BMO Global Asset Management

Media alert

FOR IMMEDIATE RELEASE

Pension schemes take risk off the table

London, 2 June 2017 – Pension schemes took risk off the table in the first quarter of the year, according to BMO Global Asset Management's quarterly LDI Survey. Buoyant equity markets and rising yields, driven by the expectation of a normalisation of monetary policy, improved the funding ratios of many schemes in 2016. This prompted schemes to de-risk and expand their hedging programmes.

The survey found that both interest rate and inflation hedging activity rose in Q1 2017. Interest rate hedging increased by 7% over the quarter, to £29.7 billion, and inflation hedging rose by 4%, to £24.8 billion.

Hedging activity primarily comprised new hedging from pension schemes, due to an increase in appetite to de-risk. Additional activity included relative value switching trades between equivalent hedging instruments in order to lock in yield gains. A further theme of the quarter was a rise in new low coupon bond issuances that allowed schemes the opportunity to switch between individual bonds to release cash and reduce their need for repo funding.

"Positive equity market moves towards the end of last year led to a theme of protecting gains. Equities are still the most popular return asset and, despite their elevated levels, remain an attractive long-term asset class. Pension schemes that are keen to retain long term exposure, but have short term concerns, have shown interest in downside protection," said **Rosa Fenwick, LDI Portfolio Manager at BMO Global Asset Management**.

"The appetite for hedging using bonds over swaps, and indeed switching into bonds out of swaps, remained keen. This was in spite of the demand for bonds causing bonds to become more expensive relative to swaps over the quarter. This is a continuation of the theme from the end of 2016, where market participants have greater confidence in their ability to obtain repo funding."

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The BMO Global Asset Management LDI survey is led by BMO Global Asset Management's LDI team, a leading LDI manager, and respondents are polled on a quarterly basis.

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Notes to editors

The figures include other institutional investors as banks do not differentiate between pension scheme and non-pension scheme investors when aggregating the LDI hedging data. However, we would expect pension schemes to represent the large majority of the data given the overall make-up of the market.

With regards to the countries, the survey covers UK/GBP hedging.

About BMO Global Asset Management

BMO Global Asset Management is a global investment manager with offices in more than 25 cities in 14 countries, delivering service excellence to clients across five continents.

Our four major investment centers in Toronto, Chicago, London and Hong Kong are complemented by a network of world-class boutique managers strategically located across the globe: BMO Real Estate Partners, LGM Investments, Pyrford International Ltd., and Taplin, Canida & Habacht, LLC. BMO Global Asset Management is a signatory of the United Nations-supported Principles for Responsible Investment initiative (UNPRI).

BMO Global Asset Management is a part of BMO Financial Group, a highly diversified financial services provider based in North America with total assets of CDN $692 billion as of January 31, 2017, and over 45,000 employees. BMO Wealth Management has worldwide assets under management of CDN $402 billion as of January 31, 2017.