

Investment Strategies

LDI Case Study: Aligning Assets to Achieve Evolving Investment Objectives

The Challenge Investors Face

Pension plans face unique investment challenges that vary based on a variety of factors, including plan demographics, the nature of the benefit promise, the applicable regulatory framework, and other plan specifics.

Our Client:

- An open defined benefit pension plan with assets of \$1 billion
- Client manages liability interest rate risk closely
- **Concerns:**
 - There is little funding flexibility
 - There is little willingness/ability to cut current or future benefit levels in the event of adverse investment experience

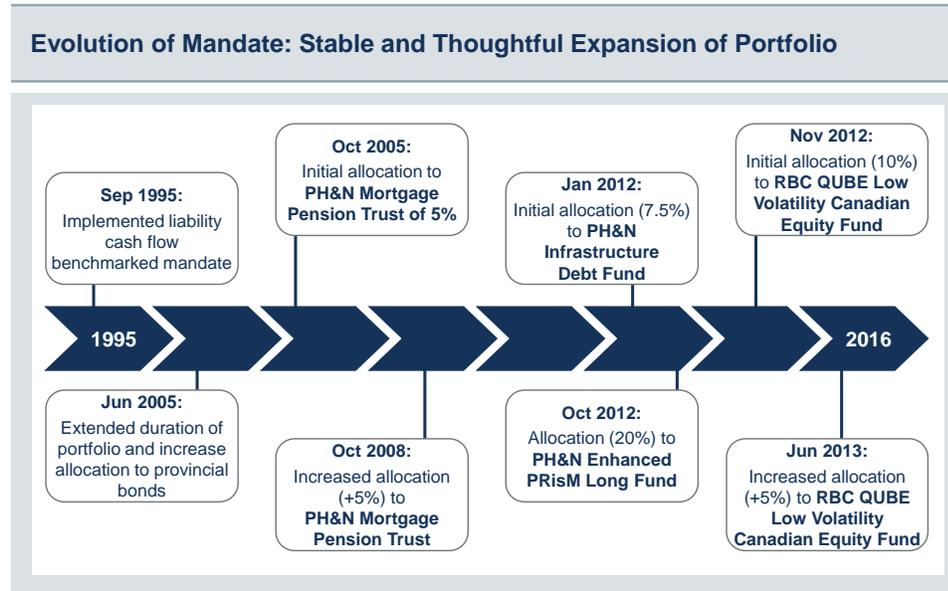
PH&N's Assessment

Managing these concerns requires a thorough understanding of the client's unique investment objectives and risk tolerances, as well as the ability to identify and implement customized solutions that reflect these considerations in an efficient and practical way.

The client's portfolio structure has evolved over time as the client's situation and market conditions have changed. Historically, the client has relied heavily on high-quality fixed income investments to meet its investment objectives, but as interest rates have declined, the client's PH&N institutional portfolio manager, using the expertise of our Institutional Portfolio Solutions group (IPS), has analyzed the impact of a variety of portfolio changes relative to the plan's specific liability definition.

PH&N Comprehensive Portfolio Solution

Over the years, these IPS analyses have helped the client better understand their risks and evaluate their options, which has ultimately led to a stable and thoughtful expansion of the portfolio, illustrated below.



Highlights of the current portfolio structure are outlined below:

- Large government bonds portion helps achieve the client's target interest rate exposure
- Strategic allocation to credit strategies builds yield in the portfolio
- Credit decisions are actively managed to maintain a high-quality portfolio
- Mortgage and infrastructure debt allocations capture illiquidity premium and diversify credit risk
- Fixed income leverage has been identified and employed as an opportunity to maintain liability hedging while pursuing stable sources of incremental return
- Low volatility equities provide exposure to return-seeking assets while dampening downside risk

The plan's current structure enables the client to mitigate interest rate risk by achieving their targeted interest rate hedge ratio, thus controlling the asset-liability downside risk while positioning the portfolio for higher returns in a low interest rate environment.

For additional details, please contact your PH&N institutional portfolio manager, or call 1-855-408-6111 or email institutions@phn.com

VANCOUVER

Waterfront Centre, 20th Floor
200 Burrard Street
Vancouver, British Columbia
V6C 3N5 Canada
T 604-408-6000

TORONTO

22nd Floor
155 Wellington St. West
Toronto, Ontario
M5K 3K7 Canada
T 416-974-2710

MONTRÉAL

6th Floor, North Wing
1 Place Ville Marie
Montreal, Quebec
H3B 1Z5 Canada
T 514-876-1256

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