



Risk Mitigation Strategies in Investment Portfolios – Compliance & Legal Perspective

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Order of Play

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2. Introduction
3. Risk mitigation strategies
4. Risk management techniques
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Risk free?



What Is Risk-Free Asset?



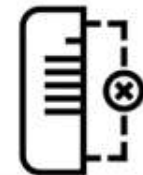
Investment with



Guaranteed rate of return



No volatility



No loss to principle

Treasury Bonds and Bills

Risks Associated with Treasury Bills

01

Interest Rate Risk - Treasury Bills are fixed-income securities, which means their value is directly tied to interest rates

02

Inflation Risk - While Treasury Bills are considered low-risk investments, they may not keep up with inflation over time

03

Geopolitical Risk - Treasury Bills are issued by the U

04

Liquidity Risk - While Treasury Bills are considered to be highly liquid, there may be times when it is difficult to sell them quickly

05

Opportunity Cost - While Treasury Bills are considered low-risk investments, they may not offer the same returns as other types of investments

Real Estate?



Introduction

- Risk mitigation refers to identifying and reducing risk.
- Investment risk refers to the possibility of losing money or not achieving the expected return on investment due to various factors such as market volatility, economic conditions and company performance.
- Investment risk cannot be eliminated completely but can be managed by reducing the uncertainty surrounding a potential investment, and the investors can mitigate investment risk through various strategies.
- Every investment has a risk.



Comparison of the Different Types of **Investment Risks**

TYPE	DESCRIPTION
Market Risk	Risk That the Value of an Investment Will Decrease Due to Changes in Overall Market Conditions
Credit Risk	Risk That a Borrower Will Default on Their Debt Obligations
Liquidity Risk	Risk That an Investor Will Not Be Able to Buy or Sell an Asset at a Reasonable Price Within a Desired Timeframe
Operational Risk	Risk of Loss Resulting From Inadequate or Failed Internal Processes, Systems, or Human Actions
Inflation Risk	Risk That the Purchasing Power of an Investment's Returns Will Be Eroded by Inflation
Currency Risk	Risk That Changes in Exchange Rates Will Adversely Affect the Value of an Investment
Interest Rate Risk	Risk That Changes in Interest Rates Will Negatively Impact the Value of an Investment
Concentration Risk	Risk Associated With Having a Large Portion of an Investment Portfolio Allocated to a Single Asset or Sector
Systemic Risk	Risk That a Significant Event or Series of Events Will Cause Widespread Disruption or Collapse of an Entire Financial System or Market

Risk Mitigation Strategies

- **Diversification:** Investing in a variety of asset classes, sectors and regions, investors can reduce their exposure to risk thus minimizing the potential impact of the risk.
- Diversifying investments, focusing on more liquid assets and maintaining a cash reserve emergencies can reduce the potential impact of liquidity risk.
- **Due diligence:** Researching on the financial health of potential borrowers can reduce their exposure to credit risk.



Risk Mitigation Strategies cont...

- Operational risk can be reduced through robust risk management practices, including establishing clear policies and procedures, implementing strong internal controls and fostering culture of accountability and transparency.
- Allocation of a portion of portfolio to assets that are less sensitive to interest rates changes, such as stocks or real estate would help in mitigating interest rate risk.
- **Hedging Strategies:** Involve using financial instruments such as options or futures, to offset potential losses from an investment. By employing hedging strategies, investors can protect their portfolios against specific risks such as currency risk or interest rate risk.

Risk Management Techniques

- **Asset Allocation:** Determining the optimal mix of assets within a portfolio based on an investor's risk tolerance, investment objectives, and time horizon. By carefully selecting and adjusting the allocation of assets, investors can balance risk and reward and achieve their financial goals.
- **Insurance** – outsourcing risk that the scheme does not wish to or cannot bear to a third party

Legal Compliance & Perspective

- **Legal risk:** refers to the potential financial loss that may arise due to non-compliance with laws, regulations, or contractual obligations. It includes exposure to lawsuits, fines, and reputational damage.
- Legal risk management is essential for organizations to ensure compliance and to minimize the potential for financial loss. Understanding legal risks allows businesses to proactively address issues before they become significant problems.
- Investors must be aware of the regulatory considerations and legal frameworks that govern investments.

Key regulatory considerations and legal frameworks

- Portfolio investment regulations;
- Legal frameworks for portfolio investment;
- Awareness of portfolio investment regulations;
- Legal requirements for portfolio investment;
- Investor protections;
- Cross-border tax implications;
- Consultation with professionals.

Legal and Regulatory Risk Management Strategies

- **Risk Identification:** involves the process of recognizing and documenting potential legal and regulatory risks that may impact a business. This process helps organizations prioritize risks and develop appropriate risk management strategies.
- **Risk Assessment:** is the process of evaluating the potential impact and likelihood of legal and regulatory risks. It helps businesses determine which risks are most critical and prioritize resources to address them.
- A comprehensive risk assessment should consider the organization's size, industry, and risk tolerance.
- Regularly updating risk assessments allows businesses to adapt their risk management strategies to changing regulatory landscapes and business environments.



Property Investment Strategy

- Schemes may directly or indirectly invest in property up to 30% of fund size
- Property investments have had a stabilizing effect
- REITs are up for consideration and are growing.
- The development risk is higher in construction, scheme may bite in small pieces.
- Consult professionals and clinical execution
- Schemes may consider buying into already built property investments

Bonds Investment Strategy

- A change in the retirement benefits regulations requires the valuation of debt instruments at amortized cost for the purposes of calculating members' benefits.
- For financial reporting, accounting standards require that whenever possible, debt instruments should be valued at market price.
- We propose that for purposes of measuring performance, debt instruments are marked to market.
- If bonds are not held to maturity, then any revaluation losses will be realized upon sale and transferred to members accessing their benefits.

Bonds Investment Strategy cont...II

- It is therefore appropriate to develop an investment strategy that minimizes the impact of revaluation losses on benefit payments.
- To avoid the forced sale of bonds and realization of losses we propose that the bond portfolio be divided into two portions.
- The first portion contains bonds that do not have to be sold to provide liquidity, typically longer dated high yielding bonds.
- The second portion contains bonds that can be sold to lock in revaluation gains, typically shorter dated bonds.
- The split between the two portions should reflect the membership profile.



Role of Board and Senior Management

- **The Board** a role in overseeing legal and regulatory risk management.
- They are responsible for setting the organization's risk appetite and ensuring that appropriate risk management systems are in place.
- The Board should be informed about significant legal and regulatory risks and the steps management is taking to address them.

Role of Senior Management

- They must establish a culture of compliance and ensure that employees understand their role in managing legal and regulatory risks.
- Senior management should regularly communicate with the board of directors about the organization's risk management efforts and any significant legal or regulatory issues.
- They should also allocate sufficient resources to legal and compliance departments to ensure effective risk management.





Is there an optimum portfolio?

