

Risk Management

AIMCo manages a broad range of risks for its clients. The most obvious are investment risks, like market, credit and liquidity risk. But in managing these investment risks, we also incur non-investment risks, such as operational and business risks, that are also borne by our clients and, to a degree, by our shareholder.

In managing these risks, AIMCo's goal is not to eliminate risks, but to optimize risk-taking with a view to maximizing risk-adjusted net returns in accordance with the risk appetites of our clients and Board and within their risk tolerances. We therefore strive to work proactively with our clients and Board to help them understand the risks and articulate their risk appetite and tolerance for these risks in a way that can be operationalized.

AIMCo has adopted the “three lines of defense” model to manage risks. This is a model that is widely used in the financial services industry. The first line of defense is operational groups, such as Investment Management, Operations, Human Resources and Business Technology. They are responsible for the day-to-day management of risks within the risk management framework. The Risk Management Group (RMG), together with other functions such as Legal & Compliance, forms the second line of defense. They are responsible for establishing and maintaining the risk management framework, supporting and advising the first line in managing risks optimally within that framework, and independently measuring, monitoring and reporting risk information to management, the Board and clients. Finally, the third line of defense is formed by AIMCO’s Internal Audit Group, which provides independent assurance on the existence and effectiveness of the risk management framework.

In September 2016 AIMCo set out to become world-class in a number of areas, including risk management. We formulated a three-pronged strategy to achieve that goal:

1. Data & Systems

Effective investment risk management requires extensive data sets, sophisticated models and powerful systems. Starting in 2017, we set out to select and implement two systems. The first is a balance sheet risk management system to support clients in designing an investment strategy to achieve their strategic goals and support AIMCo in designing investment products that are effective building blocks in clients’ investment strategies. The second is a portfolio risk management system to support AIMCo’s portfolio managers in the day-to-day management of AIMCo’s investment products.

In 2019 we completed the implementation of our balance sheet risk management system, Ortec GLASS, and implemented the governance structures and processes necessary to provide risk and strategic portfolio construction advisory services to AIMCo’s clients. We look forward to collaborating with our clients in 2020 to model their liabilities in the system, to provide strategic portfolio construction advice and to measure, monitor and report their balance sheet risks (funded status risk, contribution risk, etc.)

We also continued implementing our new investment risk system, FactSet Portfolio Analytics, completing the implementation of all asset classes, except for Fixed Income, by the end of 2019. We expect to be fully up and running by the end of 2020. Once implemented, the system will enable us to significantly elevate the accuracy, timeliness and relevance of our investment risk estimates and analysis and to bring real time investment risk management tools to AIMCo’s portfolio managers.

2. People & Organization

The second prong of the strategy focuses on making sure we have the right mix of risk management professionals working in a clear organizational structure with clearly defined roles. We largely completed the initial restructuring and recruitment by the end of 2018, which allowed us to shift focus to talent development in 2019.

3. Mandate & Governance

A clear mandate for Risk Management and the way it aligns and collaborates with the first line of defense is the third critical ingredient of world-class risk management. AIMCo’s Executive Committee agreed to a concrete five-point plan at the end of Q1 2018 to achieve this, especially with respect to the management of investment risks. During 2019 we realized the following progress:

- AIMCo’s Board adopted Risk Appetite Statements for AIMCo’s top five risks.
- Several AIMCo clients revised their active risk tolerance based on our advice.
- We started delivering independent risk assessments for new products, strategies and material investments to support decision-making by asset class heads as well as the Management and Board Investment Committees.
- We completed the design and implementation of risk management policies for liquidity risk, business disruption risk and model risk.

Looking Forward

At the close of 2019, most of the components of the risk management program that we set out to design and implement in 2016 were in place. We aim to complete our current risk management strategy by the end of 2020 by:

- Completing the implementation of FactSet
- Updating the Enterprise Risk Management Framework, including a formal mandate for the RMG
- Reviewing and formalizing AIMCo’s risk taxonomy
- Extending the Board’s risk appetite statement
- Updating the active risk management policy
- Formalizing and aligning the approval processes for the introduction of new investment products, investment strategies, financial instruments, counterparties and material transactions, including an independent risk assessment by the RMG.
- Enhancing risk reporting to management, Board and clients