Pearl Group Staff Pension Scheme
Investment strategy – further explanation

A proportion of the assets are in a **Liability Driven Investment** (LDI) strategy (*see definitions below)*. The liabilities of the pension fund are key to setting the strategy.

There are two components to the investment strategy – a **risk reducing** component currently 75% of the assets and a **return seeking** (growth) component which is currently 25% of the assets.

Risk reducing

50% **corporate bonds**

25% **liability hedging portfolio**. The aim of this is to reduce the impact of changes in inflation and interest rates.

Return seeking

Consisting of **Equities, property, leveraged loans** and **hedge funds**.

This growth component aims to seek extra return, over and above gilt (government backed bond) type returns, and this extra return will help reduce the deficit together with the contributions the Company are paying.

Definitions

Liability driven investment – an investment strategy based on the cashflows needed to fund future liabilities (benefits) payable from the scheme to members and pensioners. Used for situations where the future cashflows can be predicted with some degree of certainty. LDI strategies involve hedging to match part or all of the scheme's exposure to changes in interest rates and inflation.

Corporate bonds - this is a bond that a Company issues to raise money in order to expand its business. The term is usually applied to longer-term debt instruments, generally with a maturity date falling at least a year after their issue date. Payment of the interest and repayment of the bond ranks ahead of any equity payments to shareholders and is therefore relatively secure while producing a higher return than gilts.

Equities - an equity investment generally refers to the buying and holding of shares of stock on a stock market by individuals and firms in anticipation of income from dividends and capital gains, as the value of the stock rises.

Property - property (e.g. offices, shops or warehouses) that have been purchased with the intention of earning a return on the investment (purchase), either through rent (income), the future resale of the property, or both.

Leveraged loans – a loan to a Company already holding a considerable amount of debt. Because the Company receiving the loan already holds a lot of debt, the loan carries more risk to the investor. Therefore a higher rate of return is paid to compensate for the higher risk of default or insolvency.

Hedge funds – uses advanced investment strategies eg long, short, leveraged and derivative positions with the goal to generate higher returns. These funds are illiquid as they require the investor to keep their money invested for a defined period.