



October

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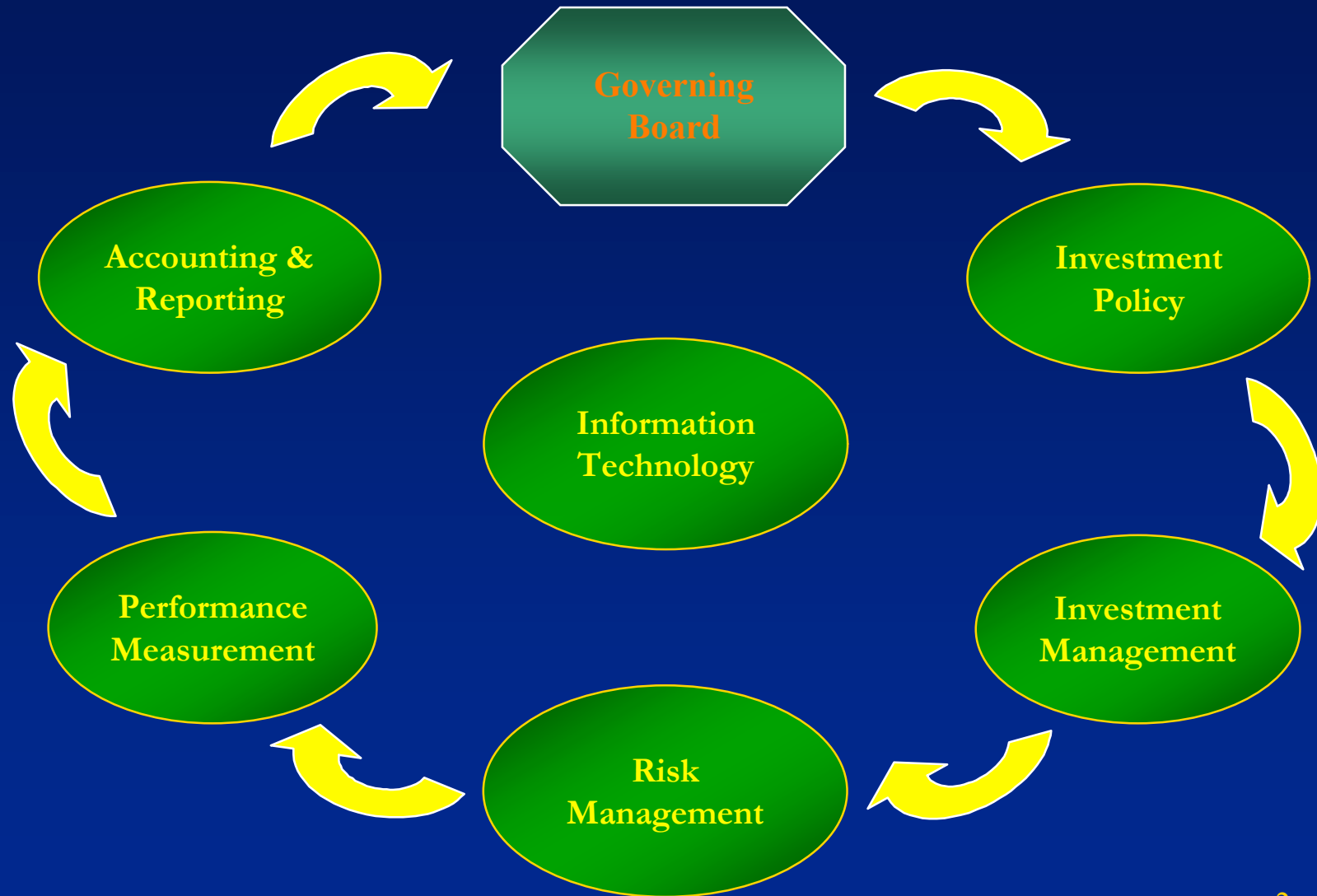
# Governance and Risk Management Structures for Fund Management

**Caribbean Center for Monetary Studies**  
**11<sup>th</sup> Annual Senior Policy Level Seminar**

**May 25, 2007**  
**Port of Spain, Trinidad and Tobago**

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# Investment Framework

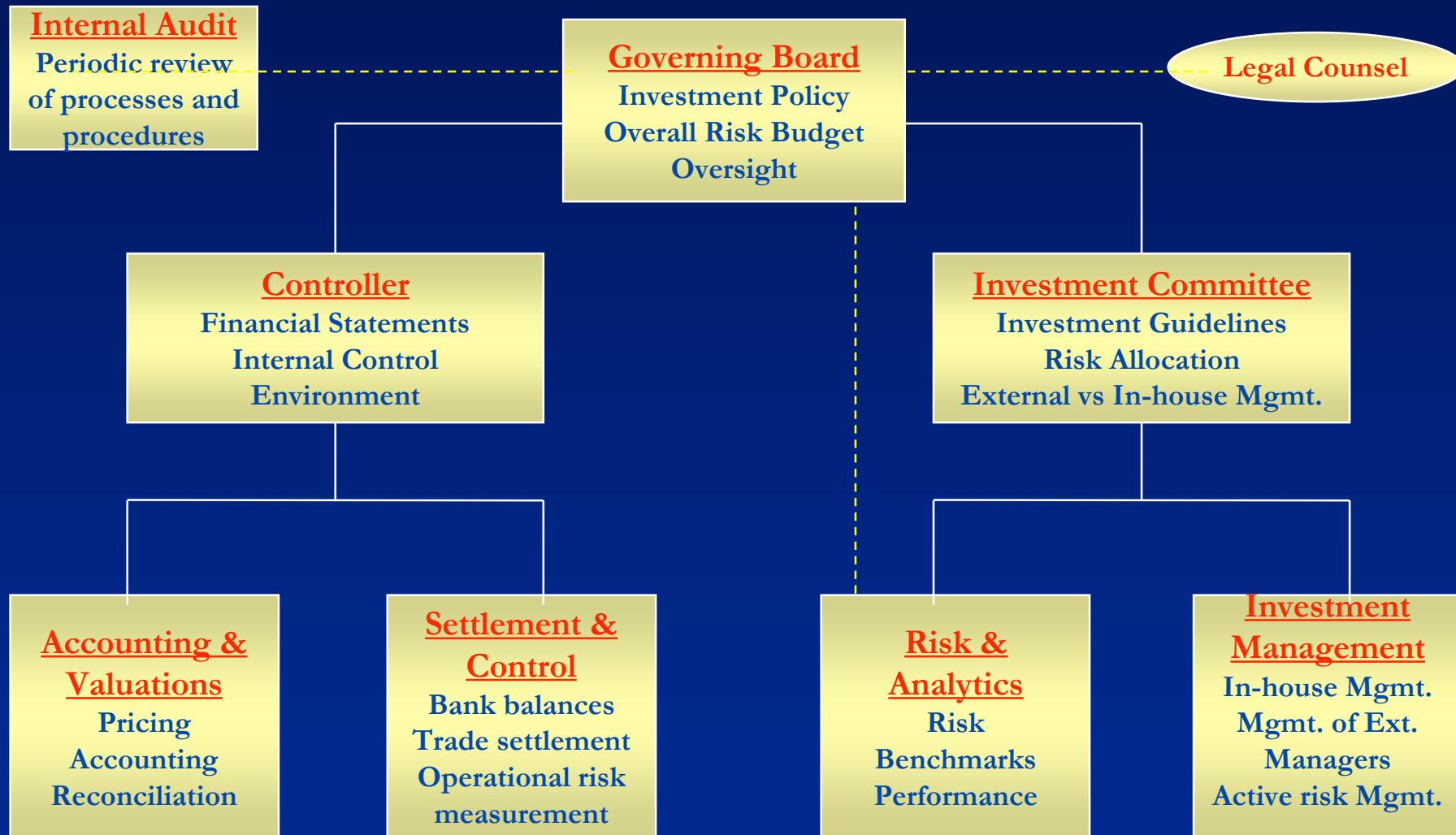


## Guiding Principles

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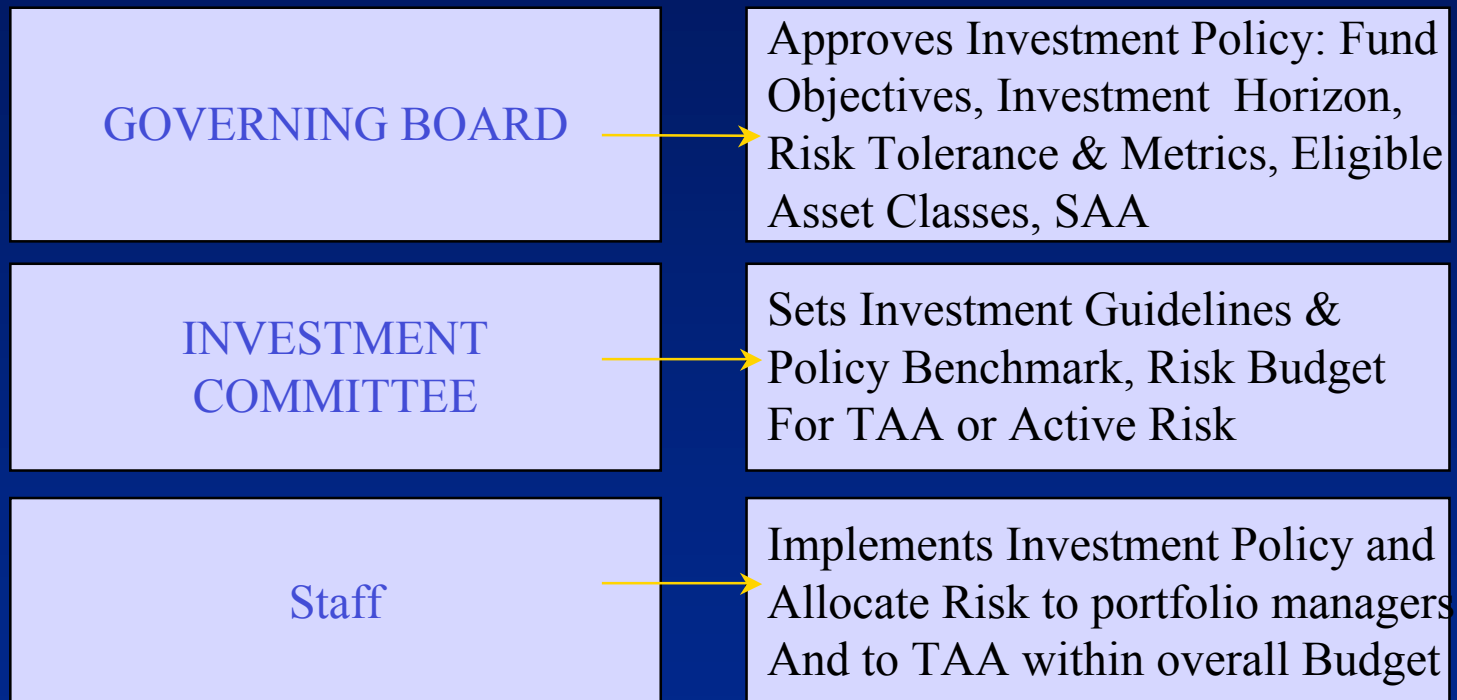
- **Every Fund has a unique risk profile based on:**
  - **the liability characteristics of the Fund; and**
  - **the size of the Fund relative to its liabilities;**
- **Good governance = Clear separation of roles and accountabilities;**
- **Board should “own” the Fund’s risk profile (both SAA & Risk Budget);**
- **Policy decisions need to be clearly articulated and documented;**
- **Risk usage and return should be monitored and reported regularly;**
- **Structural changes may require a review of Investment Policy (e.g. availability of new asset classes, demographic profile of beneficiaries, cash-flow needs, capacity of domestic markets, ability to hedge currency risk).**

# Organizational Structure

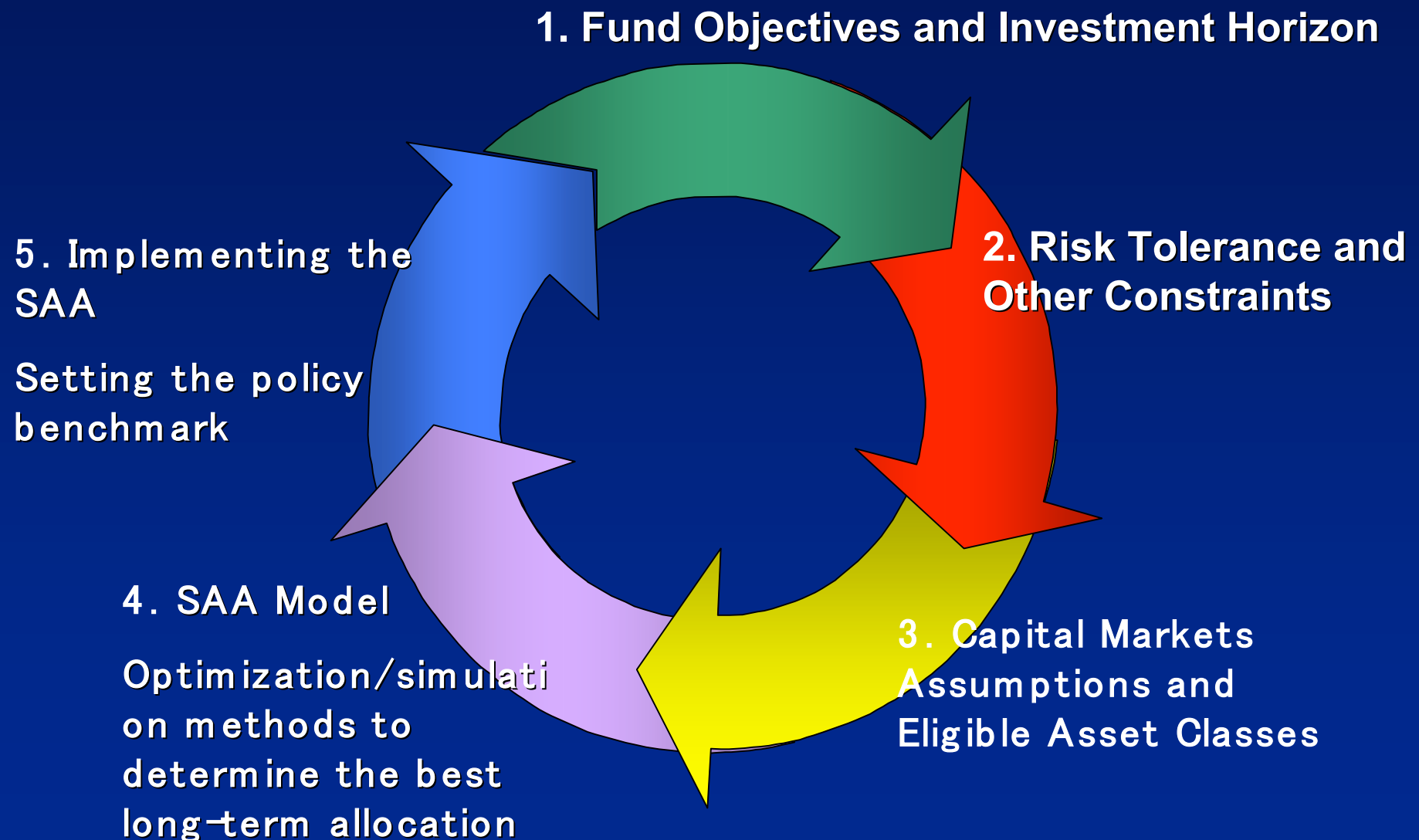


# Investment Policy: Roles

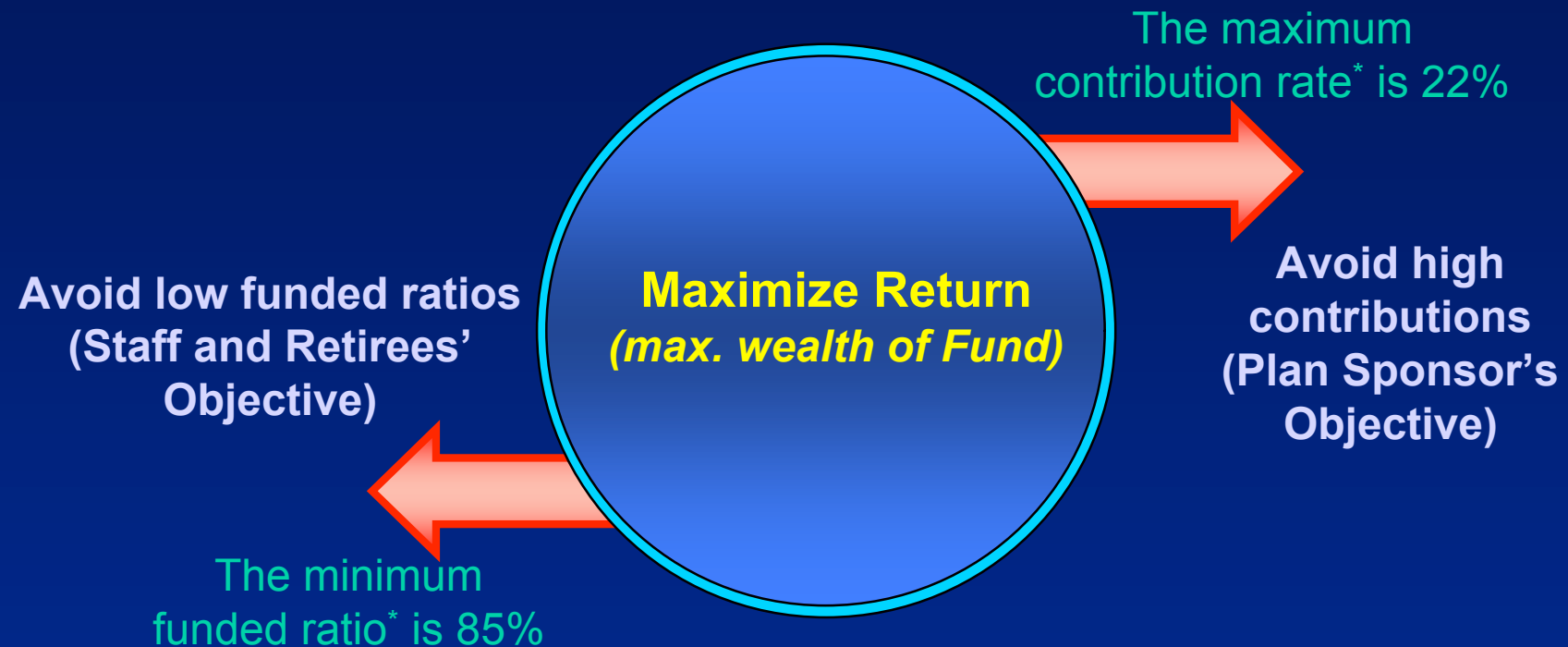
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# Strategic Asset Allocation Process



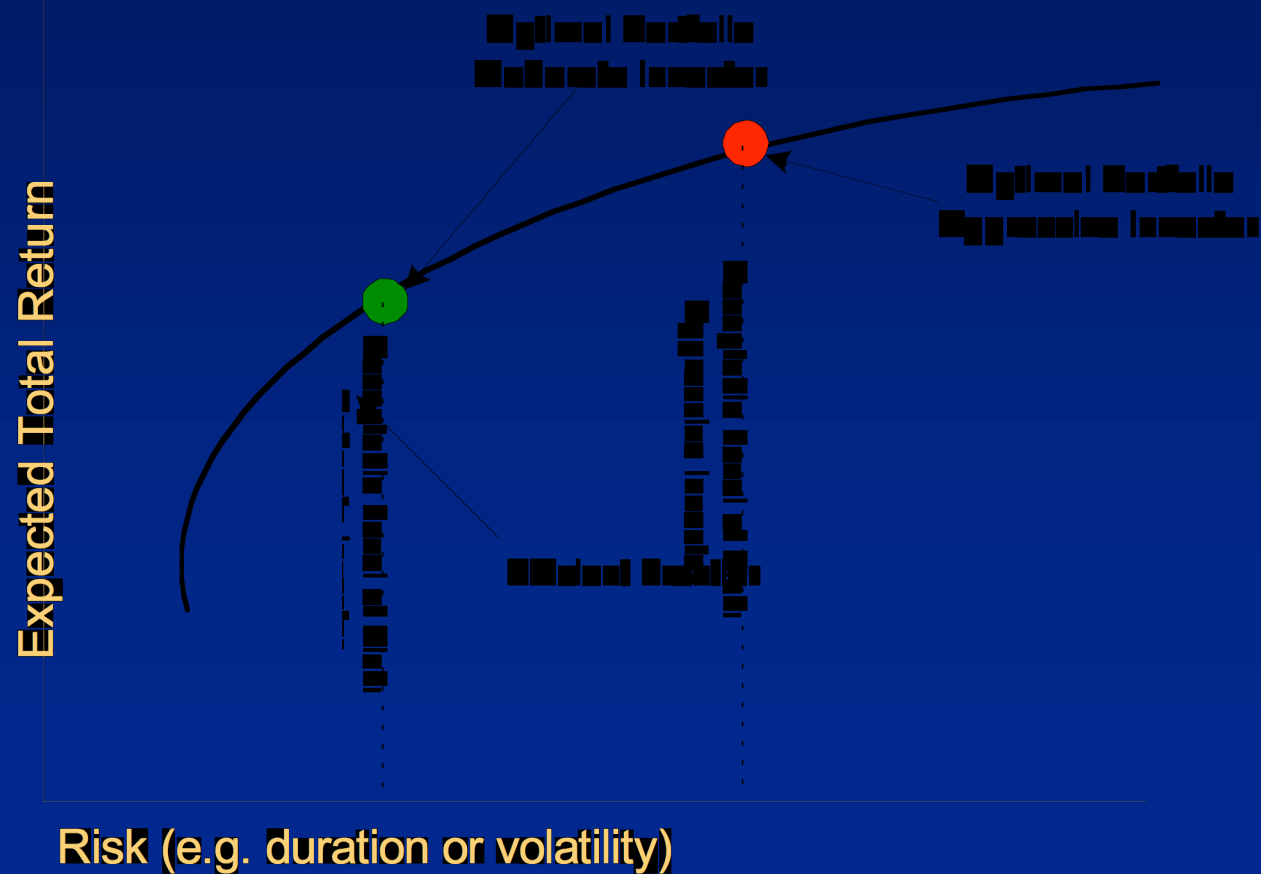
# Translating Risk Tolerance into Metrics



\* There is a 5% probability that these levels are exceeded in the next year.

# Optimal Portfolios for Different Investors

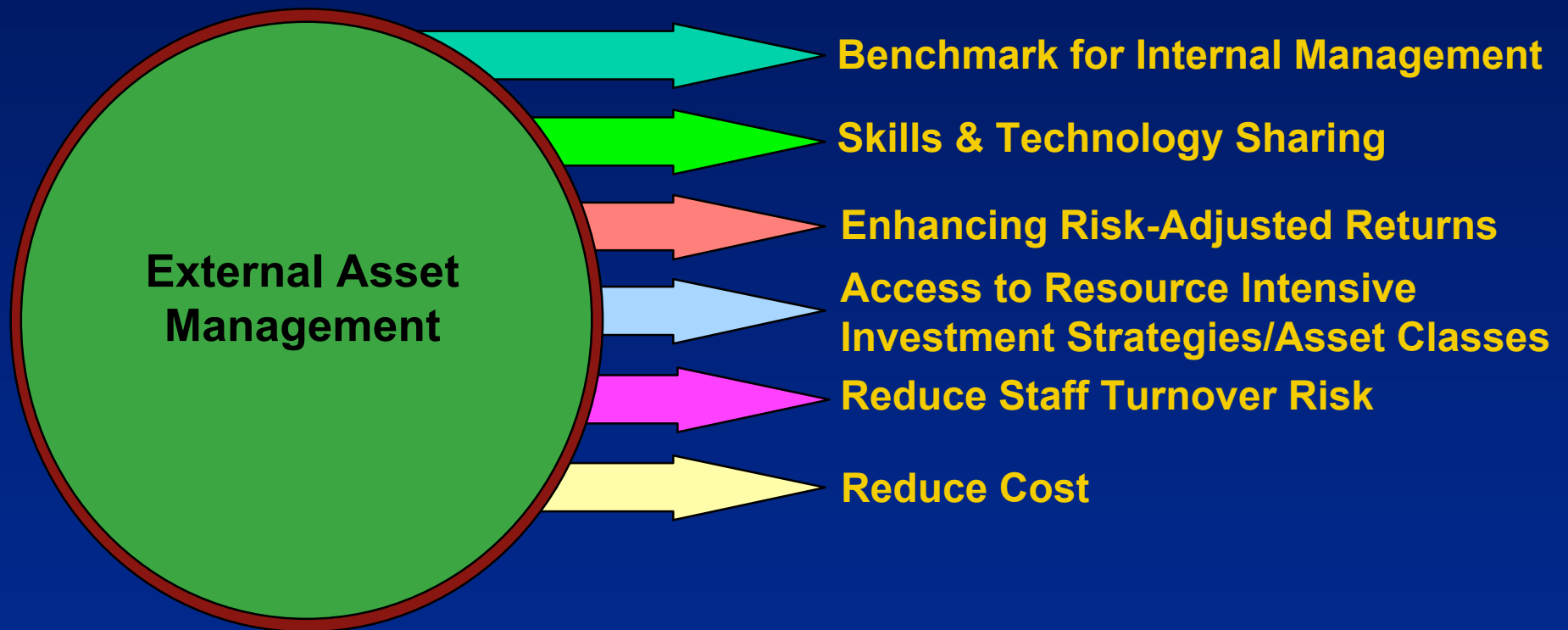
- Efficient frontier: set of portfolios which have the highest possible expected total return for a given risk level.



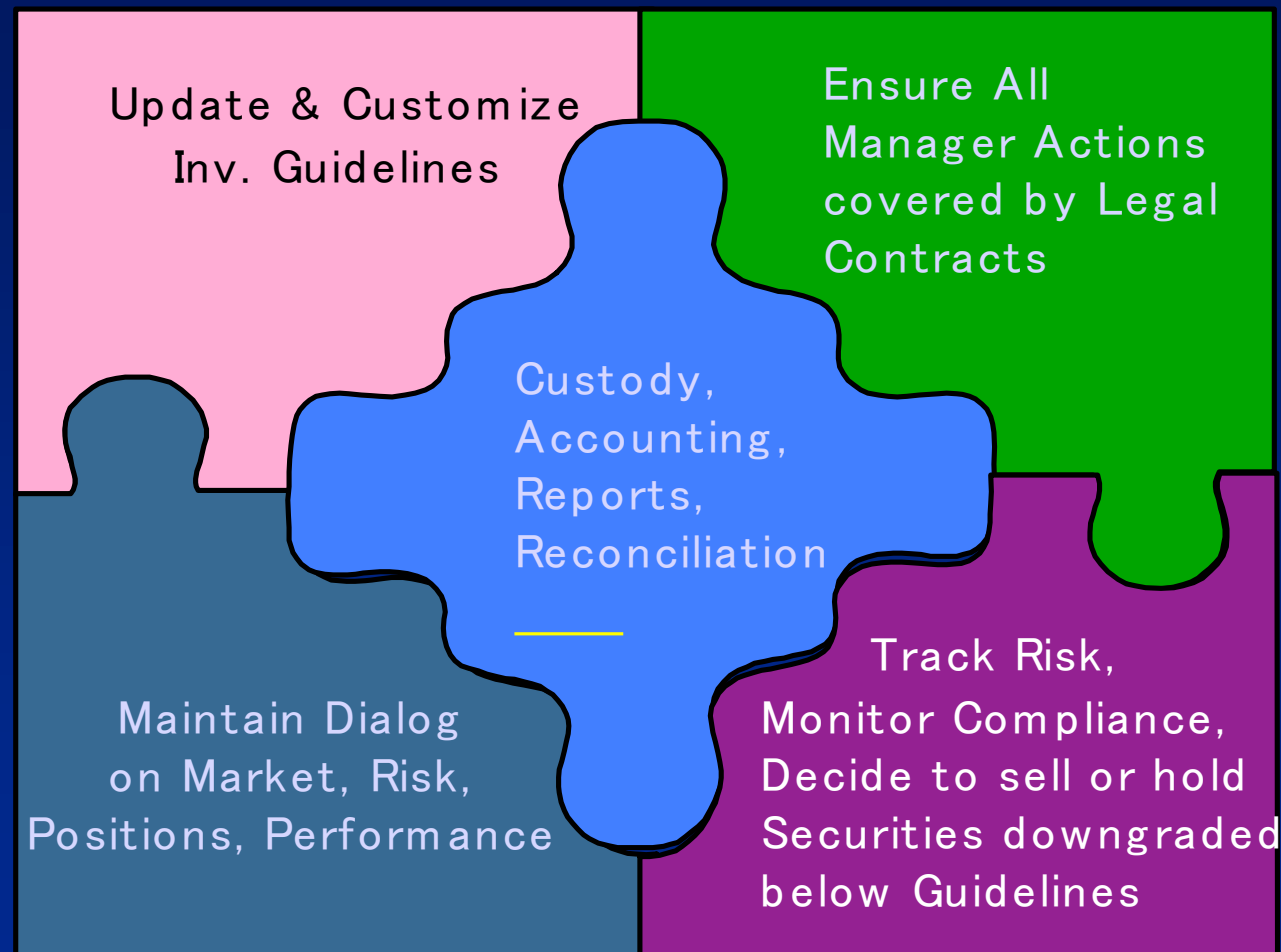


# In-house Management versus External Managers

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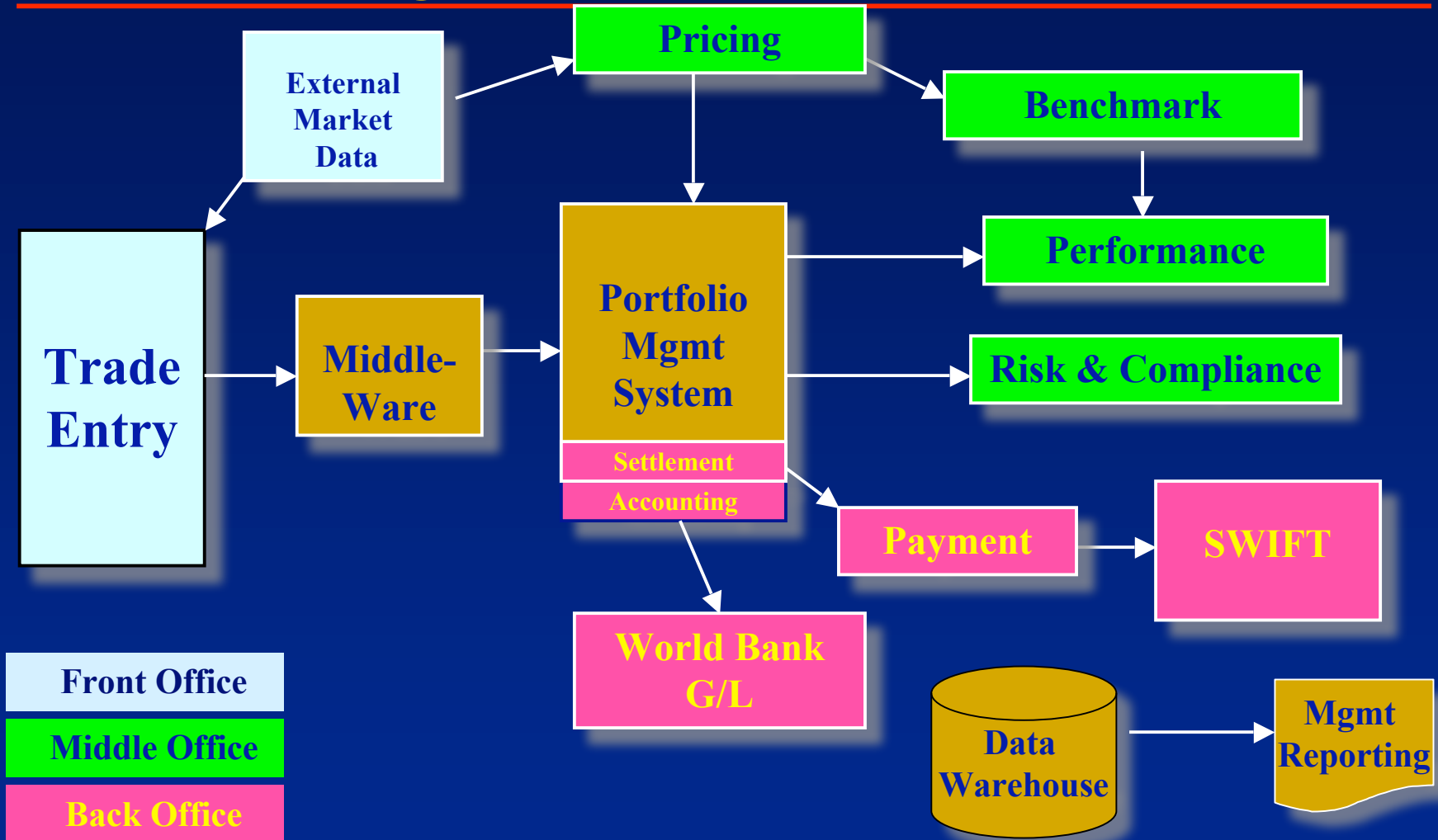


# External Managers – Staff Accountabilities



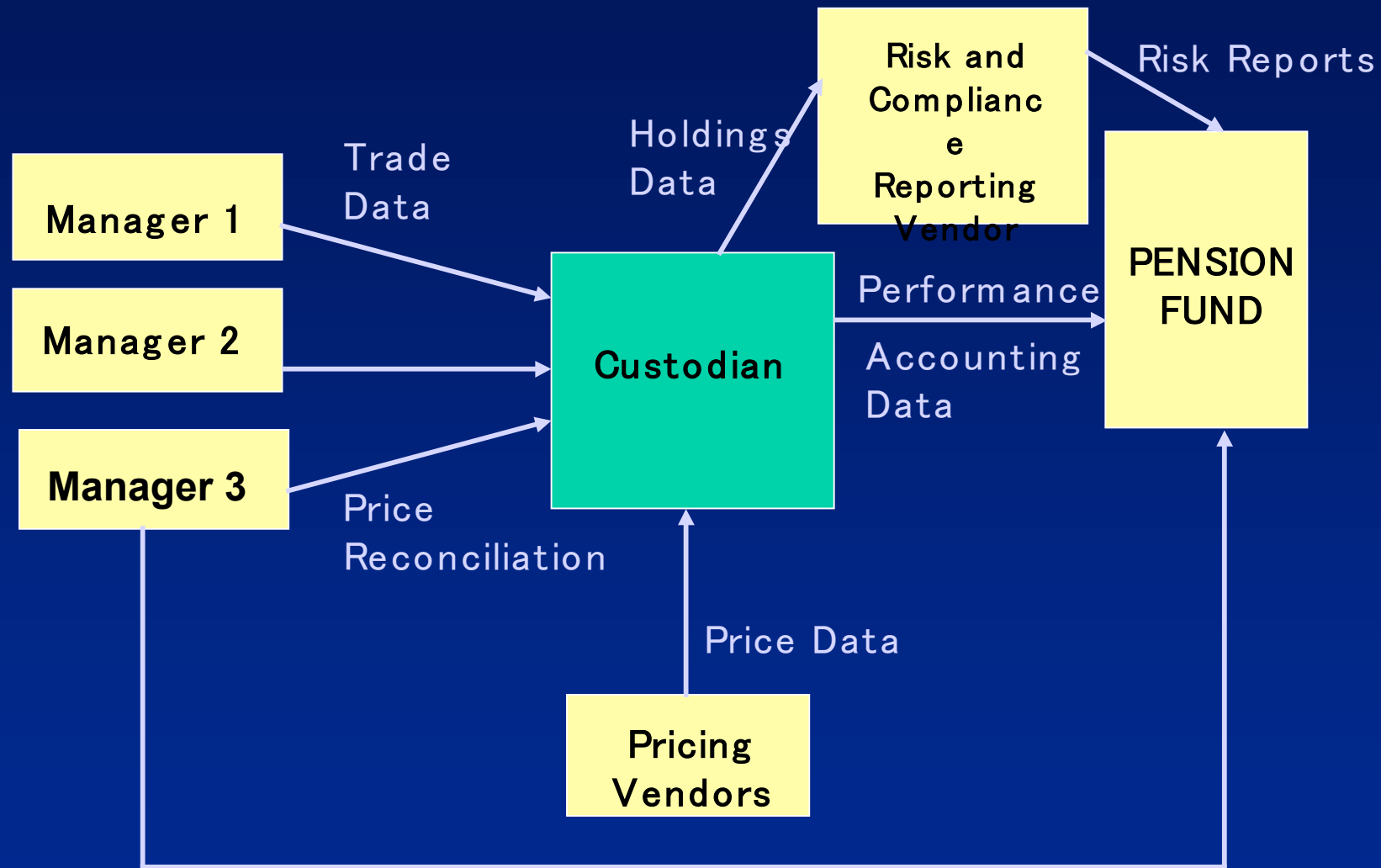
# IT Systems and Data Flows – In-house Management

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...suitable for high volume – high risk

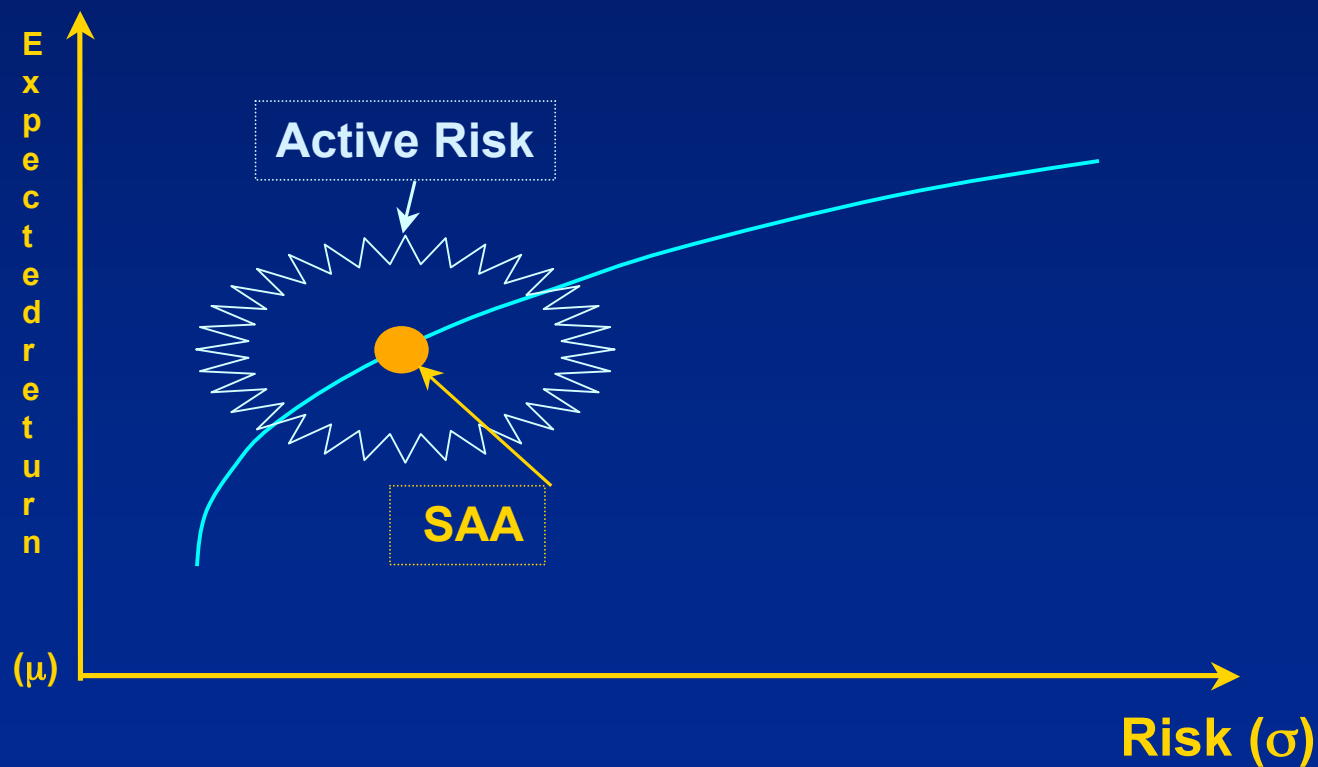
# IT Systems and Data Flows – External Managers



Performance, Risk, Positions, Market Color

## Types of Risk

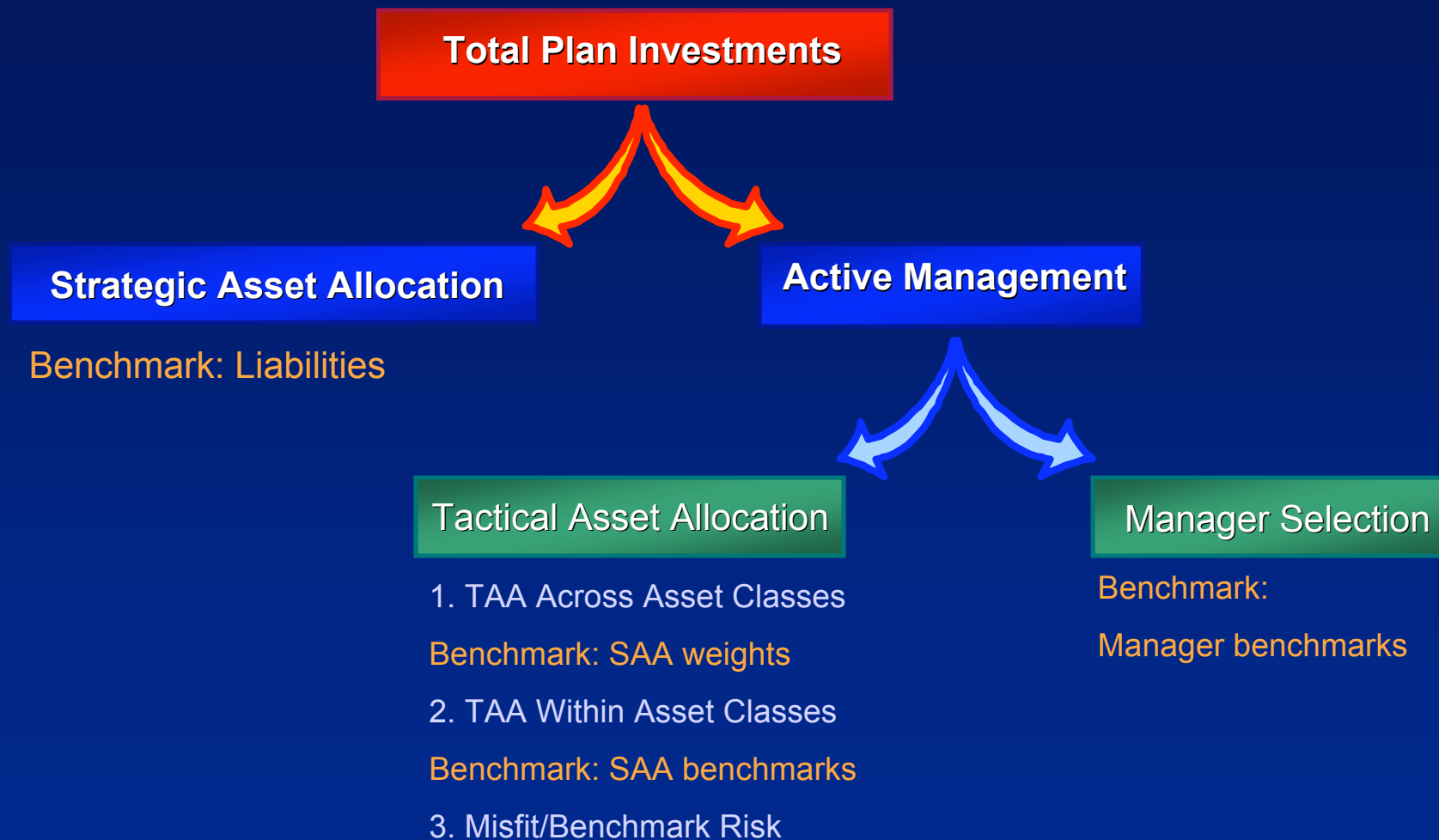
- Risk can be deployed in one of two ways:
  - ▼ Strategic asset allocation
  - ▼ Active risk taking



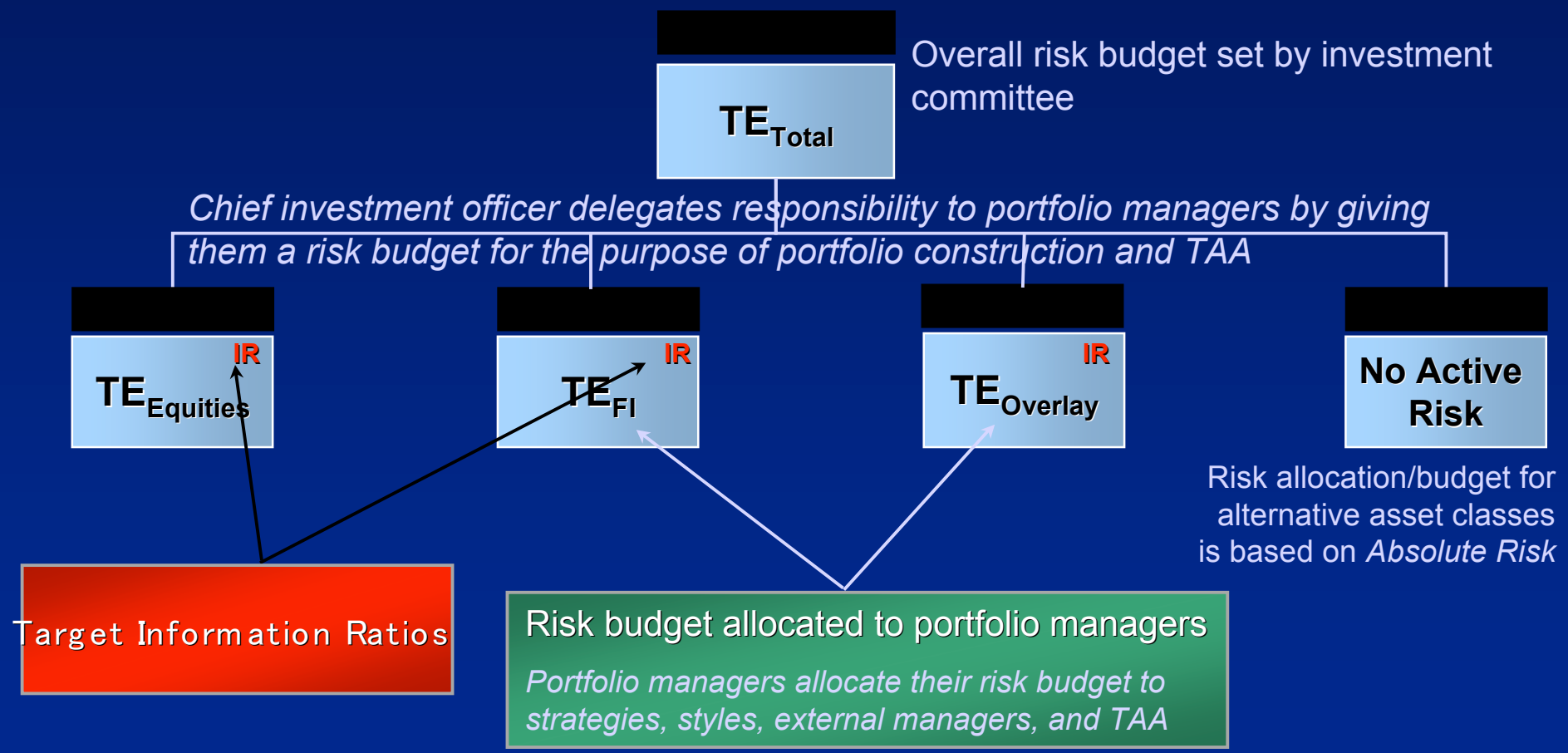
# Three Stages of Risk Management



# Different Accountabilities for Different Risks



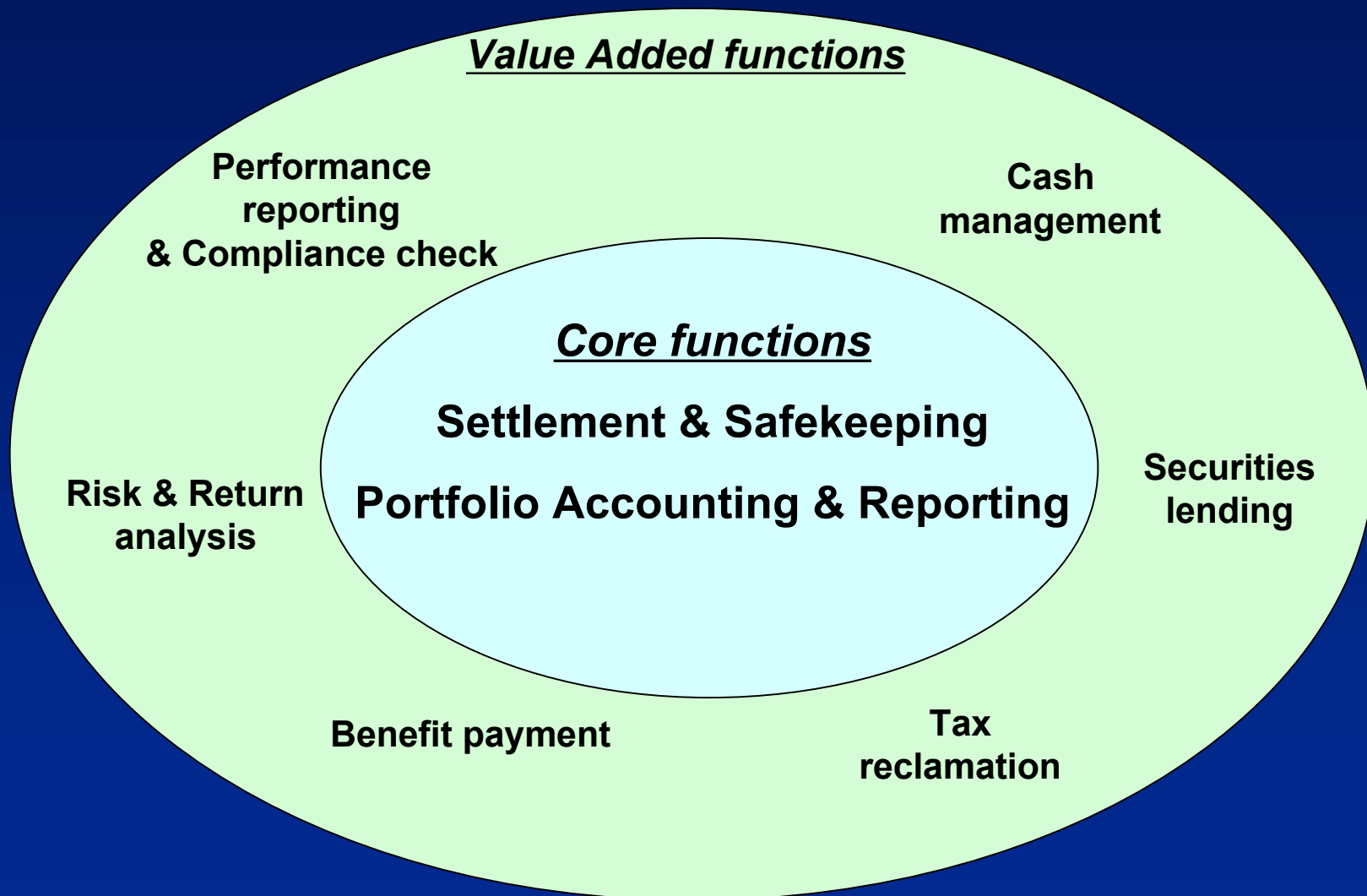
# Risk Budgeting - Who Owns What?





# Role of a Custodian

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# Custodian: Core Functions

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- **Settlement and Safekeeping**
  - Trade settlement
  - Asset delivery
  - Safekeeping of assets
  
- **Portfolio Accounting and Reporting**
  - Portfolio accounting and consolidated reporting
  - Dividend & Interest income collection
  - Asset valuation / Security pricing
  - Corporate action processing
  - Administrative support

# Reporting Content and Frequency



# Investment Framework

