

PRISMA

Bridge the gap between your strategic plan and the day-to-day business of investment management

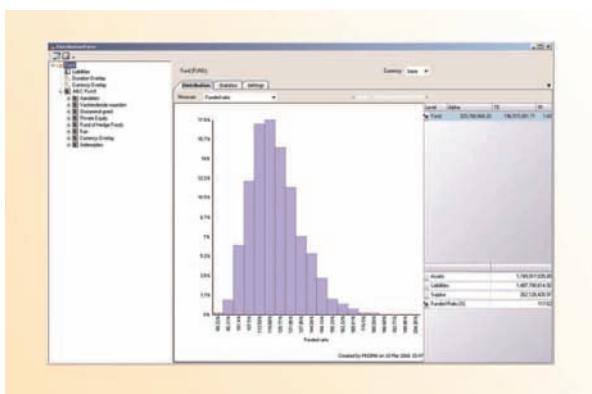


Over the last years, industry focus shifted from long-term to short-term risk management. Managing assets using a long-term strategic benchmark is not the same as managing short-term goals, like a pension fund's solvency risk. However, as most people have already known for decades, long-term objectives are not very well served by a short-sighted approach of trying to beat the strategic benchmark on an annual basis. It is very important to take an integral approach and make an optimal trade-off between long-term objectives and short-term risk tolerance.

To enable institutional investors - and their asset managers - to catch up with these developments, ORTEC has developed the PRISMA risk management system. This system allows you to construct efficient risk budgets, optimize your portfolio, and monitor and manage risk. The system allows you to look at both risk control and investment management.

Liability-Driven Risk Management

As an institutional investor, do you know the risk of becoming under-funded? To answer this question, PRISMA starts by taking a look at your liabilities. Liabilities are defined in terms of the net present value of the actuarial cash flow projections. Solvency measures, like surplus and funded ratio, are derived from these variables.



The combination of risk driver scenarios and business logic (such as rebalancing and hedging) yield P&L distributions for all relevant variables over the entire horizon. The final risk measures are then derived from the frequency distributions of the simulated scenarios for assets and liabilities.

Comply with Regulations

Getting tired of new regulations all the time? PRISMA can be used to create an internal model for compliance with new rules and regulations (like n-FTK in the Netherlands). PRISMA allows you to specify critical probabilities and values for each variable that is of interest to you. Critical values can be defined both in terms of levels and changes. These settings are included in the risk reports, which can be used to satisfy regulator demands.

Translate Risk Reports into Appropriate Actions

Do you have a hard time translating your risk reports into appropriate actions? That is because risk measures only make sense if they relate to the decision-making framework. It is not enough to know net amounts of risk components. You should know what has caused it and – more importantly- what can be done about it. In PRISMA risk reports are linked to your investment structure, so it's clear what to do when risk limits are about to be exceeded. With PRISMA, you can also look at total fund level statistics, since risk is aggregated over portfolios and asset classes.

Why should you start using PRISMA?

To reach your long-term goals while satisfying short-term constraints!

- Satisfy both your risk controllers and investment managers
- Allow for risk management at total fund level, driven by your liabilities
- Make the link to your investment structure and know what to do when risk limits are exceeded
- Define and test your own risk-return assumptions and business rules

Scenario-Based Approach

Have you ever tried to generate P&L distributions for all relevant variables in a risk assesment? It is extremely difficult, if not impossible, to do this analytically. Therefore, PRISMA uses forward-looking risk measures based on scenario analysis.

