

ALM & Investment Management in the Current Environment

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55th Annual Convention

Actuarial Society of the Philippines

13-14 November 2014, Bellevue Resort, Bohol

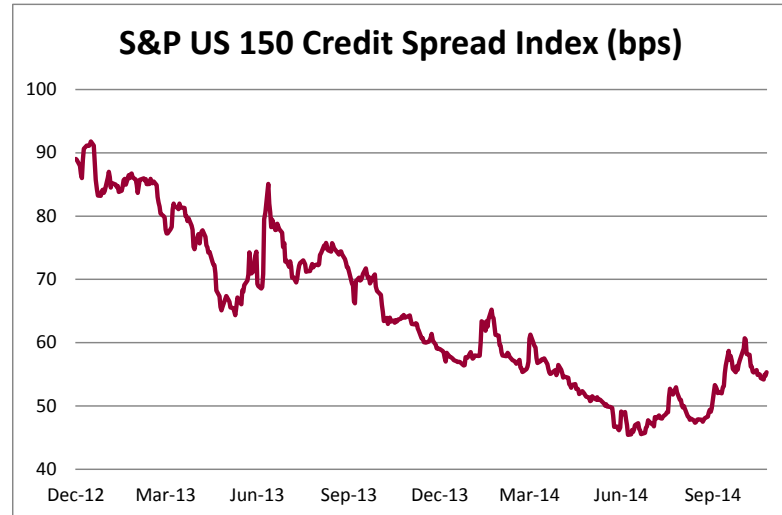
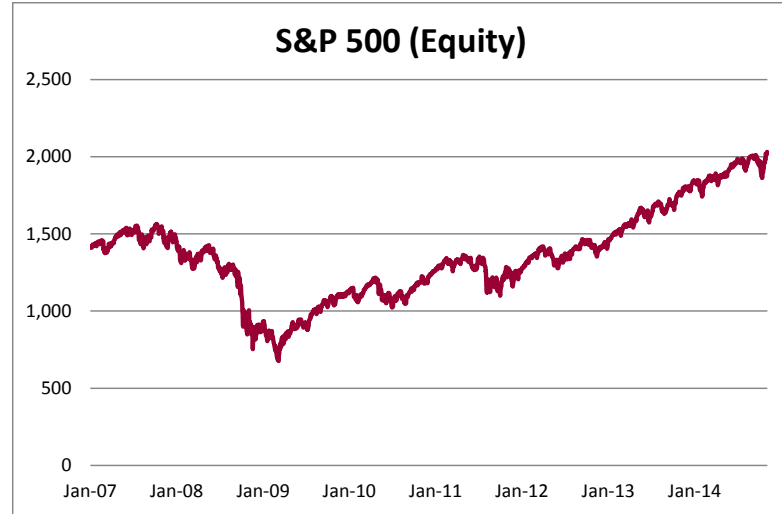
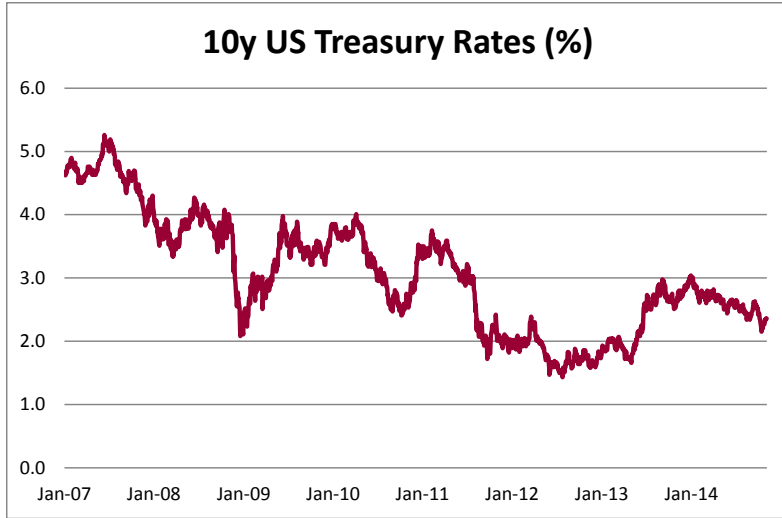
Agenda

- Financial markets: 2007 to now
- Challenges facing asset-liability managers
- What, then, is to be done?



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From There to Here



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Source: Fed, Bloomberg, S&P

Second Order Effects

- Intensity of regulatory focus
- Bank balance sheet reductions
- Liquidity in bond markets
- Emerging markets rates



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The Challenges

- Waiting for higher yields and risk premia?
- Liability volatility and policyholder behaviour
- Tools for understanding and communicating risk and return

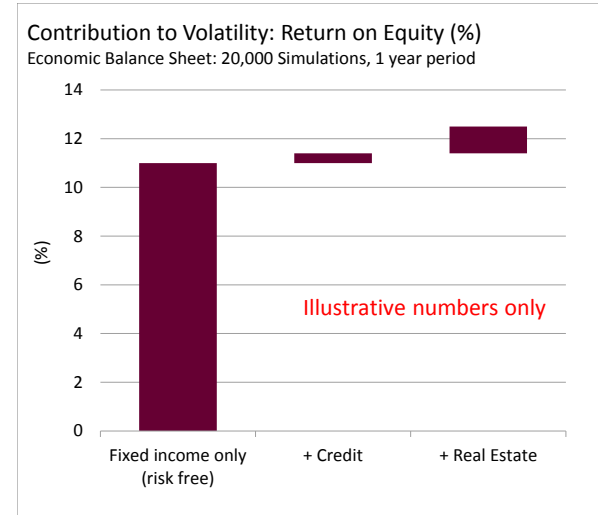
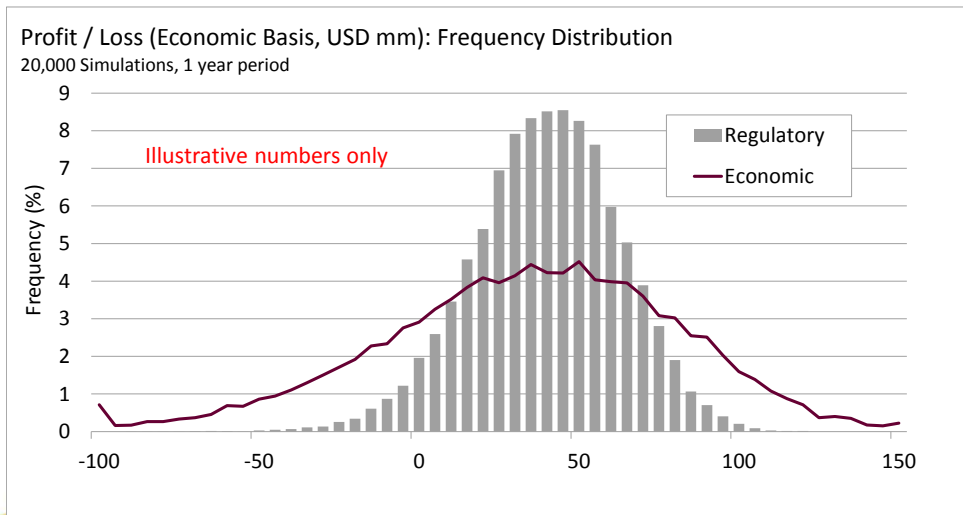


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We need to invest in better tools

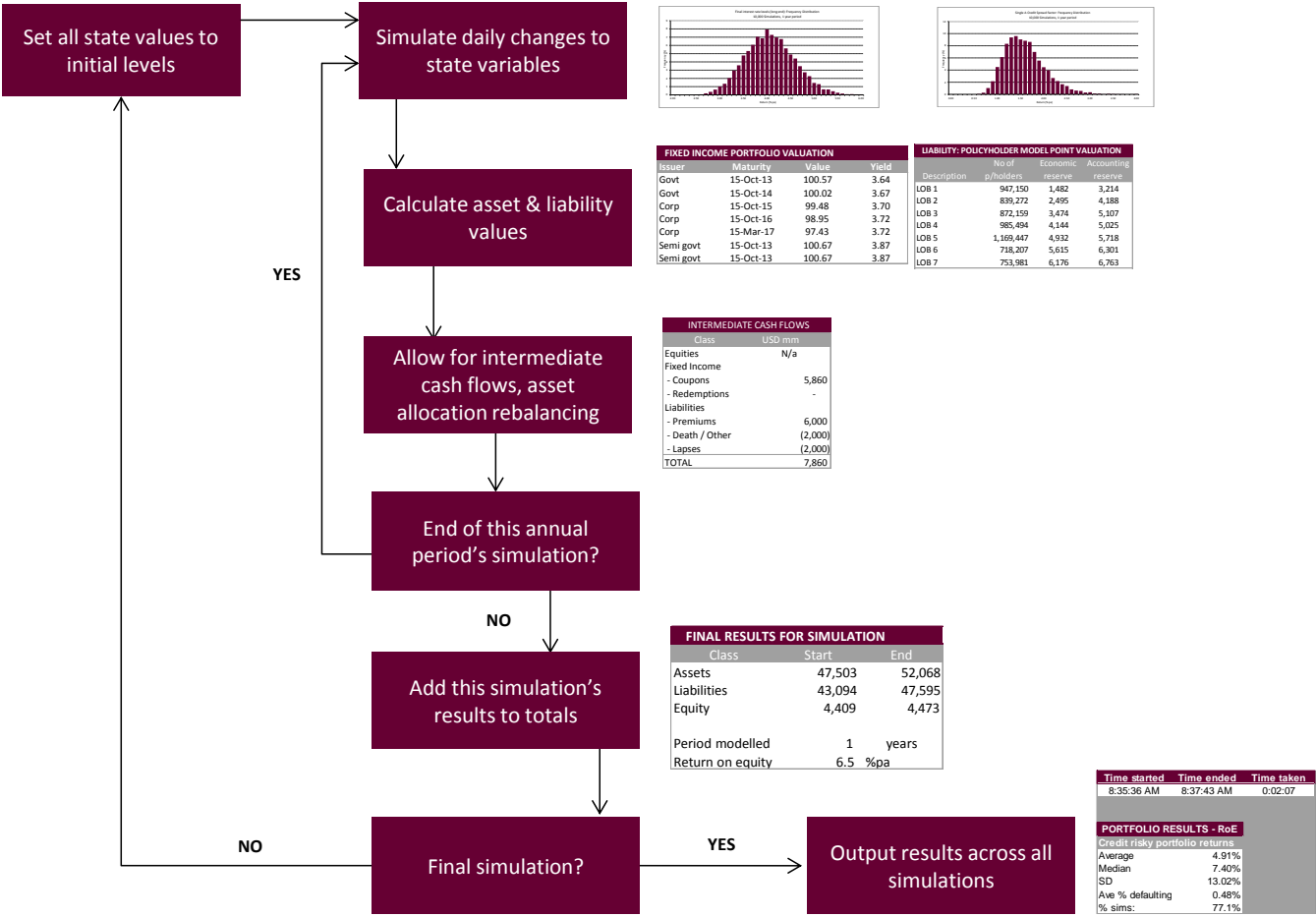
Some variables have peculiar impacts on both tail risk and expected vs median returns

- Credit spread risk vs downgrade risk vs credit curve effects
- Steepness of the yield curve vs liability profile
- Correlation with policyholder behaviour?



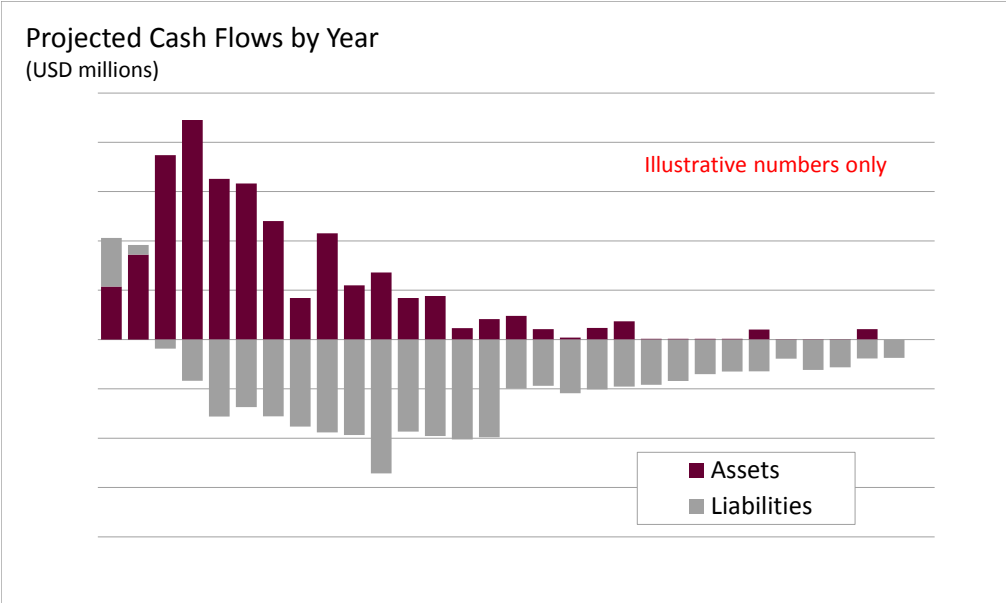
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Building models: degree of difficulty?



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Reinvestment risk, steep yield curves



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Execution is hard work

Communication of risk is not easy

- Institutional challenges – who brings it all together?
 - Which transactions?
 - Regulatory capital effects
 - Investment reporting infrastructure



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Waiting for yield?

Diversify sources of excess return

- “First, don’t do stupid”
 - Cash management, transaction costs, costs of complex structures, tax, administration costs
- Be wary of non-linear payoffs
- Look for / create embedded hedges in your business?



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A Final Word

Companies do not manage ALM, people do

- Requires knowledge of:
 - Liabilities
 - Securities and derivatives
 - Regulatory and economic capital



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