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strike reduced the drag of the short put side of the spread. (see Table 14)

SUMMARY

There are clear differences among these simple strategies and many more that could be considered. We have limited our review to these few to simply illustrate the effectiveness of a KR adjustment and compare the dynamic aspects of long options positions to an equivalent straight futures hedge. What is important to remember is there is no “silver bullet,” or single risk overlay strategy that works perfectly at all times. Futures and options on futures are very efficient risk management tools. Additionally, liquidity in CME Group U.S. Treasury futures and options is deep and bid/offer spreads very tight, even during non U.S. trading hours. In order to apply the best risk management or hedging strategy it is essential to understand and quantify the underlying price risk. It is equally important to

understand the pricing mechanism and trading behavior of the derivative products used to offset that risk. Global interest rates are near record low levels, with correspondingly high levels of duration in institutional portfolios and bond index benchmarks, the break-even levels for fixed income risk managers is very close to current market rates. It will only take a small rise in rates to tip annualized investment returns negative. Transaction and capital charges favor the use of exchange traded derivatives (futures) as a duration adjustment tool. Their effective use can help large institutional asset managers manage risk and enhance returns. ■



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Staff Corner by David Schraub

Volunteers are the true engine of the Society of Actuaries (SOA). In this new column, however, we will shed some light on SOA staff who work in the shadows to support the section; rest assured this is not comparable to the movie “Hidden Figures.”

Of French descent (and accent) with a German last name, I am a staff actuary at the SOA and guide the volunteers’ efforts in the investment space. I first studied and worked as an actuary in France for a few years before moving to the U.S. where I worked both as a consultant and in-house on risk management in the life/annuity space. I was exposed to investment, as it is the largest risk for a life insurance company. I did some volunteer work for the SOA, which included a term on a section council, prior to working for the SOA five years ago.

Supporting a section means a wide range of activities from peer reviewing newsletter articles, playing the devil’s advocate on research projects, suggesting speakers and providing feedback on draft presentations, or liaising with various internal SOA stakeholders and/or with our section’s friends to move a project forward. I am deeply involved in the Investment Symposium, our yearly flagship event. Since I am also supporting other sections, I can leverage ideas seen elsewhere and suggest them to the Investment Section Council.

My view of the intersect between investments and actuarial function is multifaceted. Not all investment experts are actuaries. For this sub-group, the education and research performed by the SOA is complemented by education and research done by other organizations, either not-for-profit associations’ or for-profit organizations’ thought leadership departments. The SOA research and continuing education arms are working to ensure our offering is relevant, unique and of good quality for this target audience; the Investment Symposium is a clear example of this high-quality, relevant, continuing education product. Another role performed by the section is to support the liability side in performing valuation, pricing and analysis work by providing continuing education content in both pension and insurance. A clear example of this is the series of sessions sponsored by the Investment Section for the SOA Annual Meeting and Exhibit.

But the section activities are not limited to work and we also have fun with a few games; including a crossword puzzle in each issue of this newsletter, the yearly asset allocation contest with a cash prize and invaluable bragging rights for the ones best at managing portfolios with cash flows in and out. There are also essay contests offered on a regular basis.

None of us is as smart as all of us, says the Japanese proverb. Please let me know if you have any suggestions that could help us, any idea you’d like to discuss or any interest in volunteering. I look forward to hearing from you.

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