

3 steps to optimise your illiquid assets on the way to buyout

Illiquid assets have played a key role in generating crucial returns for UK pension schemes over the last decade. However, with many schemes now ready to buyout several years ahead of schedule, for lots of trustees and sponsors the most challenging part of navigating that final stage of the journey is what to do about those illiquid assets. WTW has been helping clients with these issues for many years and has a tried and tested three step process with illiquid assets experience that ensures the best possible outcome for the scheme.

Step one: a transaction liquidity assessment

For clients in this scenario, we recommend undertaking a **Transaction Liquidity Assessment** to understand the best approach for each holding. Combining WTW's years of experience assisting clients with secondary market sales with our deep knowledge of the insurers in the buy-in and buyout market, we can advise you on 3 major topics:

1. Whether the holding needs to be disposed of, based on its run-off profile and the scheme's journey plan, allowing for the potential to use a deferred premium structure with the insurer;
2. Where the holding needs to be disposed of, an initial recommendation of the optimal approach to take, from: immediate secondary market sale; in-specie transfer to an insurer; a loan from the sponsor; delayed secondary market sale or a more innovative solution (such as restructuring the asset);
3. An initial view on how and which brokers should be engaged as well as indicative pricing for any secondary sales.

We have helped our clients **exit >£1.5bn and over 100 positions** in the past 5 years.*



Step two: illiquid secondaries and insurer market engagement

We screen, evaluate, and select brokers with the necessary expertise to achieve the best outcome. As a result of our experience, we have a network of brokers and global reach to help clients with their specific situation based on the type of illiquid assets they own and the constantly evolving market dynamics at the time. Additionally, having existing NDAs and the ability to negotiate preferred terms with brokers, saving you time and money.

This phase is crucial – the difference between selecting an appropriate broker with the right expertise could have a significant impact on the sale price.

*Source: WTW

For illiquid assets that will be attractive to an insurer, we will engage with the insurers on your behalf to negotiate the most attractive possible pricing for an in-specie transfer, leveraging our deep relationships and experience of negotiating similar transactions. Crucially, this must be completed holistically with the overall buy-in premium to ensure the best outcome is achieved. Where required we can also negotiate appropriate deferred premium structures with the insurers. Our Transactions teams' latest survey of each insurers' offerings on deferred premiums demonstrates that the art of the possible has significantly widened here over recent months.

 **Step three: implementation and process management**

Whichever implementation route is chosen we will help clients manage this process from start to finish. This includes managing the due diligence process, liaising with brokers, insurers, and counsel throughout the process on your behalf ensuring your interests are protected at every stage.

This can be a complex process including liaising with multiple parties, agreeing appropriate legal documentation, and managing execution risk.

We will use our experience to remove the burden from the Trustee and ensure the process is carried out as quickly and efficiently as possible.



Case study:

£10bn pension scheme with several billion in illiquid assets

We were the strategic investment advisor to a Scheme that worked in partnership with an insurer to buy-in all its liabilities in a series of tranches. This approach allowed us to optimise the treatment of illiquid assets, which included UK property, corporate index-linked bonds, and other private markets holdings. Almost all of these were held in segregated accounts and therefore could be in-specie transferred to the insurer in whole or part. The insurer performed detailed due diligence on the assets so the Scheme could triage them into i) assets that the insurer would happily accept in the premium payment portfolio, ii) assets that would never be acceptable and iii) a middle-category of assets that could be taken but might have a detrimental impact on pricing. For assets that would never be acceptable to the insurer there was a trade-off to be struck between an immediate sale and loss of expected return vs the risk that a future tranche could not be completed. Funding level triggers were developed to inform the appropriate time to commence the sales process. Meanwhile each tranche was focussed on different types of illiquid assets with a view to slowly chipping away at the problem middle category. The Scheme retained the option to sell assets in the middle category at any time where this was more attractive than passing it across to the insurer.

Figure 1. **The toolkit**



Immediate secondary market sales



In-specie transfers



Sponsor loans



Structured secondary market sales



Asset restructurings



Insurer eligibility and pricing assessments



Preferred broker engagements

Case study:

£1bn pension scheme transacting a buyout with £100m of illiquid private debt investments

We led a £1bn buy-in for a scheme with c£100m of illiquid private credit exposure. As this scheme had a surplus it could afford to purchase the guaranteed benefits with the insurer without using the illiquid investments. A crucial part of the commercial deal with the insurer for the buy-in included negotiating that the Trustee would be able to purchase uplifts to member benefits within the first two years of the transaction on the original pricing basis. This gave the Trustee confidence that it had time to sell the illiquid holdings efficiently and then pass the benefits to members with attractive underlying pricing.

Once the buy-in was completed, we helped the Trustee to select an appropriate broker and manage the secondary market sale. A key tactical decision was to sell the holdings together to achieve an improved outcome for the smaller, less attractive holdings. The sale attracted significant interest and ultimately achieved a premium to NAV. This better-than-expected outcome helped the Trustee purchase additional benefits for the members.

Case study:

£400 million illiquid portfolio secondary sale on behalf of a pension client

Due to illiquidity concerns, the client needed to reduce the size of its illiquid portfolio. It wanted a discrete sale of assets including venture capital funds, fund of funds, property funds, and buyout funds.

WTW managed a process that resulted in selling the c. £400m portfolio with more than 30-line items at a premium price in under one year. Our role included selecting the brokers, cash flow modelling, re-underwriting each fund in the portfolio to determine which were optimal to keep and managing the sales process.

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