How to be a risk leader, not a follower

15/11/2017

Summary

In our survey of more than 750 institutional investors, we identified a group of Risk Leaders who clearly stand out from the pack. Their approach to risk management gives them the edge in a range of investment areas and paves the way for others to enhance their own risk approaches.

Key takeaways

- Our RiskMonitor 2017 study identified a group of Risk Leaders who have the edge in risk management
- Geopolitics are making it hard to manage risk budgets, but Risk Leaders have greater confidence in their risk capabilities
- Risk Leaders have strong risk cultures: 88% say senior managers are dedicated to supporting sound risk-management practices
- The Risk Leaders we identified in our study have more confidence than their peers in meeting their return expectations
- Nearly three-quarters of Risk Leaders have a strong understanding of alternatives, vs less than two-thirds of other investors

A strong showing by equity markets in 2017 may simply have added to investors' uncertainty as they gauge what to do next. Taking some risk to earn some return may be the best way forward, but finding the optimal balance between upside potential and downside protection can be difficult.

The good news is that a select group of investors are getting a grip on what we call the "risk-return conundrum". We've called them Risk Leaders because their attributes pave the way for others to enhance their own risk approaches.

This insight is based on our *RiskMonitor 2017* study, which canvassed the views of more than 750 institutional investors globally. The findings underscore the unique challenges of today's investment environment, with geopolitics emerging as investors' primary concern for the first time. Nearly three out of five (59 per cent) say that recent political events have led to an increased focus on risk management in their institutions.

Optimizing the "risk budget" against this backdrop is tougher than ever. But there's evidence that our Risk Leaders – numbering around one-fifth of the investors we surveyed – are better-equipped for this challenge: Not only do they express greater confidence in their risk capabilities, but they outperform their peers in several key areas related to risk-taking and their investment approach.

So what are the hallmarks of Risk Leaders – and how do their practices translate into improved potential investment performance?

Risk leadership starts at the top

Our research shows that Risk Leaders have strong risk cultures that start at the highest levels of their organizations. Compared with other investors, a significantly higher percentage of Risk Leaders say that senior management at their organization is dedicated to ensuring and supporting sound risk management practices

(88 per cent vs 62 per cent of other investors).

This is perhaps the most startling way in which Risk Leaders differ from their peers, indicating that the focus on risk needs to be driven from the top to set the tone for the rest of the organization.

Among the other key characteristics of risk leaders:

- They are more likely to see risk management as the responsibility of everyone in their organization, putting in place organization-wide incentives to reward risk management across teams (48 per cent of Risk Leaders vs 28 per cent of others).
- They are more willing to invest in improving risk management. Within this group, 59 per cent say their organization is putting more money towards investment risk management strategies this year (vs 41 per cent of others).
- They are also more likely to seek a second opinion: A greater number of Risk Leaders (70 per cent vs 55 per cent of others) say their organization conducts independent risk analyses of their portfolios.

For risk leaders, the focus on risk starts at the top

Source: AllianzGI RiskMonitor 2017.

Improved investment performance

Given these characteristics of Risk Leaders, what is the pay-off in terms of improved performance?

- Perhaps most significantly, they are more confident in their ability to achieve their performance objectives. Fewer Risk Leaders said they had decreased their return expectations for the coming year (47 per cent vs 53 per cent of others).
- Risk Leaders are less likely to be pessimistic about meeting their return objectives. While 60 per cent say it's increasingly difficult to meet return targets, this is less than the two-thirds of other investors who agree with this statement.
- Risk Leaders are more committed to active investing. A higher number believe actively managed portfolios are worth the cost – 56 per cent compared with 46 per cent of others. They are also more likely to think there is alpha to be found in today's markets.

Agility along the risk-return spectrum

Overall, Risk Leaders have a greater armoury of investment approaches at their disposal as they navigate the risk-return spectrum. Nearly three-quarters say they have a strong understanding of alternative assets, compared with less than two-thirds of other investors, suggesting that Risk Leaders have greater flexibility to diversify their portfolios and optimize their risk budgets.

While all of this adds up to a more confident positioning for Risk Leaders, their experience shows that a few simple steps can make a big difference – underscoring an optimistic outlook for the industry as a whole.

Find out how risk leaders are getting ahead

To learn more, visit www.allianzgi.com/riskmonitor

Respondents to our *RiskMonitor 2017* survey were drawn from a variety of "asset owning" institutions: pension funds, foundations, endowments, sovereign wealth funds, family offices, banks and insurance companies. The research was carried out via an extensive global survey during April and May 2017. The 755 institutional respondents were split evenly by region: 250 from Europe, 250 from North America and 255 from Asia Pacific. Our Risk Leaders comprise around one-fifth of global respondents. We define them as those who responded "Agree" or "Strongly Agree" to three questions: "Risk management is an integral part of our investment process and actively addressed on a systematic, ongoing basis", "My organization has a strong risk management culture", and "I am confident that our portfolio has appropriate downside protection for the next tail event."

Investing involves risk. The value of an investment and the income from it will fluctuate and investors may not get back the principal invested. Past performance is not indicative of future performance. This is a marketing communication. It is for informational purposes only. This document does not constitute investment advice or a recommendation to buy, sell or hold any security and shall not be deemed an offer to sell or a solicitation of an offer to buy any security.

The views and opinions expressed herein, which are subject to change without notice, are those of the issuer or its affiliated companies at the time of publication. Certain data used are derived from various sources believed to be reliable, but the accuracy or completeness of the data is not guaranteed and no liability is assumed for any direct or consequential losses arising from their use. The duplication, publication, extraction or transmission of the contents, irrespective of the form, is not permitted.

This material has not been reviewed by any regulatory authorities. In mainland China, it is used only as supporting material to the offshore investment products offered by commercial banks under the Qualified Domestic Institutional Investors scheme pursuant to applicable rules and regulations.

This document is being distributed by the following Allianz Global Investors companies: Allianz Global Investors U.S. LLC, an investment adviser registered with the U.S. Securities and Exchange Commission; Allianz Global Investors GmbH, an investment company in Germany, authorized by the German Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin); Allianz Global Investors Asia Pacific Ltd., licensed by the Hong Kong Securities and Futures Commission; Allianz Global Investors Singapore Ltd., regulated by the Monetary Authority of Singapore [Company Registration No. 199907169Z]; Allianz Global Investors Japan Co., Ltd., registered in Japan as a Financial Instruments Business Operator [Registered No. The Director of Kanto Local Finance Bureau (Financial Instruments Business Operator), No. 424, Member of Japan Investment Advisers Association]; and Allianz Global Investors Taiwan Ltd., licensed by Financial Supervisory Commission in Taiwan.

313446

Want to view more?

Investment themes & strategy

A shared vision is vital for a sustainable recovery

→ DISCOVER MORE

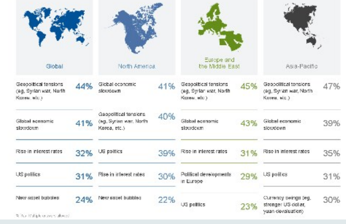
by Deborah Zurkow | 27/08/2020

Investment themes & strategy

How will private debt be changed by Covid-19?

→ DISCOVER MORE

by Deborah Zurkow | 11/08/2020



Investment themes & strategy

2017 RiskMonitor: Geopolitical Concerns Create Risk-Return Conundrum for Investors

→ DISCOVER MORE

06/09/2017

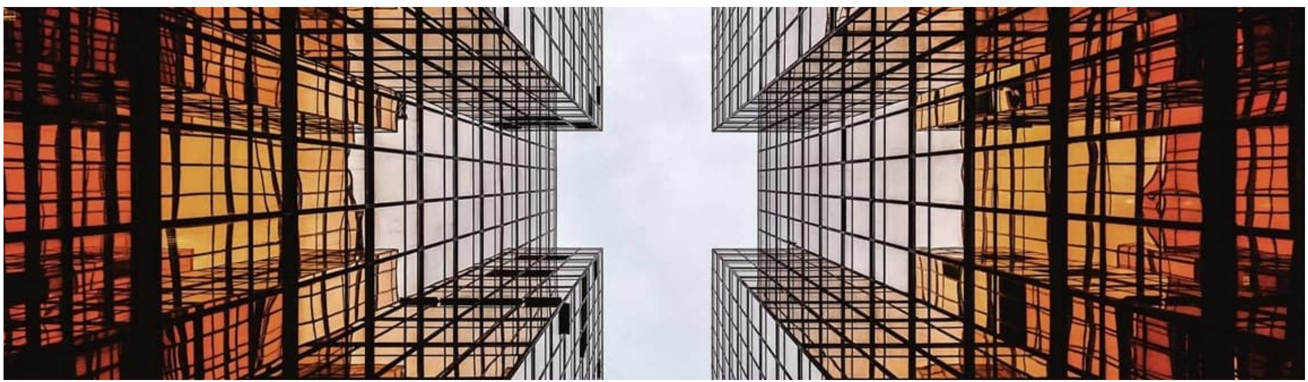
Related documents

→ AllianzGI - RiskMonitor - Risk Leader Not Follower

→ RiskMonitor 2017 - Risk Leaders

Three factors skewing valuation models

by Stefan Hofrichter | 14/12/2017



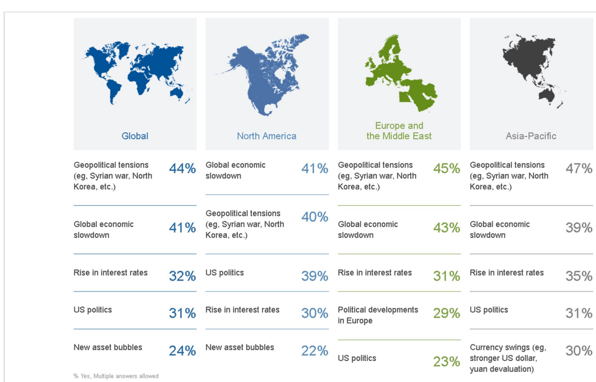
Summary

Determining the true value of a company has rarely been an easy task, but low interest rates, rising political uncertainty and rapid technological change are all significantly affecting valuation assessments. One of the best solutions available to investors, in our view, is the CAPE or Shiller P/E ratio.

Key takeaways

- Low rates are complicating traditional discounting models, though the gradual normalization of monetary policy means central banks should affect valuations less over time
- Populist-fuelled deglobalization could curb economic growth, weighing down valuations and making it difficult to assess a company's true value
- High-tech innovations complicate the work of valuing equities: disruption makes it hard to identify winners and losers, but productivity gains should have a positive impact
- Properly assessing valuations has always been difficult, but today it's even more challenging; fortunately, some tools – like cyclically adjusted P/E – are better than others

↓ LOAD MORE



2017 RiskMonitor: Geopolitical Concerns Create Risk-Return Conundrum for Investors

Geopolitical tensions are institutional investors' top concern, according to our new RiskMonitor study. As a result, investors are focusing more on risk management and lowering their return expectations.

› Risk-return Conundrum

© Allianz Global Investors GmbH 2020. All Rights Reserved.