



THE ORGANISATION

The **Wates Pension Fund**, a £200m hybrid pension scheme, transferred its Defined Benefit Section (liabilities and assets) to Clara Pension Trust, a consolidator, in January 2025.

In 2020, Russell Investments was appointed as the Fund's fiduciary manager, taking over a complex portfolio of LDI, which included legacy instruments and a diverse mix of illiquid and semi-liquid allocations. To enhance stability, we streamlined the investment strategy, reducing risk by hedging up to the value of liabilities and rebalancing the portfolio to achieve a healthier mix of liquid and illiquid assets.

Between 2020 and 2024, the Fund's funding level increased from 82% to 97%, driven by strong investment performance and substantial contributions. During this period, we actively supported the Trustee through multiple strategy reviews and extensive discussions on the Long-Term Funding Target with the sponsor, averaging two detailed strategy reviews per year.

In 2023 and early 2024 a feasibility study was undertaken to assess Clara as a potential endgame option. Having concluded that a traditional insurance risk transfer transaction wasn't feasible, the Fund began its transition towards its newly defined endgame objective – a structured transfer to a consolidator.

"The Russell Investments team provided invaluable support throughout our transaction with Clara. Their ability to engage effectively with all stakeholders ensured that investment considerations were addressed in a timely and collaborative way.

A key strength of Russell Investments was their expertise in implementing a price lock portfolio, facilitating the transfer of illiquid assets to the consolidator, and delivering clear, strategic investment advice - crucial elements for any pension scheme's end game transaction."

*Jon Walters
Partner, PAN Trustees*

THE CHALLENGE

- **Managing Illiquid Allocations:** The Fund held complex illiquid legacy allocations, as well as a Russell Investments Private Credit allocation, requiring a structured exit or transfer strategy as part of the transaction.
- **Price Lock Portfolio Complexity:** The price lock portfolio required substantial credit allocations and a high hedge ratio, making execution challenging without significant sponsor contributions – especially given the constraints posed by assets tied up in illiquids.
- **Navigating a Complex Transition:** The transfer involved a combination of liquid and illiquid assets, executed both in cash and in specie, necessitating careful alignment with the boundary conditions outlined in the transfer agreement.

Beyond these specific challenges, the overarching difficulty was the novelty of this first-of-its-kind transaction, which introduced unforeseen complexities that required continuous problem-solving throughout the process.

THE SOLUTION

In supporting the Wates Pension Fund, Russell Investments leveraged its full endgame and investment toolkit to address the challenges effectively.

- **Illiquids Run-off and Transfer:** Russell Investments facilitated the exit from three holdings where liquidation was possible within 12 months. Additionally, it managed the negotiation and transfer of illiquid holdings to Clara as part of the asset transition.
- **Clear Portfolio Design, Implementation, and Reporting:** Russell Investments collaborated with Clara to model a price-lock portfolio that not only addressed cash constraints but also matched the credit spread and hedging requirements of the consolidator price lock. Furthermore, bespoke reporting was introduced to provide stakeholders with weekly updates on cash levels and collateral headroom.
- **Efficient Transition:** Two transitions were executed: the first, from the existing strategy to the price-lock portfolio in summer 2024, followed by the final transition in January 2025. Russell Investments effectively managed the complexities by designing a structured transition timeline in collaboration with stakeholders. This approach facilitated a smooth transfer of cash, in-specie stock, and illiquid assets while ensuring alignment with the closing date to minimize out-of-market exposure.

THE OUTCOME

The successful transition of the Wates Pension Fund's Defined Benefit Section to Clara Pension Trust demonstrates the effectiveness of a well-structured endgame strategy. By leveraging its deep expertise in investment management and knowledge of executing end game solutions, Russell Investments navigated the complexities of illiquid asset transfers, price-lock portfolio design, and multi-stage transitions to ensure a seamless outcome.

Through careful planning, stakeholder collaboration, and bespoke risk management solutions, the Fund achieved its long-term objective of securing member benefits within a consolidator framework, 15 months after the idea was first floated. This first-of-its-kind transaction sets a precedent for future transactions, highlighting the importance of delegation and clear investment advice in achieving endgame objective (irrespective of the route chosen).

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IMPORTANT INFORMATION

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