LEVERAGED & EQUITY INVESTMENT

DEFINED BENEFIT

BUY OUT & TARGETED BUY OUT FUNDING PROGRAMMES

Remove your scheme risk 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 exceeding £2 trillion, do you have concerns about your scheme?

How are you addressing your pension risk?

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

Have you considered risk transfer but lacked scheme assets?

Leveraged and Equity Investment provide unique solutions that maximise capital efficiency, and minimise risk.

Solutions that can provide complete pension scheme balance sheet removal today, using tomorrow's profits.

Solutions that minimise sponsor cashflow, capital and investment concerns, with typical net present values below 60%, and savings of over 25%.

Solutions that can be off balance sheet.

Solutions that cure, not treat.

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Immediate or Targeted Buy Out.

- Leveraged & Equity Investment Buy Out financing solutions provide an immediate route to scheme Buy Out, or partial special Buy In scheme.
- Alternatively, our financing can provide a route to future Buy Out, with an identified target Buy Out date.
- The purpose of this document is to outline the financing solutions that accelerates the Buy Out goal achievement.

There are two primary objectives.

- Firstly, to provide a fully funded immediate Buy Out solution with payment terms up of to 25 years, or unique partial Buy In structure.
- Alternatively, to provide financing enabling full funding on an IAS19 basis, with a target date for a full Buy Out, with the option to enable Liability Driven Investment (LDI).
- 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.

Basic Solution.

- Following is the outline of our basic solution, giving the sponsor a bulk capital investment for 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 are available; all providing immediate, unconditional, Buy Out or full IAS19 funding with a target buy out date.**
- The example shows a scheme with an accounting deficit of £1,000,000, £7 million of scheme assets on an accounting basis. Buy Out liabilities of £11 million have been quoted, leaving an asset shortfall of £5 million.

Summary comparison.

Following, is a summarised comparison of the basic Leveraged & Equity Investment solution compared to a typical scheme in the above funding position.

The sponsor wants to remove the scheme risk completely via Buy Out, but faces shortfall issues despite deficit funding payments of £600,000 per annum for the last 7 years.

The company would consider covering the shortfall from asset sales. Alternatively, continue funding the scheme from cashflow to achieve a future Buy Out, risking Buy Out pricing changes.

Shown are the cost of annual payments clearing the deficit, and Buy Out shortfall, over the term of a typical recovery plan [(1)], and over the weighted average scheme duration [(2)].

A standard reference rate has been used for illustrative purposes [(3)].

A prudent net return rate used. It is 2.5% below the average net rate of return achieved by UK companies over the previous 18 years [(4)].

The average 2015 scheme Discount Rate of 3.8% has been used [(5)].

Agreement term (yrs.)	Nine - year targeted Buy Out funding.	Nine – year basic L&EI solution.	Fifteen – year basic L&EI solution.
Sponsor total post tax cashflow charge.	4,887,915	3,965,839 (17.6% saving)	4,724,732 (2% saving)
Sponsor total post tax P&L cost.	4,937,632	3,965,839 (20% saving)	4,724,732 (5% saving)
Sponsor total NPV cashflow charge.	3,595,915	2,771,314 (22% saving)	2,663,570 (25% saving)
Sponsor total NPV P&L cost.	3,640,539	2,771,314 (24.5% saving)	2,663,570 (27.5% saving)

Sponsor immediate bulk asset injection benefit.

To follow are the sponsor benefits of retaining £5 million in the business, compared to investing the annual payments into the business.

The same, prudent, net return rate has been applied.

Agreement term (yrs.)	Nine (Annually)	Nine (Lump Sum)	Fifteen (Annually)	Fifteen (Lump Sum)
Future asset value.	9,714,020	11,040,118 (13.5% gain)	15,221,000	18,720,161 (18.7% gain)

Sponsor free cashflow, interest and profit and loss benefits.

The following table details the typical free cashflow gains, profit and loss increases and interest reduction to the sponsor's accounts for a £1 million deficit elimination, and buy out shortfall.

Agreement term (yrs.)	Nine - year targeted Buy Out plan	Nine - year L&EI solution	Fifteen – year L&EI solution
Total deficit interest charge.	146,674	Zero (100% saving)	Zero (100% saving)
Averaged post tax reduction in annual profit.	551,574	440,648 (20% saving per annum)	314,982 (43% saving per annum)
Averaged post tax annual cashflow cost.	535,277	440,648 (17.5% saving per annum)	314,982 (41% saving per annum)

Sponsor net asset value benefits.

The NAV of the sponsor will immediately increase by £1 million with the basic L&EI solution. With the nine – year recovery plan, NAV increases incrementally over the nine – year term.

Tax benefits.

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

Typical deficit reductions treat the contribution to the scheme as a pension payment which is a 100% tax charge each year. Any financing costs associated with these payments allow for the interest element to be deducted from taxable profits, but not the capital.

The Leveraged & Equity Investment solutions provide an immediate tax charge as a pension payment for the bulk scheme payment, further due to their revenue accounting basis the whole payment is tax deductible.

Pension Protection Fund levy.

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

Covenant risk.

All solutions, whatever format, are free of recourse to the pension schemes. By providing an immediate injection the schemes' covenant exposure would be completely removed. All scheme members are fully covered by the insurer without any recourse or pension reduction risk.

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 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

We start with a basic process that is designed to avoid wasting your, and Leveraged and Equity Investment, time and cost.

1st Stage	2nd Stage	3rd Stage
Initial discussion to establish the suitability of L&EI financing 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

Contact Leveraged & Equity Investment

The pension financing programmes are principally advised by Managing Partner, Chris Bardouleau.

To contact Chris please use one of the methods below:

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(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) Leveraged and Equity Investment research May 2016.

(3) Moody's standard adjustment rates May 2016 for a Ba2(Middle sector speculative elements) credit rating, 5.32%.

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

(5) Professional Pensions.