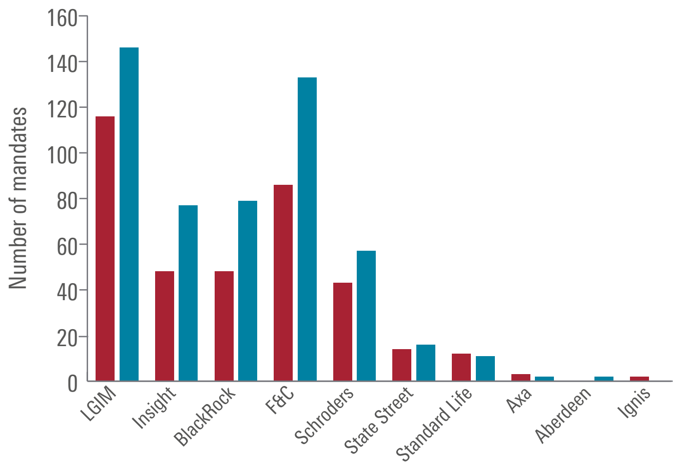
Notional amount hedged in pooled mandates



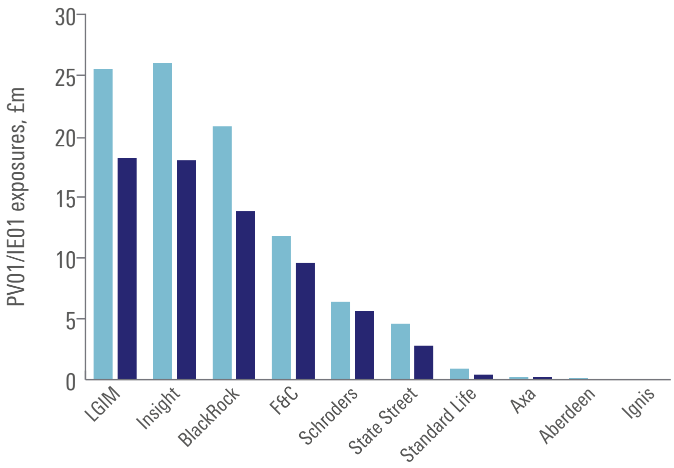
Notional amount hedged in pooled mandates



Number of pooled mandates



PV01 and IE01 for pooled mandates



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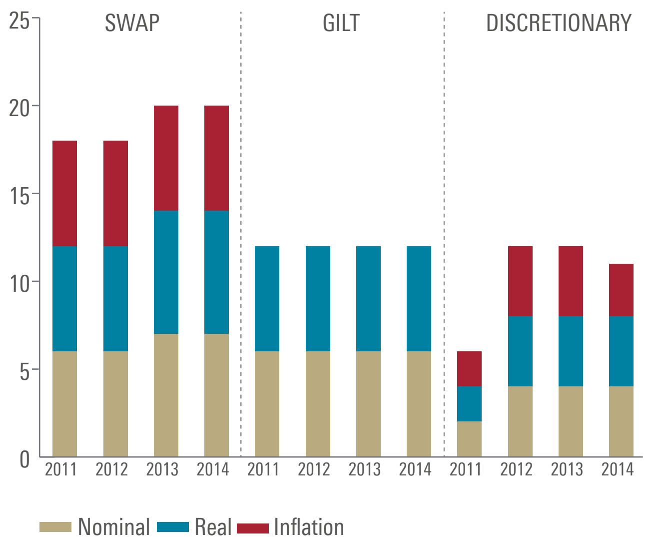
Range of pooled funds

- Despite the apparent plateau of new products this year, we have seen more recent evidence in 2015 that there is continuing demand for more sophisticated discretionary approaches and this is being met through extension of pooled fund ranges.
- One discretionary inflation fund has closed over 2014.
- Please note that the chart below only includes funds that are currently running. This means that funds which were launched, for example in 2007, and have since closed are not included.

Types and number of pooled funds (that are still running)



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Nearly all new mandates awarded were into discretionary LDI ranges, where the successful manager offers them.

Pension schemes are increasingly turning toward derivatives in order to gain access to growth exposures, such as equities and credit, all the while maintaining a sufficient amount of liquidity. These are known as synthetic approaches.

Synthetic Return Generating Strategies

> 2014 has seen a sharp increase in the use of synthetic equity strategies but a marked fall in the use of credit overlays.

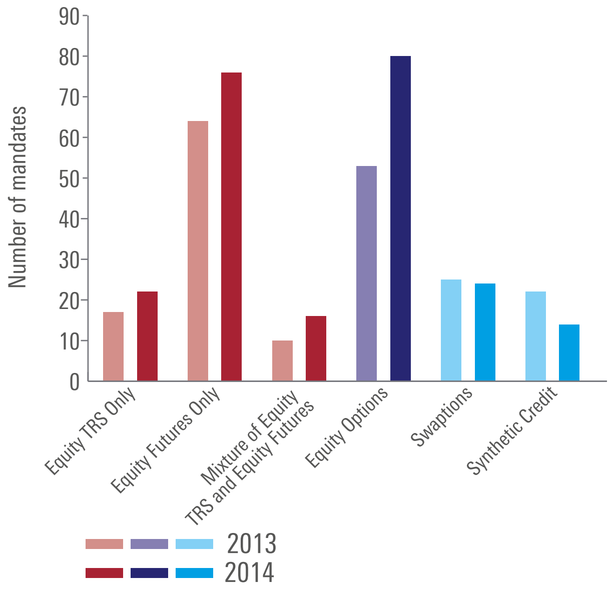
We have again surveyed managers on their use of return seeking derivatives to gauge the trends in this area.

> The largest growth has been seen in equity options where the number of mandates has increased from 53 to 80 and the notional exposure has nearly doubled in size from £20.4bn to £40.5bn. We suspect that this is mainly for risk management purposes following the strong equity market rally since the depths of the 2007 / 2008 Financial Crisis.

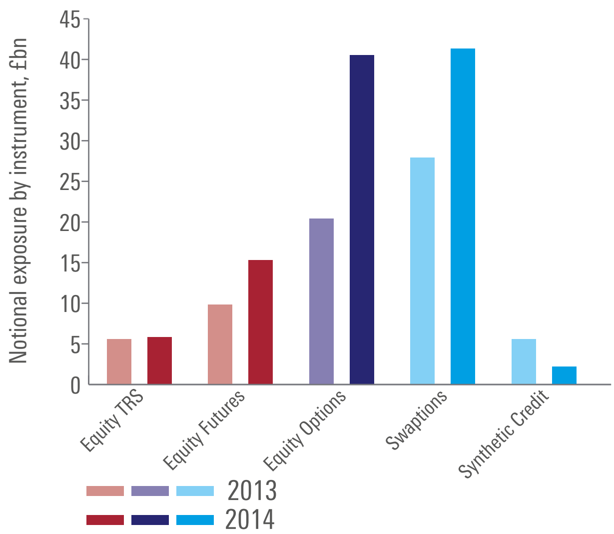
> Equity exposure via either TRS or Futures also grew from £15.5bn to £21.0bn, driven by market movements and a growth in mandates from 91 to 114.

> Despite a fall in number of mandates from 25 to 24, there was a significant rise in Swaption coverage, rising by nearly 50% from £27.9bn to £41.3bn. With an average mandate exposure of £1.7bn, we conclude that Swaptions remain the domain of the larger schemes.

Number of derivative strategy mandates



Notional exposure by instrument



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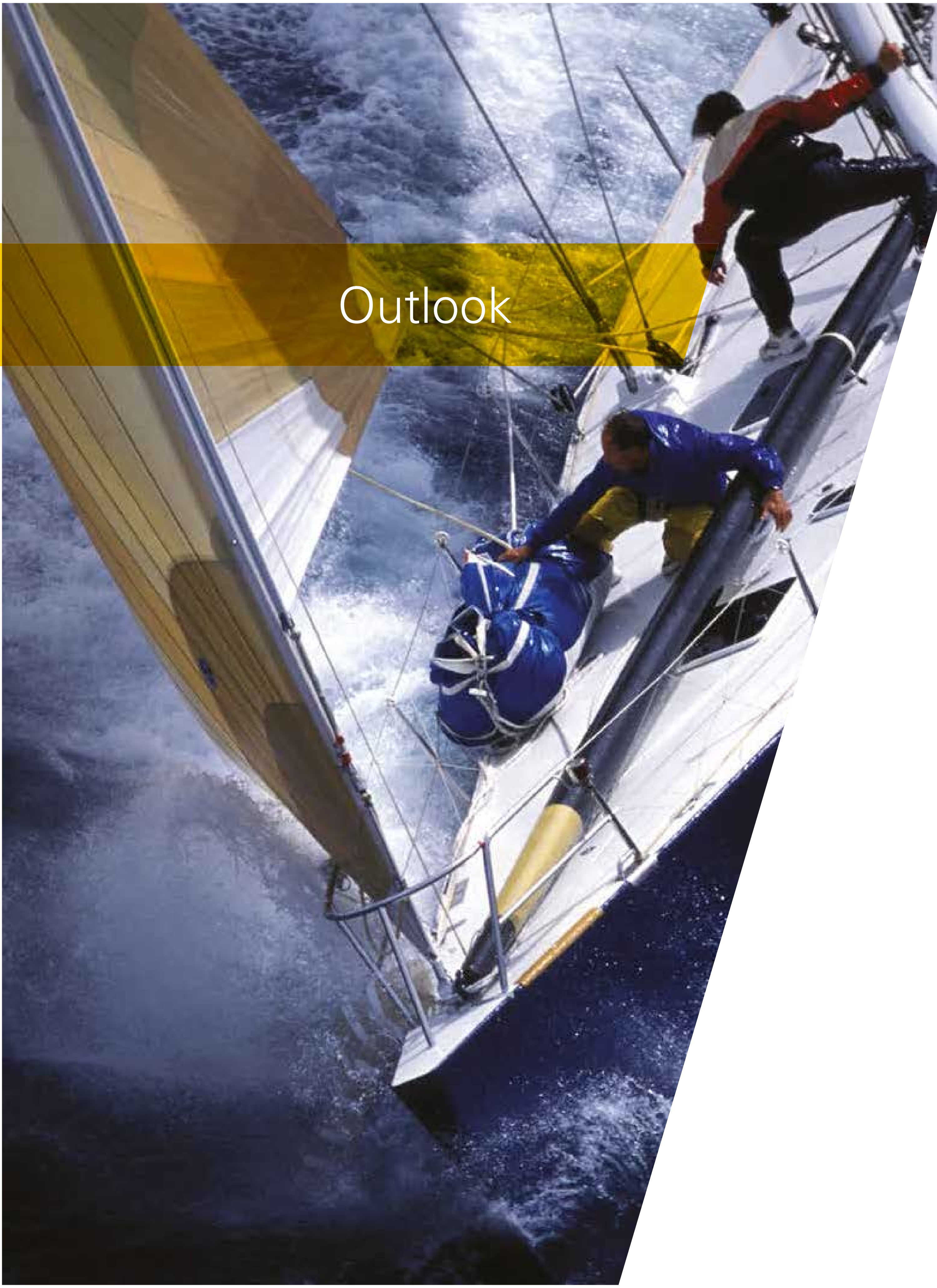

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Sources of growth in the LDI industry

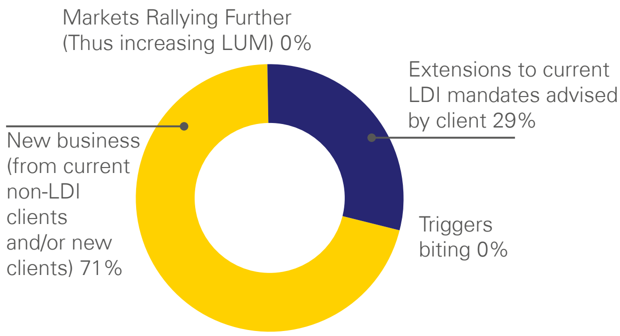
We have gauged the LDI fund managers’ expectations around the source of new LDI business.

We asked the managers:

“What is the most likely source of growth in 2015 for your LDI business?”

- The majority of managers still expect growth to come from new business. However the proportion expecting the majority of growth to come from extensions to existing mandate has grown from 7% to 29% over 2014. Maybe this is a reflection that with over 1,000 UK pension schemes using LDI, the potential for further growth in the number of mandates is diminishing.
- It is worth noting that no managers thought the main source of growth would be from market level triggers being reached or the bond markets rallying further.
- Last year new business was expected, but yield change was the key driver of growth.

Most likely source of LDI 'risk under management' growth in 2015 for your business?



We asked the managers:

“Where do you think most new business will come from for your LDI business?”

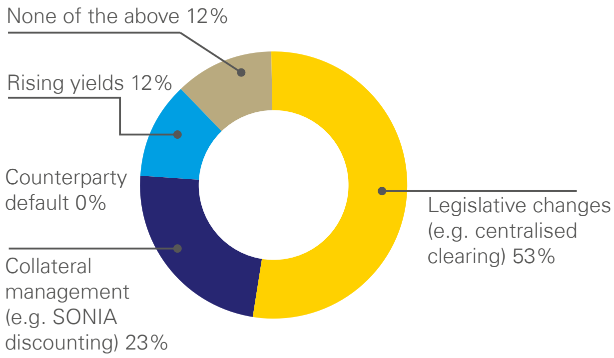
- Only 6% of managers believe that the majority of their new business will come from taking existing LDI mandates from other LDI providers.
- These views are consistent as LDI mandates tend to be maintained with very few mandates being rotated amongst LDI providers.
- The remaining 94% are split around 50:50 on whether the LDI mandate comes from a new client to the firm or from a pension scheme with an existing non-LDI relationship.

We asked the managers:

"What is the most important issue for the LDI industry in 2015?"

- With greater visibility / clarity on the new regulatory regime it is no surprise that the number of managers believing legislative changes to be the most important issue for 2015 has fallen from 73% of respondents to 53%. However, it remains the area that managers believe is the most important for the industry.
- The area that has seen the greatest rise in expected importance is Collateral Management which has increased from 7% to 23% of respondents.
- Despite the continued nervousness around the financial system in Europe, no managers believe that counterparty default will be the most important issue for LDI industry in 2015

Most important issue for the LDI industry in 2015?



We asked in addition

"How prepared are you for central clearing?".

- 73% said they were ready to switch immediately if required, with the remainder expecting to be ready in time for the anticipated regulatory change. This number has increased slightly from 70% of respondents being prepared for the switch to centralised clearing last year.

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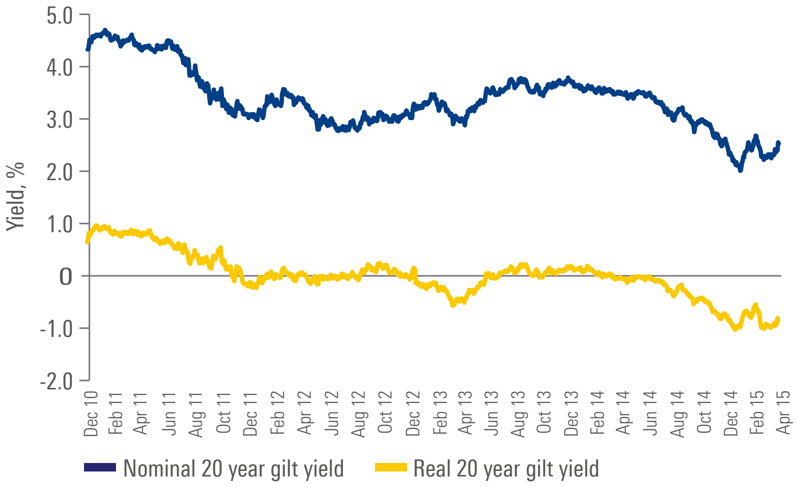
BOND MARKET VIEWS

Due to the magnitude of the impact on funding levels, having a clear policy on how tactical views influence long term strategy is critical.

We asked all investment managers what they thought about gilt yields and inflation. We summarise the results below, which includes the responses from a total of 20 fund management houses. The chart on the right illustrates historical 20 year fixed interest gilt and index-linked gilt yields.

Nominal and Real 20 year gilt yields



Source: Bank of England

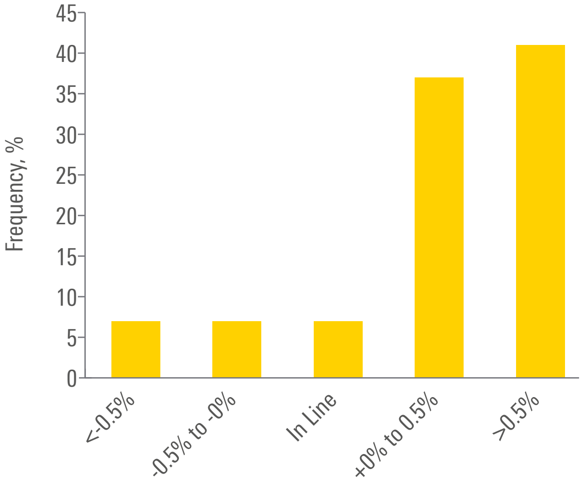
NOMINAL GILT YIELDS

We asked the investment managers:

"Where do you expect the 20 year fixed gilt nominal yield will be in three years time relative to what the market is implying?".

78% of institutional managers believe that rates will **rise by more** than is currently priced into the market over the next 3 years. Furthermore, 41% believe that the move will be more than 0.5% (i.e. a more than c.10% sell off in gilt prices). Looking at what was expected last year, it appears that managers' underlying yield expectations have not changed significantly rather the movement to the right of the chart is consistent with yields having fallen by more than 1% over 2014.

Relative to what is implied by the market, where do you think the 20 year fixed gilt nominal yield will be in three years time?



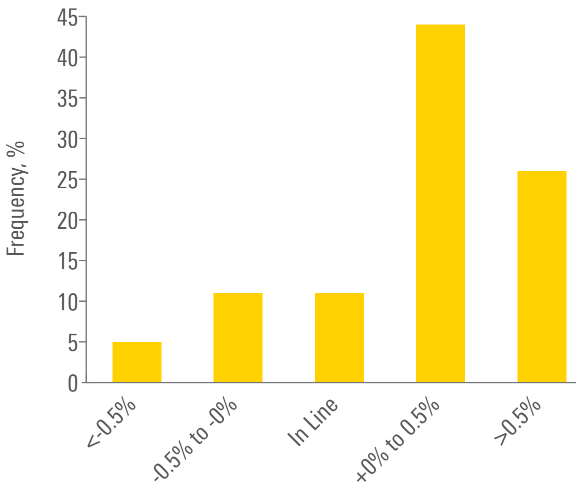
REAL GILT YIELDS

We asked the investment managers:

"Where do you expect the 20 year index-linked gilt real yield will be in three years time relative to what the market is implying?"

The majority of managers (70%) believe the 20 year real yield will be higher than what the market is currently implying.

Relative to what is implied by the market, where do you think the 20 year index-linked gilt real yield will be in three years time?



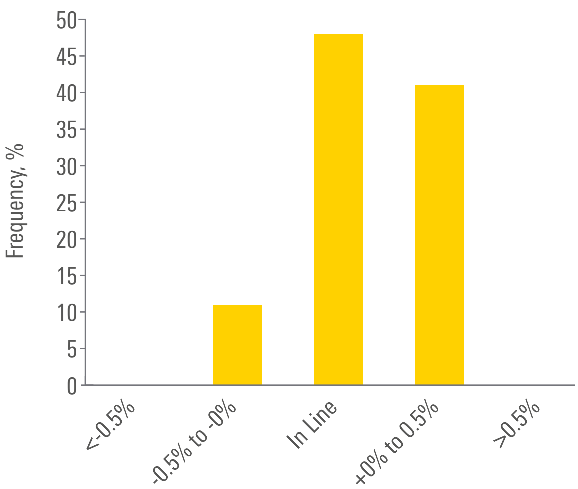
IMPLIED INFLATION

We asked the investment managers:

"Where do you expect the 20 year gilt implied inflation will be in three years time relative to what the market is implying?"

Interestingly, with central banks in the developed world, particularly Europe, struggling to stimulate inflation to target levels, the majority of respondents believe that inflation will be in line or above what is currently implied by the market, with only 11% expecting a fall in break-even inflation over the next 3 years. This year's figures are very similar to last year's expectations despite the fall in inflationary pressures.

Relative to what is implied by the market, where do you think 20 year gilt implied inflation will be in three years time?



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KPMG contacts in respect of this survey

Simeon Willis, CFA
T: +44 (0)20 7694 4408
E: simeon.willis@kpmg.co.uk

Barry Jones, FIA
T: +44 (0)161 246 4278
E: barry.jones@kpmg.co.uk

Your regional KPMG Investment Advisory contacts

London
Patrick McCoy
T: +44 (0) 207 311 2393
E: patrick.mccoy@kpmg.co.uk

Birmingham
Greg Wright
T: +44 (0) 118 964 2276
E: greg.wright@kpmg.co.uk

Manchester
Barry Jones
T: +44 (0) 161 246 4278
E: barry.jones@kpmg.co.uk

Reading
Lara Edmonstone-West
T: +44 (0) 0118 964 2013
E: lara.edmonstone-west@kpmg.co.uk

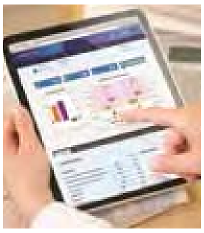
Leeds
Nick Evans
T: +44 (0) 113 231 3341
E: nick.evans@kpmg.co.uk

Glasgow
David O'Hara
T: +44 (0) 141 300 5533
E: david.ohara@kpmg.co.uk

Editor: Simeon Willis
Authors: Barry Jones
Data-Analyst: Alex Owen

Last year's survey

Visit KPMG Fusion



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