A big fish in a big pond

Telent and Rothesay Life recently concluded the largest bulk annuity deal in UK history, completing a full buyout with the GEC 1972 scheme worth £4.7 billion, in September 2019. Jack Gray speaks to Telent pensions director, Pete Harris, its CIO, Alan Goodman, and Rothesay Life co-head of business development, Sammy Cooper-Smith, about how this unique deal was completed

This year has been a record year for bulk annuity transactions, with the value of deals expected to exceed £35 billion by the end December. The largest of these was the £4.7 billion buyout of the Telent GEC 1972 scheme by Rothesay Life. It secures benefits of all of its 39,000 members, including 11,000 deferred members, and will see the transfer of assets from the scheme to Rothesay Life.

What was the scheme motivation for the buyout?
Pete Harris: Since 2005 the pension scheme has been much bigger than the company. When the £4.7 billion buyout occurred, Telent turned over around £500 million. So, if either Telent or the scheme had fallen over, it would have pulled the other one down. For a number of years now we have been actively targeting being able to buy out, to remove the risk from our pensioners and to remove this major financial burden from the company.

What made it an attractive scheme to complete this deal with Rothesay Life?
Sammy Cooper-Smith: I think there were a few factors. Obviously one, as a business we target larger transactions, so just the overall scale of the transaction made it more attractive than many others to us, just because it enables you to get a large amount of liability written in one go. The scheme was clearly very well funded, we didn't know how well funded until we'd actually started to price it, but all the indications were that this was a very likely candidate.

I think the thing to say that was most attractive for us was having had a group of trustees, and you had a corporate sponsor who could not have been clearer to us what their motivation was. There are always ifs and buts and doubts when someone approaches you on a transaction of this size, but I can't remember a time where those ifs and buts and doubts on our side were as small as they were on this transaction.

Alan Goodman: There was clear motivation from both sides, from all three sides; Rothesay's side, the trustee side and company side.

The trustee of the scheme had managed to eliminate most of funding deficit in around a decade. How was this achieved?
Harris: Fundamentally, the way it was achieved was through investing in governance. In around 2009 we recruited a new CIO, we appointed a new investment adviser in Redington and we beefed up the power on our investment committee. The simple answer to that

question is governance. The core of the investment strategy was fundamentally to hedge out the risks that we didn't believe we'd be rewarded for. Then to target a level of risk that we were happy with that we thought could get us to our targets.

Goodman: We'd looked at this situation 10 years, or 12, 13 years ago even, and said 'okay, well what's the sensible long-term strategy to minimise the potential downside risk to the funding level and therefore, minimise the level of support that we need from the sponsor?' Hedging rates of inflation has been something that the scheme has done 100 per cent for over a decade now.

We were an early adopter of those LDI strategies and an early adopter of focusing on downside risk, which meant that an exposure to more credit linked strategies, lower risk stable return strategies and away from growth markets of equities and investments like that.

Cooper-Smith: Another thing that made this scheme very attractive to us was the fact that it owned a number of limited-price index (LPI) swaps.

Goodman: Yes, roughly half of the inflation hedging was done through LPI swaps rather than through investment gilds or traditional inflation swaps. It was done many, many years ago, when availability of the instruments was a lot more pleasant than it is today. Our ability to manage the inflation exposure on a collar basis rather than just having to continue with the LPI swaps.

How long has this deal been in the works? Can you describe the process that the two firms have been on to reach this deal?

Harris: Fundamentally we got to the point more or less this time last year of concluding that it was worth exploring whether there was a deal to be done in the market. We weren't sure we were there, but we were getting indications we were close enough. We then deliberately took a measured approach, whereby we were very careful about selecting our advisers.

We did want to get out and talk to the insurers very early; we formally met Rothesay at a meeting in January. We'd appointed our advisers by March and then it was from March for the rest of the year basically that we did the heavy lifting on doing the deal.

Is that a typical length of time?

Cooper-Smith: Certainly no, this wasn't typical. As has become clear to everybody, this year was a phenomenally busy year, so briefing the market knowing that this process was coming, making sure that we had resources to one side, that was something that wasn't a common feature of the marketplace.

When we first started having the conversations and putting together the quotation of this process, we had no idea what the rest of the year was going to look like.

We really pushed ahead in order to be able to really focus on this scheme ahead of anything else in the marketplace, because it represented such a key opportunity. Many times, people just very dogmatically stick to a specific timeline. This process was much faster than most and when you consider the size of the transaction.

Goodman: Improving our data and keeping our data in a sensible stable shape over the past 10 years has been critical for us. But it wasn't that much effort going into it to getting ourselves ready.

I think that's really a credit to the way that the administration side and our administrators have run the scheme over time. We had Q4 of last year to really establish some interaction between the company and the trustee, to make sure that we were on the same page with our objectives. Which is if a deal is affordable then it's in both the company's and the trustees' interest to do a deal and get over the line.

What kind of impact do you see this having on the members?

Harris: It is interesting, because it's one of those things that we have thought a lot about. Every interaction we've had with Rothesay has been extremely professional and then it just comes down to it being an absolute no-brainer. When you get a member in front of you and you say 'right, we've got this huge scheme, if anything goes wrong Telent are tiny and can't fill the hole'.

Then you've got The Pensions Regulator that's got very limited powers and then you've got the Pension Protection Fund that doesn't pay full benefits. You compare that to Rothesay, to have the regulatory capital required to have and their policy is to hold more than that.

Cooper-Smith: Where the trustee and the corporate set out a very clear target and interact directly with us, it makes a big difference.

Written by Jack Gray