

## Investment Strategies

# LDI Case Study: Implementing Investment Policy Changes Using a Glide Path

### 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

- A corporation with a closed defined benefit pension plan
- Client has updated their target asset mix and investment policy in order to decrease the amount of asset/liability risk
- **Concerns:**
  - Seeking best approach to implementing updated target asset mix and investment policy
  - Looking to share their governance responsibilities with respect to total asset mix policy and target interest rate hedge ratio

### PH&N's Assessment

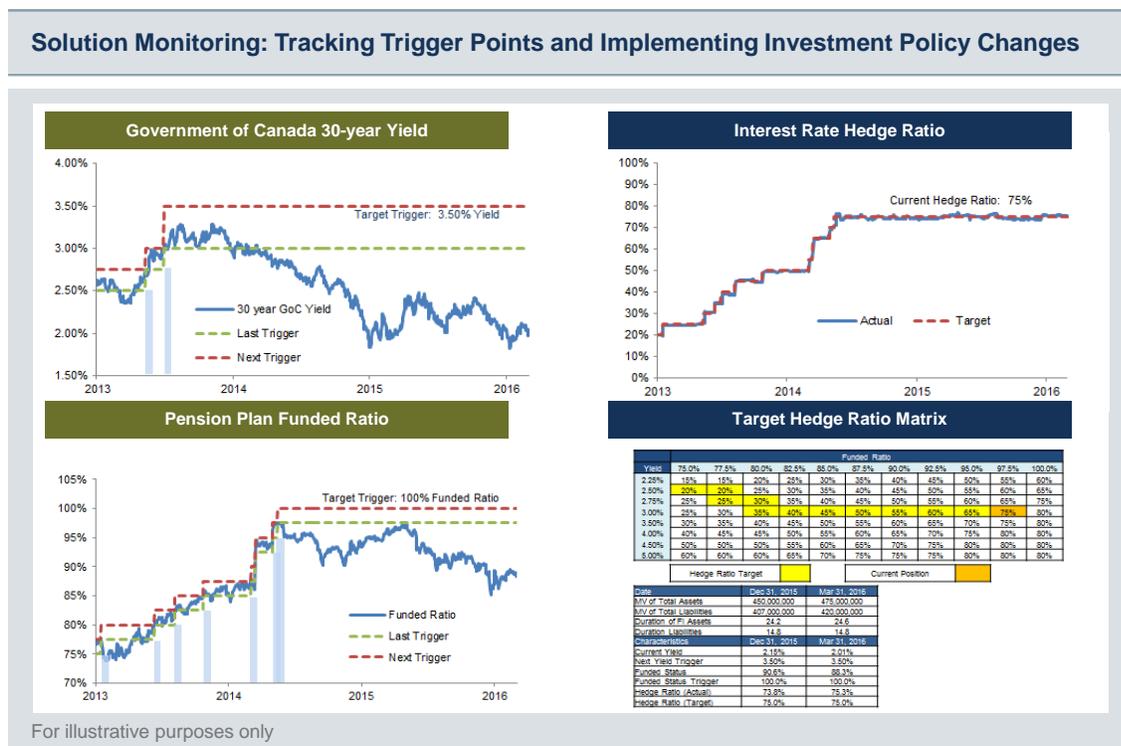
To transition to the client's new target asset mix and investment policy, the client is using a glide path they've developed together with their consultant. The glide path defines rules and trigger points outlining how the current investment policy will transition to the new policy. As the plan's primary investment manager, PH&N will work closely with the client to monitor and implement the de-risking glide path in order to transition from their previous investment policy to the new target asset mix and investment policy.

With their aggregate experience as actuaries, pension specialists, plan sponsors, and investment managers, PH&N's highly specialized LDI team also offers the expertise to create custom glide paths for clients. These glide paths are tailored to the circumstances and objectives of each plan sponsor, and take into consideration a plan's maturity, funded position, and/or risk tolerance, among other things.

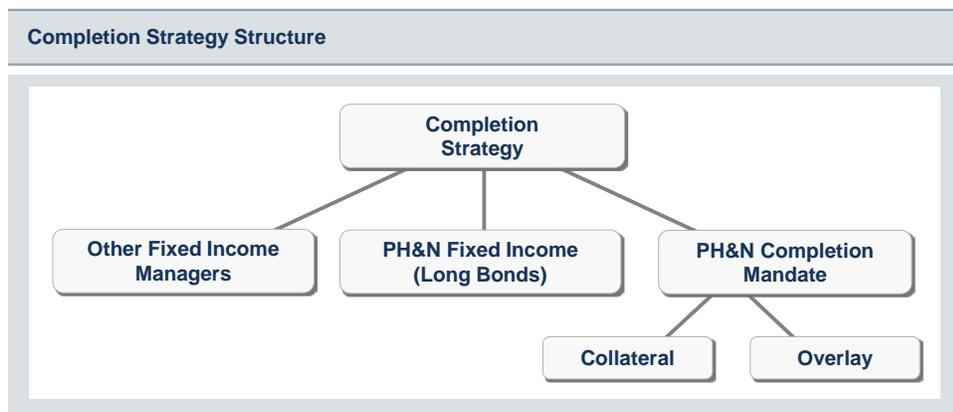
### PH&N Comprehensive Portfolio Solution

The plan’s investment policy changes are implemented using a de-risking glide path. This enables the plan to share the governance load with PH&N and with their consultant, as the two work closely together to track and manage the plan’s position along the glide path and efficiently implement any changes. This specific plan implements changes as the funded ratio improves or when bond yields increase.

The image below is a snapshot of the some of the customized reporting PH&N provided to the client for glide path monitoring and implementation purposes. It shows the various trigger points defined by the client and the evolution of the client’s interest rate hedge ratio.



To manage the client’s customized fixed income mandate, PH&N uses a completion strategy to efficiently adjust the portfolio as the mandate dynamically changes.



The completion structure enables the plan to:

- maintain exposure to return-seeking assets while increasing exposure to interest rates (through the use of derivatives, which are used to attain exposure to long duration government bonds);
- efficiently manage to a target interest rate hedge ratio;
- not disrupt the pre-existing manager structure; and
- maintain allocation to alpha generating fixed income investments.

In summary, the PH&N Institutional Portfolio Management Team has helped the client develop, monitor and implement the plan's investment policy relative to the plan's liabilities to achieve the client's objectives.

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For additional details, please contact your PH&N institutional portfolio manager,  
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