Institutional Investors Identify Stress Testing as a Key Risk Tool

73% of pension plans and 26% of asset managers surveyed do not currently run stress tests, but cite this as a key focus going forward

London - December 14, 2009 - In a survey of some of the largest and most influential institutional investors globally, MSCI Barra, a leading provider of investment decision support tools worldwide, found that respondents identified stress testing as a critical risk tool in the future. Both pension plans and asset managers emphasized that in the aftermath of the 2008 crisis, stress testing at the enterprise level is needed to manage potential large market disruptions.

The Future of Market Risk Management is one of the most in-depth surveys of institutional investors' current and future risk management practices. MSCI Barra interviewed over 30 of the world's largest pension plans and asset managers with a combined AUM of over USD 4 trillion, including CalPERS, CalSTRS, USS (Universities Superannuation Scheme), AllianceBernstein, F&C Investments, Credit Suisse Asset Management and Pioneer Investments.

While the survey revealed that 73% of pension plans and 26% of asset managers who took part in the survey do not currently run stress tests, the majority of participants said they would put more focus on stress testing in the future, recognizing this as the critical component for integrating qualitative and quantitative information, enterprise risk management and liquidity and counterparty risk analysis. One asset manager acknowledged that stress testing should be like "crash-testing for cars."

The survey covers a wide range of topics, providing a revealing view on current risk management practices from some of the largest and most influential players in the market today, as well as insight into key trends for the future of market risk management.

Other key findings include:

- Less than one-fifth of corporate pension plans surveyed have a Chief Risk Officer function, compared to 80% of surveyed public plans and 70% of surveyed asset managers.
- Only 40% of asset managers and 18% of pension funds surveyed run stress tests by shocking factors within a factor model. The most common stress tests were macroeconomic shocks (including shocks to currencies, commodities, interest rates, etc.) and market-wide asset class shocks.
- Though all asset managers surveyed invest in multiple asset classes, only a few use the same risk model across asset classes.
- The majority of respondents surveyed called for enterprise-wide risk management tools across all asset classes.
- Currently, private real estate, timber, foreign bonds, hedge funds, convertible bonds, structured products, certain derivatives and asset-backed securities are the key assets that survey participants indicated are generally not covered by their risk systems. All pension plans surveyed intend to add coverage for hedge funds, private equity real estate and private equity. As one pension fund put it: "If all private equity commitments were called at the same time, we would have to significantly reduce our global public equity investment."

The following views were consistent amongst all participants:

- The impact of liquidity events must be better understood.
- Funding liquidity issues such as capital calls and redemptions need to be better assessed.
- Market liquidity issues such as the pricing of illiquid assets need to be assessed.
- Institutions should have some limits on counterparty risk.
- Risk across the organization should be assessed - which requires a consistent framework across all investments and products.

Commenting on the survey's findings, Remy Briand, Managing Director and Global Head of Index and Applied Research at MSCI Barra, said, "Although risk management was touted as one of the biggest failures of the crisis, our survey demonstrates that institutional investors recognize the need to invest more in risk management processes: not just in new systems and models, but also in the seniority of risk professionals. Many institutions are already re-defining the risk function, as risk management becomes more integrated with the investment decision process."

To receive a copy of the *The Future of Market Risk Management*, please visit www.mscibarra.com or contact us on the numbers below.

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The company's flagship products are the MSCI International Equity Indices, which include over 120,000 indices calculated daily across more than 70 countries, and the Barra risk models and portfolio analytics, which cover 56 equity and 46 fixed income markets. MSCI Inc. is headquartered in New York, with research and commercial offices around the world.

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