Interim Investment Options

Interim options	Comments	Viability
Retain listed equity	This option retains the current allocation until funds are drawn for the income mandates and therefore the current risk return profile will be unchanged. While the aim of moving to income is to diversify risk, the fund is a long term investor and can withstand short term volatility and has already taken steps to de-risk out of equity into protection assets.	This remains a viable option and would not require any immediate action.
Property or private equity	Both these assets are too illiquid and costly to consider as an interim solution and plans are already being considered to get them back to their strategic targets.	This is not a viable option owing to its illiquidity.
Absolute return	The Fund has an existing allocation to absolute return strategies through UBS focussed on generating returns through relative currency market positions. This is a liquid investment and it would be easier to move money into and out of over a shorter time period. However, Hymans consider this to be a growth asset which can be highly volatile and is not suitable as an interim risk reduction option.	This is not a viable option owing to the risk.

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Move to existing bond allocations	Existing bond allocations consist of a mix of gilts and corporate bonds. The allocation has been increased as part of the de-risking activity over recent years. While reasonably liquid to move money in or out of there are trading costs, particularly on corporate bonds, which need to be considered as an interim solution. A move to bonds has an impact on the levels of expected returns in the current low yield environment, albeit it would be a short term position. Focussing on corporate bonds might provide higher expected returns but would have higher round trip trading costs. Conventional gilts would provide greater downside protection and lower trading cost but lower expected returns. If there is a real concern over equity risk then a move to gilts would be a viable interim solution. Note: Hymans currently favour fixed gilts rather than index-linked gilts given current pricing and relative value.	This is a viable option but would reduce expected levels of return.

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Derivative overlays	An alternative solution to the above would be to put in place a derivative overlay to reduce exposure to equities and replace it with a synthetic exposure to corporate bonds or gilts. Implementing via an overlay would reduce round trip costs and also allows a longer time period to carry out physical sales of equity assets. The impact on risk would depend on the desired exposures put in place. This may require a procurement process likely involving the national transition manager framework.	This is not a viable option for a shorter term solution.
Equity protection	The existing equity allocation could be retained but the risk profile adjusted through some form of structured equity solution. These can be structured in a wide variety of ways including protecting the fund from falls in equities below a certain level at the cost of a premium or selling away some of the upside. This would likely require a procurement exercise and significant training and familiarisation before implementing and would not be our preferred option.	This is not a viable option for a shorter term solution.

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Move to cash/liquidity funds	Sell the equities and invest in cash or cash like investments through some form of liquidity fund which could be via an existing manager mandates or via the custodian. The expected returns on cash in the short to medium term are low but cash provides the benefit of preserving capital. While there will be costs in selling down the equities the costs of moving the money into some form of cash solution and then using this to fund the income opportunities would be low.	This is a viable option but would reduce expected levels of return.
Move to secured income funds	There are an increasing range of secured income funds that invest across a broad range of income focussed asset classes including real assets like infrastructure and debt assets like private lending. While there are often shorter time periods to get money invested than direct allocations to infrastructure and private debt there is typically a lock up period and liquidity is in some cases untested.	This is not a viable option due to the illiquidity.
Move to cash plus funds	Investment in some form of cash plus fund which comprises more liquid alternative credit assets such as high grade asset backed securities or loans. This could offer a higher return than normal cash funds but greater liquidity than secured income strategies. This may involve some new asset classes and a potential procurement search.	

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Listed infrastructure	Specifically for the infrastructure allocation an interim option could be to move assets into listed infrastructure. Whilst this would still be an equity investment it would have a greater exposure to infrastructure companies that may be expected to move more in line with the underlying infrastructure assets they develop and invest in. However, there would be a round trip cost to consider and the Fund would still be exposed to broader equity market volatility.	