

Pension risk transfer and complex LDI transition management



Executing a time-sensitive €1.3 billion pension buyout with significant cleared swap exposure

Organisation

A European corporate pension fund managing approximately €1.3 billion in assets. The plan had reached a funding and indexation level that enabled it to pursue a full pension buyout, transferring liabilities off the corporate balance sheet to an insurance provider. The pension scheme's portfolio included government bonds, credit, growth assets, and a substantial liability-driven investment (LDI) overlay implemented through cleared interest rate and inflation swaps. With limited internal transition resources and a narrow execution window, the trustees engaged Russell Investments, via a consultant, to manage the transition and support the buyout process.

Challenge

The pension fund's objective was clear: complete a full buyout while market conditions remained favorable. Several challenges stood in the way:

Time sensitivity

The buyout depended on maintaining a required funding and indexation level. Adverse movements in interest rates or inflation could jeopardize the transaction. The client wanted execution completed within a short window.

Significant cleared swap exposure

The portfolio included over €4 billion in notional exposure across cleared interest rate and inflation swaps. Transitioning and restructuring these positions added complexity well beyond a traditional bond or equity transition.

Coordination across multiple managers

Assets were held across multiple incumbent managers, including pooled funds with non-daily liquidity, requiring careful planning around trade dates, settlement timelines, and cash flows.



Operational and legal setup

New custody accounts, swap clearing arrangements, execution brokers, and money market fund access all needed to be established before implementation.

Interim portfolio management

The receiving insurance entity would not immediately assume the assets following transition due to regulatory approvals. Russell Investments would need to manage the portfolio in its final form until the transfer was formally completed.

The client required a partner capable of coordinating across managers, clearinghouses, custodians, and trading desks - while managing market risk throughout the process.

Solution

Russell Investments delivered a fully integrated transition management solution, combining project governance, trading expertise, and operational coordination.

1. Comprehensive pre-trade planning and governance

We conducted detailed fact-finding across custodians, incumbent managers, and swap clearing brokers to map the portfolio structure and implementation constraints.

Our team:

- Established new custody and clearing accounts to enable seamless transfer of cleared swaps
- Coordinated directly with clearing counterparties to facilitate account portability
- Secured trading access to relevant pooled vehicles and money market funds
- Built a detailed implementation timeline aligned to liquidity windows and fund dealing schedules

This preparation reduced execution risk and ensured readiness across all stakeholders.

2. Specialized cleared-swap transition management

Cleared swaps introduced unique operational and trading complexities:

- Positions were long-dated and economically customised
- Internal systems required precise setup to match clearinghouse economics
- Partial unwinds and re-hedging required careful coordination
- Market signaling risk needed to be minimised due to position size

Russell Investments leveraged cross-functional expertise—including transition management, trading, derivatives specialists, and operations—to execute and restructure the swap book efficiently while maintaining liability alignment.

This transaction represented our first LDI-focused pension buyout transition of this scale, requiring extensive coordination across internal teams and external counterparties.

3. Active market risk and slippage management

Given the sensitivity of the buyout to market levels, we actively managed exposure throughout implementation.

- Sequenced trades to reduce spread impact
- Minimised slippage across both bond and swap transactions
- Maintained liability-aligned exposure during execution
- Built buffers into the transition plan to protect funding levels

This disciplined approach helped preserve the indexation level required to complete the buyout.

4. Interim portfolio oversight

Following transition completion, Russell Investments managed the portfolio in its agreed final state while regulatory approvals were finalised.

- Delivered full reconciliation and reporting to all parties
- Coordinated final asset verification
- Supported formal sign-off processes enabling liability transfer

This ensured continuity and governance integrity until the transaction was formally completed.

Results

Execution completed significantly faster than expected

We initially estimated that repositioning the swap exposure could require up to two weeks due to its size and complexity.

Execution was completed in just two days—substantially reducing market risk during implementation.

Delivered below projected cost

The estimated transition cost was approximately 60 basis points.

Final execution costs were approximately 51 basis points—reflecting reduced slippage across bonds and cleared swaps.

Secured the buyout objective

By completing the transition quickly and maintaining funding alignment, the client successfully finalised the pension buyout and removed the plan from the corporate balance sheet.

The transaction achieved the client's ultimate strategic objective: transferring pension obligations while protecting member benefits.

Strong client feedback and reputational impact

Post-transition feedback from stakeholders was highly positive, highlighting:

- Effective cross-team coordination
- Clear communication throughout implementation
- Confidence in managing complex derivative exposure
- Delivery within both cost and time expectations

The successful execution strengthened our relationship with the broader corporate organisation and positioned Russell Investments for future engagement opportunities.

The outcomes described are specific to this client engagement and are not necessarily indicative of results that may be achieved in other mandates. Execution costs and timelines will vary depending on market conditions, portfolio structure and transaction complexity. There is no guarantee that similar outcomes can be achieved in future transactions.

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