



# Risk Management Tools

CCMS & CAIC Conference

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# GRAVITAS

- ◆ SEC Registered Investment Advisers
- ◆ Design and Implement risk management tools/strategies for central banks, pension and insurance funds
- ◆ US\$2.6 billion under non-discretionary advisory
- ◆ Washington, DC based
- ◆ [www.gravitascapital.com](http://www.gravitascapital.com)



# Risk Profile = Risk Tools

(NB: Funds Profile = Risk Tools/Strategies)

- ◆ Central Banks
  - Foreign Exchange Reserves
  - Debt Sinking Funds
  - Pension Funds
- ◆ National Insurance Schemes
  - Social Security Funds
- ◆ Multi-Lateral Organizations
  - Varied Purposes (Insurance, Pension, Reserves, ALM)



# Central Banks Risk Tools (1)

## ◆ Integrated Risk Management Framework

- Multi/Single Currency Benchmarks
- Calibrated to yield 5%-8% per annum
- High liquidity
- Monitoring Software:
  - ☞ Benchmark Maintenance System® (BMS)
  - ☞ Credit Risk Management System® (CMS)
  - ☞ Executive Oversight System® (EOS)



## Central Bank Risk Tools (2)

### ◆ Debt Redemption Fund

- From passive Sinking Funds to dynamic contributors to National Budgets
- Calibrated to generate P+I at maturity
- Principal protected at maturity
- Reduces burdens on National Budget



# NIS Risk Tools

- ◆ Geographical concentration = Systemic/Catastrophic risk
- ◆ Cautious off-island diversification but difficult markets
- ◆ Risk Tool:
  - Principal Protected Mutual Fund Investments
    - ☞ Funds are invested in Public Mutual Funds (liquidity, transparency...)
    - ☞ Principal invested is protected by top tier bank at horizon – as determined by actuarial studies.



# Case Studies

- ◆ Benchmark framework yields 15% cumulative returns since 2001 inception - with little risk
- ◆ Trust Fund yields in excess of required 7.5% hurdle return – Principal regeneration targeted in 5 years (Multi-Manager)
- ◆ Debt Redemption Fund yields set to alleviate National Budget contributions to Sinking Fund.



## In Summary...

- ◆ Risk Profile = Risk Tools
- ◆ Benchmarks – more predictive central bank returns
- ◆ Debt Redemption Funds – more effective asset-liability management
- ◆ Principal Protected Investments – more secured transitions into new markets.