



Pensions Life Hack by Matthew Giles

How To React to Liquidity Control Measures in Your Scheme

What Is the Issue?

For many schemes, funding positions have improved during 2022 and 2023 and they are now starting to plan for buyout and wind-up. This will likely involve investment de-risking, to remove funding volatility and give greater certainty about when the scheme will be buyout ready.

In some cases, these funding gains have been generated by successful investment strategies. Whether or not this is fully appreciated by the trustees, these strategies may have involved illiquid assets. The challenge we have observed recently is around managing the timing of exit from these illiquid assets without incurring a significant penalty.

How Do You Spot an Illiquid Asset?

Most illiquid assets are clearly identified as such by the fund manager and investment consultant. Private equity and property funds are good examples. Hopefully, trustees have committed to these investments with their eyes wide open and have a strategy in place for exit at the appropriate time.

However, some pooled funds may not appear, at face value, to be illiquid, but may be subject to gating, lock-ins, exit charges or anti-dilution levies (ADL) from time to time. We have recently seen an ADL of 10% imposed on a fund where there previously was none.

Lessons Learned

As recently evidenced in the Mansion House package of pensions reforms, the government is keen for trustees to consider investing in productive finance, which includes illiquid assets. Illiquid assets can often be a victim of their own success. They help speed the journey to buyout, but may tie the investor in at the crucial moment.

Assurances about previous "easy, penalty-free access" is no guarantee of the future. This is definitely a case of buyer beware!

Top Tips

1. Check the terms of your investment management agreements.
2. Explore the market for selling the asset.
3. Discuss with the employer whether it might be willing to buy the asset from the scheme.