# Half of global DB funds monitor surplus risk

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## Findings

Approximately half the survey respondents measure surplus risk using the volatility of asset returns relative to marked-to-market liabilities. Most (88%) measure the risk of active management through volatility of value added or tracking error.

## Database

These findings are based on survey responses from 58 leading global funds managing US$1.8 trillion in total assets. Administered in September, 2009, the survey was largely qualitative and was followed up with interviews, where clarification was required.

The Global Investment Risk Management and Practices report includes the following analysis:

- Investment risks monitored
- Frequency of monitoring
- Beliefs and regulations that affect what is monitored
- Governance practices and organizational structure.

## Report Highlights

### *Risk Management*

Measuring does not necessarily mean managing. One indicator of how risks are being managed is risk budgeting: 50% of participants use risk budgeting for their active management risk whereas only 16% use risk budgeting to manage their surplus risk.

Frequency of monitoring is another indicator of how actively a risk is being managed. The majority of participants measure active management risk either monthly (41%) or quarterly (41%). Of the participants that measure surplus risk, most do so quarterly (42%).

### *Regional differences*

Different regulatory requirements around the world cause regional differences in approaches to risk. In many European countries, regulators require market-based valuation of liabilities. In these areas, surplus risk measurement is more prevalent (9 of 13).

In the U.S., recent changes in accounting rules have resulted in more corporate funds measuring their surplus risk (9 of 12). U.S. public funds are not subject to the same accounting rules and are the least likely to measure surplus risk (2 of 12).

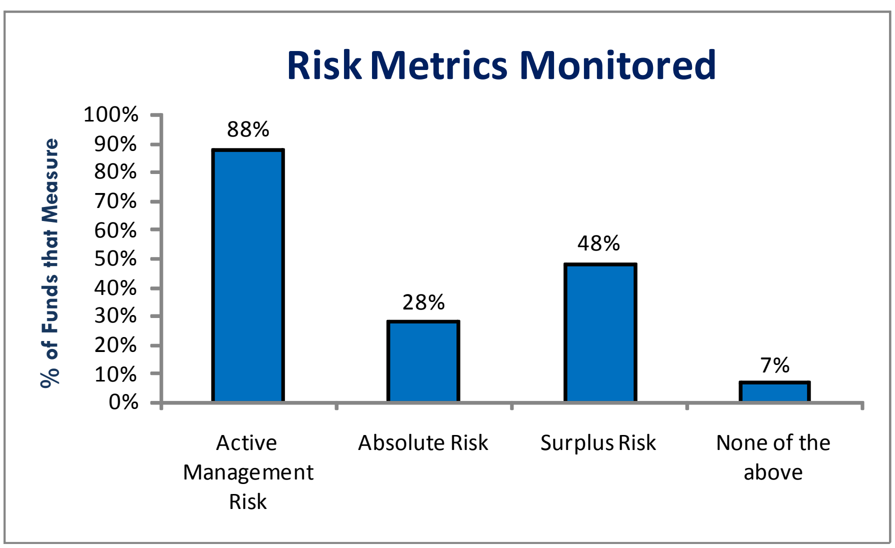
### *Governance*

66% of participants have Board (or other oversight body) approved risk levels. Of those that have Board level approval, 49% have explicit risk levels for active management risk and 29% for surplus risk.

### *Organizational structures*

52% have a separate risk group that oversees risk management. For funds with assets above U$25 billion, 91% have a separate risk group. On average, there are 4.7 people dedicated to risk management. That number varies widely by size and whether the plan is corporate or public.

## Active management risk measured the most




**Active management** risk metrics are the volatility of value added (actual minus benchmark return) or tracking error.
**Absolute** risk metrics apply to the volatility of total fund returns.
**Surplus** risk metrics are the volatility of surplus based on marked-to-market liabilities.

To receive the Global Investment Risk Management and Practices report, you must subscribe to CEM's customized, peer benchmarking service. Please contact:

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