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Annual Meeting Session 25 Panel Discussion: Completing the Hedge

By Jeff Passmore

This panel presentation discussed some of the practical issues associated with hedging pension liabilities. Jeff Passmore of Barrow Hanley moderated the panel and began by quantifying sources of pension liability volatility with particular focus on the importance of credit spread hedging compared to the relative unimportance of hedging key rate durations across the yield curve.

Colyar Pridgen of Standish Mellon discussed some of the subtleties of pension duration and how oversimplifying this topic can undermine a pension hedging approach. He discussed differences between duration measured using the spot vs. par curve and the differing viewpoints of a pension actuary and an investment manager. Colyar also discussed some of the practical issues

around credit spread hedging: including the interrelationship between the frequency of rebalancing, the rebalancing target and how certain combinations of these tended to prove superior when spreads mean reverted versus when spreads trended wider.

David Gibbs of CME group discussed using U.S. Treasury Futures in pension hedging. He also discussed advantages of the U.S. Treasuries vis-a-vis the cash markets and other derivatives both for hedging purposes and for repositioning portfolios. These advantages included liquidity, near continuous availability and minimal basis risk.

The panel concluded with a presentation by Kate Tan of PIMCO. Kate discussed using derivatives within both the hedging and return seeking portfolios. She described an approach where a plan sponsor who was not yet ready to fully derisk, could invest all plan assets in a hedging portfolio, but then use a portion of the hedging assets as collateral for a derivatives equity position. She illustrated how this derivative position could be reduced over time, effectively increasing the hedging relationship of assets to liabilities. ■



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Edward Astrachan (center), winner of one of the asset allocation contests, is presented his prize by Jim Kolsinski (left) and Justin Owens.