



Is your hedge still fit for purpose?

For Professional Investors only
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Ten questions to help trustees take a fresh look

Why this matters now

Defined benefit schemes are entering a new phase. Funding levels have improved, and for many, buy-out is no longer a distant goal. Indeed for some, running on is starting to look like a valuable option. All this is putting a new emphasis on matching assets. More and more, the conversation is moving beyond risk management to a bigger question: are your matching assets helping the scheme move forward?

It's a good moment to take a fresh look at the hedge. In some cases, it's doing exactly what it should. In others, it might be holding the scheme back. Knowing the difference early is what turns good governance into great strategy.



Patrick Race
Managing Director,
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Ten questions to ask

1 What are you actually hedging against?

Are you targeting technical provisions, buy-out pricing, or planning to run the scheme on? The answer shapes everything.

2 When did you last recalibrate the hedge?

Inflation changes. Demographics shift. Has your model kept up?

3 Is the hedge still fit for purpose?

Are you hedging to the funding level, total liabilities, or recovery plan contributions? It's worth checking.

4 Does your hedge ratio still make sense?

The Funding Code has landed. Are there implications for your LDI strategy that haven't been explored?

5 Are you covering the full risk picture?

Rates and inflation are usually covered. But what about longevity risk? Are there other exposures that need attention?

6 Are your hedge ratios working together?

If you're over-hedging inflation while under-hedging rates, you might be creating risk rather than reducing it.

7 Is your derivative toolkit still doing the job?

Are your swaps, asset swaps and repos still doing what you need them to? Or is it time to rethink the mix?

8

Are your LDI assets focused?

Is your rate hedge doing what you need it to, or is there credit risk creeping in?

Are you exploring new instruments that could sharpen the focus?

9

Has illiquidity quietly crept in?

If gilts were squeezed again, how would your portfolio do? Have you learned from last time?

10

Are you holding too much liquidity for too little return?

Are you leaving returns on the table just to stay liquid, just in case?

Looking ahead:

matching assets as a strategic tool

Matching assets have always played a defensive role. But in today's environment, they can do more than just protect. They can help schemes move forward with clarity and control. Asking the right questions is key. It's about making sure your matching assets are working for the strategy, not just sitting in the background.

Contact us

If any of these questions feel familiar, it might be time to revisit your hedge. We're happy to help you explore what that could mean for your scheme. Please visit the [contact page](#) on our website to find your local representative.

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