Demands building for independent inquiry into pensions turmoil which left several funds just hours from collapse

- **Politicians and industry experts call for probe into meltdown**
- **Chaos showed how exposed pensions industry is to sharp bond market sell-off**
- **Shone light on Liability Driven Investment strategies**

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Demands are building for an independent inquiry into the pensions turmoil which left several funds just hours from collapse.

Politicians and industry experts have called for a probe into the financial meltdown which drove some so-called Liability Driven Investment (LDI) funds to the brink.

The chaos, which followed Chancellor Kwasi Kwarteng's mini-Budget, showed how exposed the pensions industry is to a sharp sell-off in the UK bond market, and shone a light on LDI strategies used by pension funds covering millions of savers to 'hedge' against interest rates and inflation.

On the brink: The chaos showed how exposed the pensions industry is to a sharp sell-off in the UK bond market

Blame has been put on the mini-Budget, but regulators are being urged to explain how they will stop a repeat of the debacle. Former pensions minister Ros Altmann wants an inquiry into the pensions sector and the widespread use of complex financial products.

She said: 'We need a proper inquiry to understand the mistakes made which left hundreds of billions of pounds in pension assets chasing gilts. It is important it doesn't happen again.' LDIs are used by final-salary pension schemes to cover future pay-outs.

They 'hedge' against movements in interest rates, inflation and currencies, by allowing pension funds to layer up debt to buy more gilts.

But they allow funds to borrow to increase their gilts holdings – leaving them exposed to losses if the market slips.

When the mini-Budget triggered the biggest sell-off on government bonds in decades, many LDI funds neared collapse. Analysts believe that while the bond sell-off was a rare event, financial regulators and pension fund managers were caught 'asleep at the wheel' – including the Bank of England's Prudential Regulation Authority.

Tom Selby, at AJ Bell, said: 'It was the sharpest sell-off in gilts since the turn of the millennium. We need to look at what has gone wrong. This cannot be swept under the carpet.'

Next chief executive Lord Wolfson said LDIs were offered to his company in 2017 but looked 'very dangerous' – so he alerted the Bank to a looming 'time bomb'. By 2021 LDIs underpinned £1.6trillion worth of liabilities – four times higher than ten years before.

Former Tory leader Sir Iain Duncan Smith said: 'Pension funds shouldn't have got themselves into that position.'