



Focusing Capital on the Long Term Global Risk Forum: A Balancing Act

Question #1: How does your organization focus on the long-term through its investment risk processes?

We asked ourselves what really matters to our stakeholders and the answer became quite clear and that was ensuring that our investment activities were in line with the longer-term sustainability of the Canadian Pension Plan. Secondly, in quantifying our investment risk appetite we move beyond shorter term or traditional measures of risk. If our sole focus was on mitigating shorter term market volatility we would likely compromise our longer-term objectives. So as a result we established a longer-term series of risk measures. And lastly it's important to understand that we can't ignore short-term risk. So be it market volatility or liquidity risk for example, it's more a question of finding the right balance between short and long considerations.

Question #2: Why is the long-term dialogue between trustee directors and risk professionals important?

Well first of all, Directors as part of their fiduciary responsibility must be focused on long-term risks that could impact the sustainability of their plans or funds. This means that they can't be overly focused on short-term risks, such as equity market volatility, which are relatively easy to measure. They need to be adequately considering the longer-term risks that could have longer-term impacts, such as climate change, which can be much more difficult to measure and assess. So in order to assess those risks, they need to tap a diverse set of views, including views from investment professionals, risk professionals, as well as internal audit functions to get a more balanced complete view on the risk exposures. And lastly, I would say that the dialogue between directors and risk professionals is not one way. Risk professionals can benefit greatly from the external perspectives and experience that directors bring to the discussion. I know that's certainly the case for us [CPPIB], we have a board that's very actively engaged in discussing long-term risks with management.

Question #3: How does FCLTGlobal's research assist your long-term goals with regard to investment risk?

By participating in and referencing FCLT research it allows us to engage with likeminded organizations that share the view that we must encourage longer-term thinking in business and investment decisions. For us, as an investor, that means being an active lender and owner in the companies in which we invest but also for our total portfolio it's continually improving the way we incorporate long-term factors and trends into our portfolio construction and risk management activities.

We participated in FCLTGlobal's recent research paper around managing risk over various time horizons and it was of great value for us in exchanging ideas and opinions with like-minded investors. It definitely helped us kind of anchor our thinking and also challenge the way we look at managing risks over longer horizons.

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