

ALLEN & OVERY

PENSION RISK – PROVIDING SOLUTIONS

Asset-backed funding: which assets, and why?

The most popular income-generating asset used in asset-backed funding arrangements to date is real estate. Marks and Spencer led the way with part of its retail property portfolio; John Lewis, Sainsbury's, Whitbread and others followed.

Real estate isn't the only option, though; other deals have included:

- intellectual property: GKN, Britvic, TUI Travel

- loan notes: Lloyds

- invoices (income receivables): Deloitte

- barrels of whisky: Diageo

- sponsor's interest in another venture (digital TV licence-holder): ITV

- loan notes backed by assets: Midlands Co-operative Society Limited, Severn Trent plc

The use of loan notes backed by assets is a relatively recent development. It allows a wider range of assets to be used as security even if the assets themselves cannot be transferred into the asset-backed funding structure for commercial or legal reasons.



“Allen & Overy LLP’s pensions team advises on cutting edge contingent asset and funding work and has a growing longevity swap practice.”

Legal 500 2012

Benefits for employers and trustees

We're sometimes asked how difficult it is for employers and trustees to agree these deals. There are, of course, complex issues to consider to ensure that the arrangement is appropriate for both sides, but the diagram below illustrates how much overlap there can be in terms of benefits:

