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# Liability Driven Investing Seminar Held In New York

SOA Investment Section Jointly Sponsors LDI Seminar in NYC with Quant Group

By Jeff Passmore

On February 23, the Investment Section jointly sponsored a seminar on Liability Driven Investing for pension plans with the New York Society of Quantitative Analysts (SQA). There were two formal presentations made to a group of around 50 people including seven actuaries.

Through our sponsorship of this seminar, the Investment Section was able to provide some useful information, provide professional development credits for attendees, and increase awareness of actuaries as professionals contributing to the body of investment knowledge. We were also able to network with an organization that has goals and interests that overlap with the Investment Section. Both groups considered the seminar a success.

The seminar included two presentations by two speakers. The SQA provided one speaker and the Investment Section provided the other.

Jeff Passmore presented for the Investment Council. Passmore's presentation was titled "*LDI from an Investment Actuarial Point of View.*" It covered some LDI basics like the definition of financial risk in an LDI

context, why LDI has become the predominant approach to corporate pension investing in the U.S. and how LDI glidepaths are used to de-risk pension plans.

It also included some new research done as part of an upcoming whitepaper that quantifies the sources of pension financial risk and shows how this can vary based on type of pension benefit. Finally, it concluded with a quantitative structure for analyzing pension risk budgets.

Prashant Lamba's presentation was titled, "*The 'P' of LDI: Ideas.*" Prashant began with some discussion of pension risk asymmetry and how this affected plans sponsor risk appetite; he then showed a graphic representation of the relationship that exists between the pension fund and the plan sponsor and the impact of this relationship on the sponsor's cash flow statement, income statement and balance sheet. He then presented a sample pension plan and showed how the asset allocation and risk metrics would change as the plan became better funded and began to reduce risk. He finished with a discussion of how derivatives can be used in



Passmore describes de-risking using glidepaths.

## What is the SQA?

The Society of Quantitative Analysts (SQA) is a not-for-profit organization based in New York City that focuses on education and communication to support members of the quantitative investment practitioner community. The SQA was founded in 1972 and continues to be a pioneer in the use of quantitative investment techniques. SQA membership spans the United States and numbers more than 250 individuals.

The principal mission of the SQA is to encourage the dissemination and discussion of leading-edge ideas and innovations related to the work of the quantitatively-oriented investment professional, including analytical techniques and technologies for investment research and management. These include:

- Practical applications by investment practitioners;
- Academic presentations of theories in finance and economics;
- Concepts from other disciplines that might provide inspiration to the investment practitioner; and
- Regulatory issues that can impact investment practice. ■

pension plans to improve risk/reward trade-offs.

The audience was very engaged during both presentations, asking several detailed questions about the analyses presented and suggesting alternative approaches.

There was time reserved for networking before the presen-

tations began and again once the presentations had been completed. During the networking time, the groups mingled easily and the questions and answers continued informally during the post-presentation networking.

Special thanks go to Tom Egan the treasurer of the Investment

Section Council for attending the seminar, helping with logistics associated with the professional development credits and asking some good questions.

The Investment Section is currently planning a similar seminar in Toronto. This Canadian LDI seminar will be jointly sponsored with the CFA Society of Toronto. Details will be provided once logistics have been confirmed.

We are also looking for other opportunities to partner with groups who have professional interests that are well aligned with those of the Investment Section and in venues that offer the opportunity to participate for a significant number of Investment Section members. If you have suggestions, please forward them to David Schraub at [dschraub@soa.org](mailto:dschraub@soa.org). ■



Lamba illustrates pension risk asymmetry.



Networking before and after the presentations permitted the actuaries and quants a chance to get to know each other and permitted time for informal follow-up.



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