How to optimize your credit risk profile?

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Start

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Agenda

- The case for Credits within a pension fund portfolio
- Optimizing your Credit risk
- Constraints to optimization
- The challenges ahead: the New Pension Contract

The case for Credits within a pension fund portfolio

The positive characteristics of Credits outweigh the limited contribution to interest rate and inflation hedge:

- Credits offer an attractive premium versus risk free government bonds
- Credits offer diversification on total portfolio level
- A large part of Credit universe is of high quality and with limited risk (government related, securitized)

Optimizing your Credit risk

The broadness of the Credit universe offer pension funds many options to optimize their allocation:

- Credit risk
- Regional exposure
- Liquid or illiquid
- Public or private debt

Constraints to optimization

The possibilities of optimization within Credits are not unlimited, due to:

- Minimum Funding Requirement
- Coverage ratio constraints
- Available governance budget: Minimum % allocation to cover governance costs.
- Assets under management

But also market developments can play a role:

- Central bank buying
- Law and regulatory changes

Challenges ahead: The New Pension Contract

The new pension contract will affect the optimization of Credit risk!

Within the NPC:
- We shift from a nominal liability to available capital system
- MFR constraints will no longer apply.

But the in optimizing Credit risk we must take into consideration:
- Risk tolerance and available risk budget
- The risk appetite differences between generations
- The risk appetite within a lifecycle