

# Liability Matching Solutions

The investment strategies pursued by Irish pension schemes are changing. During the past decade schemes have moved away from peer group comparisons to benchmarks based on market indices. Over the last number of years we have begun to see a shift towards liability matching investment solutions that have at their core a transparent linkage between pension scheme assets and its liabilities.

Irish Life Investment Managers (ILIM) has been at the forefront of liability matching solutions development and innovation in Ireland. In 2006, ILIM leveraged its existing expertise to formally establish an experienced Financial Engineering Team providing, at no additional cost, client specific liability matching solutions and bespoke asset/liability modelling services. During the last number of years this Team has designed and implemented liability driven investment strategies for a significant number of Ireland's large pension schemes.

Irish Life Investment Managers believe that there are certain characteristics that should be displayed by any liability matching solution. Briefly these are:

- Simplicity:** The solution should be understandable to all stakeholders in the defined benefit scheme.
- Security:** As the objective is to hedge the ongoing valuation of the scheme liabilities from changes in inflation and interest rates over the remaining life of the scheme, the security of the underlying investments held within the strategy should be a key consideration.
- Flexibility:** The solution should be flexible to facilitate changes that clients may wish to make through time.
- Efficiency:** The costs of implementation should be kept to a minimum and should not act as a barrier to the solution.
- Experience:** The solutions providers should have the extensive experience in tailoring liability matching solutions for the defined benefit pension schemes.
- Choice:** Any solution should provide access to investments that give an appropriate hedge for liabilities spanning both the real and nominal curves and these solutions should be available to clients of all sizes.

As well as being ILIM's largest bond manager, ILIM's understanding of client issues in the provision of liability matching solutions is based upon our experience over decades in managing the underlying liabilities of the Irish Life Assurance annuity book. ILIM currently manages c. €9bn\* in fixed interest assets and over €2bn\* of this consists of liability matching solutions varying from medium, long and ultra-long duration nominal and real solutions for defined benefit schemes. (\*at 30.04.2010)

## Bond Funds

ILIM's Financial Engineering Team has built a suite of unit-linked nominal and inflation linked Funds spanning both the real & nominal curves using physical bonds and made these Funds available to investors of all sizes.

Nominal Bond Funds	Inflation Linked Bond Funds
Indexed 1-5 Year Bond Fund Indexed >5 Year Bond Fund Indexed >10 Year Bond Fund 2016 Nominal Bucket Fund 2021 Nominal Bucket Fund 2026 Nominal Bucket Fund 2031 Nominal Bucket Fund 2036 Nominal Bucket Fund 2055 Nominal Bucket Fund	Indexed Inflation Linked Bond Fund Long Inflation Linked Bond Fund 2040 Inflation Linked Bond Fund
	<b>Quasi Government Bond Funds</b> EIB Jan 2047 Fund EIB Jan 2057 Fund



# Liability Matching Solutions

Irish Life Investment Managers (ILIM) understands that there are a number of the key drivers for many employer sponsors embracing a Liability Matching Solution:-

Volatility and Size of Long Term Contribution Rate (*Economic hedge*)

Volatility of Funding Standard cash demands (*MFS hedge*)

Volatility of deficits relative to Sponsor Balance Sheet (*IAS 19*)

Employer sponsors and trustees are looking for assets that will match movements in their schemes liability profile from a variety of perspectives. Finding these assets at shorter durations (say out to c.17 years or so) is easily achievable in government bond markets but finding a matching asset for ultra-long liabilities of up to 50 years requires a different solution. ILIM combines the use of existing unitised pooled funds allied to a series of bespoke “bond buckets” with long duration to provide an appropriate tailored solution for our clients.

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## ILIM Liability Matching Solution

- **Risk Modelling** - ILIM offers a complete range of risk/return modelling capabilities for developing liability matching portfolios ensuring the following key considerations occur:-
    - Nominal and inflation exposure
    - Duration and curve exposure
    - Liquidity and concentration risk
    - Flexibility and efficiency
  - **De-risking Strategy** – ILIM working closer with clients & consultants to monitor ongoing position
  - **Transition Planning** – ILIM can assist clients in designing transition plan
  - **Tactical Opportunities** - ILIM can assist on timing & taking advantage of opportunities that may arise
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**For further information please contact**

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**Irish Life Investment Managers is regulated by the Financial Regulator**

**Warning: Past performance may not be a reliable guide to future performance. Investments may fall as well as rise in value. The performance of contributions in any given year will depend on both the frequency and the duration of the contributions. Income may fluctuate in accordance with the market conditions and taxation arrangements. Simulated performance may not be a reliable guide to future performance. Changes in currency exchange rates may have an adverse effect on the value, price or income of the product. Market conditions may sometimes require us to impose certain restrictions to switches or exits from your pension funds. These restrictions may include a delay in switching funds and/or applying a market value adjustment to the fund.**



**Irish Life**  
Investment Managers