Zurich investment manager unveils insti risk assessment tool

By **Margaryta Kirakosian** / 09 Aug, 2017

Zurich-based investment firm Kraus Partner Investment Solutions has developed a new risk-assessment product for institutional investors.

The new tool is called Cockpit, and allows users to construct client portfolios based on their risk capacity.

The firm said traditionally smaller and medium-sized institutional investors, in particular pension funds, have measured their risk capacity only every three to five years in the form of an asset-liability study.

Based on this, the institutional investor can shape strategic asset allocation and give out a few balanced mandates.

Changes in risk capacity can occur between periods when an ALM study is done, the firm added. As a result the mandate might present more risk than the pension fund should have.

The goal of the Cockpit tool is to address this by measuring the actual risk capacity of the investor at all times.

In order to do that the Kraus Partner team assess 20 indicators on the basis of the balance sheet of the pension fund, which includes parameters such as coverage ratio and interest rates institutional clients take to calculate liabilities.

Cockpit also takes into account structural indicators to measure how the liability side is structured and the ratio between the older and younger employees, active workers and pensioners.

Then the firm defines the optimal portfolio for the institutional investor based on risk capacity.

This portfolio is rebalanced quarterly, and when changes in the risk capacity occur, for example an unexpected outflow of pension capital.

In order to put the Cockpit into action the pension fund has to inform the Kraus Partner team about changes in the risk capacity, for example if it changes the technical interest rate to calculate its liabilities.

While constructing portfolios for pension funds the firm also takes into account the current market environment.

The market view can be based on another tool of the firm Jaive, which measures risk-return trade-off and looks at a number of fundamental factors for each asset class, for example P/E ratios, margin developments, interest rates, volatilities and current account information. ESG criteria are not currently involved in liability assessment.