

How to Be a Risk Leader, Not a Follower

November 2017



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.

We've found a group of Risk Leaders who have greater confidence in their risk capabilities and outperform in key areas

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.

Risk Leaders have strong risk cultures and see risk management as an organization-wide responsibility

For Risk Leaders, the Focus on Risk Starts at the Top



Source: AllianzGI *RiskMonitor* 2017.

Improved investment outlook

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 to 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.

Risk Leaders are committed to active investing and believe there is alpha to be found in today's markets

Find out how Risk Leaders are getting ahead
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."

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