

Five questions every scheme should ask in 2026

Mitul Patel considers how trustees can best prepare for the year ahead

After two exceptional years, UK DB schemes are entering 2026 from a position of strength — but into a landscape of uneven rate cuts, sticky inflation pockets, heavy gilt issuance and ongoing geopolitical risk. The most resilient schemes will be those that ask themselves the right questions early. Here's our concise guide to five that will matter most in 2026:

1) Are our interest-rate and inflation hedges ready for a 'lower but lumpier' path?

Markets have shifted from how high to how uneven. Yields may drift lower in 2026, but swings will be driven by inflation data, growth concerns and gilt supply. This argues for solid hedge ratios with flexibility to adapt.

Today's yields still justify increasing hedges, ideally through frameworks enabling quick rebalancing. Under-hedged schemes may revisit inflation exposure as breakevens look cheaper than recent norms. Well-funded schemes should refine curve matching.

2026 actions: Refresh liability cashflows and key-rate exposures. Adopt a documented hedging policy with pre-agreed triggers.

2) Is our liquidity and collateral framework fit for Quantitative-Tightening (QT)-era gilt and repo markets?

With high gilt issuance and QT, collateral needs can spike precisely when return assets fall. Repo access and funding diversity matter.

QT can push up repo rates, raising leverage costs. Schemes reliant on repo should diversify funding sources, potentially leveraging the benefits of peer-to-peer repo. Collateral waterfalls and eligible-asset lists must handle sharp gilt moves. Avoid dependence on growth assets for collateral, and maintain cash-like sleeves and high-quality bonds. Review the trade-offs between cleared and bilateral derivatives.

2026 actions: Run liquidity fire-drills. Review repo counterparties. Stress-test collateral for higher repo rates, reduced liquidity and wider spreads.

3) How should we deploy surplus and capture credit opportunities as endgame decisions accelerate?

Stronger funding enables faster de-risking, buy-ins/buyouts, or run-on strategies aiming to harvest carry and potentially benefit from future buyout-cost reductions. Tight spreads may still offer opportunities during volatility, making surplus policy and agile governance essential.

Insurer selectivity means portfolio simplicity helps execution. For run-on schemes, volatility increasingly comes from fixed income, not equities. Surplus can be deployed into credit when matching is maintained. Governance designed for calmer markets may now be too slow.

2026 actions: Complete an endgame review. Define surplus uses. Set credit deployment triggers. Update delegated authorities for timely execution.

4) How do we embed sustainability into LDI without compromising precision or liquidity?

Trustees increasingly seek to include sustainability alignment in their



portfolios without compromising matching quality or increasing complexity. The UK's green gilt programme and rising sustainable

corporate issuance offer additional instruments in the trustees' toolkit to pursue their sustainable objectives. We believe that, in general, sustainability metrics are improving and trustees can gain greater transparency into their portfolios' sustainability credentials. Disclosures must align with regulation.

2026 actions: Review sustainability objectives and factor integration. Consider green gilts or sustainability-aware credit. Consider adding clear climate-related metrics to reporting aligned with your sustainability aims and objectives.

5) What are the hidden costs of not reviewing our LDI manager in 2026?

In fast-moving markets, inertia can be costly: Leading to missed opportunities, outdated processes and uncompetitive fees. Daily transparency, strong analytics and responsive governance are now the baseline expectations.

2026 actions: Benchmark service standards and technology. Assess governance responsiveness. Take a deep dive on potential efficiency and fee gains.

Get the details right

A focused approach on hedging, liquidity, surplus, sustainability and manager effectiveness will help schemes preserve hard-won funding gains through 2026 and beyond.

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