LEVERAGED & EQUITY INVESTMENT

DEFINED BENEFIT

DEFICIT ELIMINATION PROGRAMMES

Eliminate, or reduce, your deficit immediately.

The cost spread over years.

Use future cashflow for future pension liabilities.

TEL: +44 871 237 4770 |INFO@LEASEINVESTMENT.COM | WWW.LEASEINVESTMENT.COM

LEVERAGED & EQUITY INVESTMENT

With defined benefit liabilities now approaching £2 trillion, do you have concerns about your scheme?

How are you addressing your pension funding plans?

Tired of using today's cashflow for tomorrow's volatile pension liabilities?

Have you looked at the traditional solutions and found them wanting?

Do you imagine the only financing options are just a different type of balance sheet debt?

Leveraged and Equity Investment solutions offer low cashflow and economic cost, with achievable net present values below 8%.

Solutions that are off balance sheet, typically unsecured.

Solutions that recognise pension schemes use your business capital.

The solutions provided by Leveraged and Equity Investment maximise sponsor reinvestment into profitable sectors.

Solutions designed to cure, not treat.

 TEL: +44 871 237 4770 |INFO@LEASEINVESTMENT.COM | WWW.LEASEINVESTMENT.COM

Immediate elimination or deficit reduction.

- Leveraged & Equity Investment defined benefit financing solutions provide an immediate bulk investment into the pension scheme.
- The investment can clear, or reduce, the deficit immediately.
- Alternatively, it could finance a full buy out; or a partial buy in through a specially created option.
- The purpose of this document is to outline our financing solutions that immediately eliminate, or reduce the majority of a defined benefit pension scheme deficit.
- This document will detail the immediate bulk investment that can be made to the schemes of financing acceptable sponsor companies.

There are two primary objectives.

- Firstly, to eliminate the deficit, or decrease the time until a scheme is fully funded, whilst maximising the probability of full funding being achieved over the whole life of the scheme.
- Secondly, to decrease the negative effects the deficit has on the sponsor's reporting, and increase the sponsor cashflow and profit and loss that a deficit can drain.

Basic Solution.

This document paints a broad picture of the financial benefits to both the trustees and sponsor. It does not discuss the risk, management and investment benefits of the solutions provided by Leveraged & Equity Investment.

The outline of our basic solution follows, gives eligible sponsors an immediate bulk investment into their defined benefit scheme. The fundamental financial structure is off balance sheet, non interest/debt bearing and would not affect existing financing or future finance availability.

Alternatives, include, but are not limited to, Scottish Limited Partnerships or other Special Purpose Vehicles; all clearing or reducing the deficit immediately.

Leveraged & Equity Investments work closely with the majority of professional advisers and consultants to defined benefit pension schemes. Furthermore, we have contacts, and can provide financing for most bulk annuity insurers and leading investment management companies products and strategies. Your advisers can assist you in establishing an initial approach to Leveraged & Equity Investments to assess the suitability, and availability of deficit financing.

There follows a summarised comparison of the basic Leveraged & Equity Investment solution compared to a typical unsecured recovery plan and an asset backed structure, asset outperformance, agreement. The ratios account for the gross and post-tax cashflow, economic cost. Profit and loss account costs incurred through deficit interest, and PPF levy, savings are detailed separately.

We use a 100% base point, which equates to the balance sheet accounting deficit, the theoretical scheme is 80% funded on an accounting basis. This method makes cost comparisons clear, whatever the deficit size. Here we use two of the more popular methods and some of the possible Leveraged & Equity Investment solutions.

Annual payments clearing the deficit over the term of a typical recovery plan (1), and over twenty years for a, secured, asset backed structure.

A reference funds cost rate (2) has been used for illustrative purposes on the financing structures only. Sponsor companies are assessed on an individual basis.

A prudent net return rate is used. It is 2.5% below the average net rate of return achieved by UK companies over the previous 18 years (3).

The average discount rate used by FTSE 100 defined benefit schemes in 2015 applies, 3.8%. A conservative 4.8% investment return is used where applicable.

LEVERAGED & EQUITY INVESTMENT

Sponsor cost analysis.

The table below shows the cost based upon the 100% base point.

Agreement term (yrs.)	Typical nine-year, asset outperforming, recovery plan.	L&EI nine-year, immediate deficit elimination, solution.	Twenty-year, secured asset backed, outperforming investment, plan.	L&EI twenty- year unsecured solution, with optional asset outperformance included.	L&EI twenty-year solution, partial security.
Post tax total NPV cashflow charge.	42%	21.8% (48% saving)	16.7%	7.4% (30% saving)	15.5% (7.75% saving)
Post tax total NPV P&L cost.	55%	28% (49% saving)	43.2%	30.7% (43.75% saving)	15.1% (65% saving)

(*) Based upon an investment return of 4.8% per annum full deficit elimination in year 7, earlier than a basic nine-year recovery plan, assuming liability growth at 3.8% per annum.

Deficit interest, profit and loss benefits.

The following table shows the deficit interest charges to the profit and loss account.

Agreement term (yrs.)	Typical nine-year, asset outperforming, recovery plan.	L&EI nine-year, immediate deficit elimination, solution.	Twenty-year, secured asset backed, outperforming investment, plan.	L&EI twenty- year unsecured solution, with optional asset outperformance included.	L&EI twenty-year solution, partial security.
Net deficit interest charge.	17.5%	Zero (100% saving)	49%	43% (12.25% saving)	Zero (100% saving)
Net surplus interest credit.	Zero	10.7% (100% gain)	Zero	Zero	4% (100% gain)
NPV charge/ credit	13%	-6.1%	26.5%	23% (13% saving)	-3.8%

LEVERAGED & EQUITY INVESTMENT

Risk and reward analysis.

The table below the basic risk and reward factors.

Agreement term (yrs.)	Typical nine-year, asset outperforming, recovery plan.	L&EI nine-year, immediate deficit elimination, solution.	Twenty-year, secured asset backed, outperforming investment, plan.	L&EI twenty- year unsecured solution, with optional asset outperformance included.	L&EI twenty-year solution, partial security.
Time to reach deficit elimination.	9 years.	Immediate.	20 years.	20 years.	65% immediate reduction, full within 8 years.
Scheme risk exposures.	Sponsor, greater investment return volatility and investment outperformance.	Normal risk and investment issues.	Sponsor, greater investment return volatility and investment outperformance.	Greater investment return volatility, outperformance of 1% minimum.	Normal risk and investment issues, some greater investment return volatility.
Sponsor asset assignment (%)	Probably zero.	Zero.	150%	Zero.	100%
Surplus return to sponsor.	Subject to Trustee agreement & 35% tax.	Yes, zero tax deduction.	Subject to Trustee agreement & 35% tax.	Yes, zero tax deduction.	Yes, zero tax deduction.

(*) Based upon an investment return of 4.8% and assuming liability growth at the discount rate of 3.8% per annum. No allowance for longevity risk etc.

Tax benefits.

This document deliberately avoids detailed tax comparisons, despite the Leveraged & Equity Investment solutions offering a number of tax advantages.

The Leveraged & Equity Investment solutions provide an immediate tax charge as a pension payment for the bulk scheme payment.

Typical financing costs associated with these payments would allow for the interest element to be deducted from taxable profits, but not the capital. The L&EI solution, due to the revenue accounting basis, means the whole "financing" payment is tax deductible over the term.

Pension Protection Fund levy.

The immediate clearance, or reduction, of a deficit would substantially reduce, or eliminate, levy payments. Levy payments are bespoke calculations by Equifax. The average rate applied to "big schemes" with a 96% typical funding ratio is 0.03% of assets.

LEVERAGED & EQUITY INVESTMENT

Leveraged and Equity Investment funding solutions.

Leveraged and Equity Investments are financing specialists. Our financing expertise is entirely devoted to three areas of financing and equity investment, and only three areas.

Technology, Employee Benefits and bespoke project requests.

We have extensively researched the issues surrounding defined benefit pension funding issues. Not before conducting this research, taking over two years, have we produced our funding solutions.

Over thirty years experience of creating bespoke financing solutions has enabled us to create a range of offerings that are cashflow, tax, profit and pension scheme efficient.

The solutions we offer are individual, designed to maximise pension scheme security at the lowest net present value to the sponsor.

Leveraged and Equity Investment process

The process is designed to minimise your time and cost, whilst enabling a prompt deficit elimination solution.

1st Stage	2nd Stage	3rd Stage
Initial discussion to establish the suitability of L&EI financing, and sponsor eligibility, for solutions. No charge.	Confirm accounting, legal, and regulatory treatment.	Produce legal documentation.
Agreement to proceed in principle. Establish additional requirements.	In depth financial models produced to agreed terms (Tax, prompts, creditors, security etc.). Effects on existing financial arrangements inclusive.	Confirm closure dates.
Establish terms of Trustee contact.	Analysis with sponsor's accounting and legal advisers. Obtain Trustee agreement.	Release funds to appropriate parties.

LEVERAGED & EQUITY INVESTMENT

To arrange a preliminary discussion, contact your usual scheme consultants who will investigate eligibility for financing or Chris Bardouleau, Senior Partner at Leveraged & Equity Investment who manages the pension financing schemes.

To contact Chris please use one of the methods below:

Email: chrisb@leaseinvestment.com

Direct Portable Number: +44 (0)870 3143 222

(1) Alan Rubenstein – CEO- PPF – 11 May 2016: http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/work-and-pensions-committee/pension-protection-fund-and-the-pensions-regulator/oral/33236.html.

(2) Moody's standard adjustment rates July 2016 for Baa3 4.3%.

(3) http://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/bulletins/profitabilityofukcompanies/octobertodecember2015. Average rate 11.7%. Rate applied 9.2%

(4) Barnett Waddingham survey https://www.barnett-waddingham.co.uk/comment-insight/research/2015/04/20/big-schemes-survey-1bn/. Average rate 10.2%, rate applied 4.8%.