



LEVERAGED & EQUITY INVESTMENT

DEFINED BENEFIT DEFICIT ELIMINATION ASSET BACKED SOLUTION COMPARISON STUDY



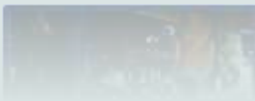
L&EI ensured immediate deficit elimination, but with the cost spread over years.



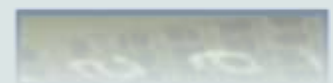
The annual cost was lower than the agreement made with the Trustees.



The transfer of company assets was not required.



Sponsor payments linked to business metrics.



Leveraged & Equity Investment, bespoke investment and financing solutions.



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Solution study – Deficit reduction – Food & Drink Retail Plc.

At the most recent triennial pension scheme valuation it was found that scheme liabilities had grown to in excess of £2,100 million on an actuarial basis. Over the period since the last formal valuation the deficit had increased to £350 million.

Food & Drink Retail Plc. was established at the close of the 20th century after the splitting of a substantial listed company. They inherited their staff defined benefit scheme. The scheme is closed both to new joiners and future accrual. Therefore, there is no ongoing service cost.

The sponsor and scheme Trustees quickly agreed that the deficit must be addressed, however, a challenging commercial environment meant cash reductions should be flexible and linked to company circumstances.

The discussions resulted in agreement to clear the deficit over a ten-year period. The agreement was for an asset backed funding solution to give security to the scheme for the deferred payment schedule, this involved placing assets in a Scottish Limited Partnership. Payments were flexible, but initially set at £45 million per annum, with the sponsor option to increase payments by the CPI rate from year six onward with the subsequent reduction in term. Trustees had the same increase option in the event of increased liabilities due to unexpected factors.

Leveraged & Equity Investment working closely with scheme consultants, trustees, sponsor and their professional advisers were able to offer a more cost effective solution. It also cleared the deficit immediately.

The solution provided by Leveraged & Equity Investment was a bespoke specialist structure. This created a fully funded scheme position, that enhanced sponsor net asset value, improved key ratios and was linked to the business cycle. Compared to the debt option also considered previously by the sponsor it was also highly tax efficient.

From a trustee perspective £350 million was provided immediately, the deficit was cleared and they could fully invest. Additionally, sponsor risk was transferred to Leveraged & equity Investment for the £350 million as there was no recourse to the scheme assets.



SUMMARY SOLUTION COMPARISONS

- 1) The Leveraged & Equity solution “core” payment was just over £43 million, saving the sponsor nearly £20 million over the ten-year term. It featured greater payment flexibility options than the proposed scheme. Further the payment was linked to corporate free cashflow, and could be reviewed bi-annually.
- 2) At commencement of the Leveraged & Equity Investment solution the scheme became fully funded, eliminating the pension cost finance charge. Based upon the discount rate ⁽¹⁾ in force on signing, this saved the sponsor nearly £37 million in pension scheme financing costs over the term.
- 3) The Leveraged & Equity Investment structure creates a full payment tax charge; traditional debt arrangements only allow for interest to be deductible. The Leveraged & Equity Investment structure was over £200 million tax advantageous compared to traditional debt.
- 4) The scheme had an average investment return of 8.45% over the last five years, and 7.4% in the last year. By providing the lump sum of £350 million to the scheme, the actual investment gain over the scheduled annual payments would be over £80 million at 7.4% ⁽²⁾. Even a prudent return rate of 5%⁽²⁾ shows a gain of nearly £15 million.
- 5) The Leveraged & Equity Investment solution created projected savings to Food & Drink Retail Plc. of nearly of £57 million, or nearly £100 million ⁽³⁾ over the ten-year term compared to debt solutions. Between 13.5% and 22% of the previously agreed cost. Sponsor net assets rise by £350 million. There was no charge of sponsor assets.
- 6) The scheme benefited from immediate full funding giving investment return gain projections of between £15 million and £80 million. Unquantifiable gains were likely from reduced administration costs.



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Contact Leveraged & Equity Investment

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⁽¹⁾ Discount rate 3.6% , ⁽²⁾ Assumes constant fixed rate of return, ⁽³⁾ Corporation tax rate of 20% assumed.

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