

How to optimize your credit risk profile?

CFA Society VBA Netherlands Webinar

Rik Bekkers

Fiduciary Manager Fixed Income

19 November 2020



Start



Disclaimer

Copyright © 2020 All rights reserved. This slide deck has been prepared for information and discussion purposes only, this presentation does not form a proposal, advice, suggestion, offer nor an invitation to an offer. The information in this presentation is provided “as is” and sender assumes no responsibility for errors or omissions. Sender waives every liability or responsibility for (the consequences) of activities which will be undertaken, based on this leaflet.

This disclaimer is governed by Dutch law.

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