

# Single fund at asset manager faced 'knockouts' without fall in gilt yields

Britain's financial regulators have identified one remaining fund at an asset manager which would have faced a series of "knockouts" and potential collapse if gilt yields had risen markedly this morning.

A half percentage point rise in the interest rates on government bonds would have left this fund, whose identity Sky News is protecting, having to conduct a "firesale" of government bonds, we have learnt.

However, since the problems are located specifically in a single fund, the Bank of England believes that its collapse would not provoke a system-wide problem that would necessitate its intervention.

Critically, as it is, with the [yields on those long-term government bonds](#) (a form of debt) lower rather than higher this morning, the fund in question should be able to survive, according to insiders.

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However, the news underlines the extent to which pockets of the market remain vulnerable to any further sharp lurches in the government's cost of borrowing.

The story here goes back to the [sharp increase in these interest rates following the mini-budget](#).

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Many defined benefit pension schemes had become reliant on these LDI (liability-driven investment) funds, which themselves rely on complex financial engineering, sensitive to any small moves in interest rates.

When those interest rates lurched dramatically higher, many of these funds faced liquidity issues – a shortage of available money.

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This all happened in the hours and days after the mini-budget, and by the following Wednesday the Bank's Financial Policy Committee judged that there was a risk to the wider gilts market.

It intervened by buying up some of the affected bonds, pushing down the interest rates on them. However, that support came to an end on Friday.

By that time, nearly all the City's investment managers had rearranged their affairs so they wouldn't be vulnerable to the end of the Bank's support.

But the web of regulators monitoring these markets also identified a particular asset manager with a range of funds which remained exposed to rising interest rates. One fund in particular was vulnerable to even a half percentage point rise in long term bond yields.

That, according to insiders, would provoke a series of "knockouts" – when the fund hits thresholds, forcing it to sell its gilts.

However, the Bank believes that the scale of the forced sales would be manageable – around £100m – and not enough to provoke a wider system-wide crisis in the gilts market.

A bigger upwards move in government bond yields, however, would cause further such "knockouts" in other funds at this specific asset manager.