

Liability-Driven Investing for Pensions

Why implementing now presents such a huge opportunity

What is liability-driven investing (LDI)?

Liability-driven investing (LDI) is an investment strategy that seeks to minimize a pension plan's funding ratio volatility. To accomplish this, an LDI strategy does not blindly focus on asset growth, but instead centers around aligning pension investments (assets) much more closely with the structure of the pension's future payment obligations (liabilities).

At its core, LDI is about risk management. It seeks to minimize the funding gap—the difference between the value of assets and the present value of liabilities—by structuring investments to reflect key characteristics of the liabilities they are meant to cover, such as cash flows, duration, and interest rate sensitivity. LDI often employs a liability hedging allocation, primarily made up of fixed-income instruments like high-quality long-duration bonds. Any excess assets that are not needed to hedge liabilities can then be used in a return-seeking allocation that may consist of global equities, private market (alternative) investments, and potentially high-yield fixed income.

There are other terms that are often used to describe the strategy. Some terms associated with LDI strategies include asset–liability management (ALM), de-risking, immunization, and cash-flow matching. These are all versions of LDI seeking to accomplish a similar goal: to have the plan's asset value move similarly to the value of plan liabilities when interest rates change. This helps to preserve the plan's funding ratio, protecting it from volatile swings as it moves through changing economic cycles.

Who could potentially benefit from using an LDI strategy?

- Corporate defined benefit plans
- Public-sector pension plans
- A pension nearing fully funded or overfunded status
- An underfunded pension that wants to protect against market fluctuations

LDI is most commonly associated with defined benefit plans that are near fully funded or overfunded. Most defined benefit plans have seen their funded status ratio improve over the past several years, making now a good time to consider de-risking from a position of relative strength.

Why now?

Several converging trends make the current environment particularly conducive to adopting or enhancing LDI strategies:

- **Interest rates near their highest level in 20 years.** After a prolonged period of low interest rates, the recent shift to a higher-rate environment has fundamentally changed the LDI landscape. Higher rates reduce the present value of liabilities, improving funding ratios for many pension plans. This creates an opportunity to lock in gains and hedge against future volatility by proactively implementing LDI strategies.

- **Aging pension plan demographics.** Many defined benefit plans are maturing, with more retirees than active members. As cash outflows increase, the need to match liabilities with dependable, low-volatility income streams becomes critical.
- **Regulatory pressures and fiduciary responsibilities.** Global regulatory frameworks increasingly emphasize risk management and liability awareness, further driving the potential need for LDI adoption. Plan sponsors and committees have a fiduciary duty to act in the best interest of a plan's participants. This could mean ensuring the highest probability that retirees will receive their payments and a plan will remain solvent.
- **Market volatility and de-risking trends.** In an era of heightened market uncertainty and geopolitical risk, many institutional investors are looking to de-risk portfolios. LDI offers a disciplined, liability-focused approach that prioritizes long-term stability over short-term gains.

Why use Nottingham Advisors?

At Nottingham Advisors, we have a team of experienced, highly-credentialed investment professionals who employ a robust investment management process. We pride ourselves on delivering a high level of client service while being able to articulate all elements of the portfolio decision-making process—from portfolio construction to research to implementation to trading—because all decision are made in-house by our team.



Our experience managing defined benefit plans has allowed us to grow and integrate investment solutions that we believe are ideal for the DB space. Streamlining our processes has given us the ability to scale our operations so we can serve each plan with a strong emphasis on quality. As the market environment has changed to a more favorable interest rate environment for fixed income, we have been able to employ customized LDI solutions for clients who need to manage cash flows and hedge risks.

By democratizing these solutions, which are typically only accessible to pension plans with very sizable assets, our pension investment management offering has seen substantial growth over the past several years. In 2025, Nottingham Advisors was recognized as a 5-Star Wealth Management Team by InvestmentNews.¹

Conclusion

Liability-driven investing represents a strategic shift from blindly chasing returns to holistic risk alignment. By focusing on the structure and sensitivity of liabilities, implementing an LDI strategy allows institutional investors to manage risks more precisely, improve funding predictability, and better meet their long-term obligations.

As interest rates normalize and funding statuses improve, LDI is not only relevant—it is essential. The window of opportunity may be fleeting. Typically, in a recession, interest rates will decline and equity markets will fall. This would reverse the market moves that pension plans have benefitted from so greatly, potentially requiring additional contributions to the plan in the future. Implementing an LDI strategy now allows plan sponsors to realize the benefits discussed and mute the negative impact of future market swings.

Timothy Calkins, CFA
Co-Chief Investment Officer
Timothy.Calkins@

Nottinghamadvisors.com | 716-633-3800

Nicholas DiRienzo, CFA
Senior Portfolio Manager
Nicholas.DiRienzo@

Nottinghamadvisors.com | 716-633-3800

Mike Skrzypczyk, CFA
Senior Portfolio Manager
Michael.Skrzypczyk@

Nottinghamadvisors.com | 716-633-3800



Experience the Nottingham difference for yourself

NEW YORK

100 Corporate Parkway, Suite 338
Buffalo, NY 14226
716.633.3800

FLORIDA

3801 PGA Blvd., Suite 600
Palm Beach Gardens, FL 33410
800.281.8974

nottinghamadvisors.com | nottinghamfg.com

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Methodology: In May 2025, InvestmentNews honored the top wealth management firms in America that excelled in growing and retaining clients. Investors across the country were invited to nominate their advisory teams – defined as groups consisting of four or more advisors – and highlight the standout services that distinguished these teams. Key areas of focus included: meaningful contributions to clients and the financial industry; deep understanding of client needs; notable impact achieved over the past 12 months; standout performance based on AUM and team results. The IN team carefully reviewed all nominations, evaluating how each advisory team made a significant difference for their clients and within the broader financial services industry.