Perspectives Podcast

“Ctrl-Alt-Invest: Rebooting Risk for a New Era”

Transcript, 19 December, 2025

Adam Bass (00:03):

This is MSCI Perspectives, your source for insights for global investors and access to research and expertise from across the investment industry. I'm your host, Adam Bass, and today is December 11, 2025.

(00:18):

For what will be our final episode of 2025? I know, right? How did that happen? Anyway, as we wrap up for the year, we thought it would be a good idea to bring you some highlights from the Investment Risk Summit that we held in different parts of the world over the course of 2025. It's a compilation episode. That's probably the best way to think about this.

(00:47):

So combining MSCI expertise with input from other investment leaders, the Risk Summits explored the evolving role of risk, the move to a total portfolio approach or TPA, and of course, where AI fits into all of that. Now, you will hear a lot of different voices today, but we will do our best to keep you oriented.

(01:15):

We begin with a look at the forces that are reshaping the investment landscape. The first voice you'll hear is that of Sonja Laud. Sonja is the Chief Investment Officer at Legal and General Investment Management.

Sonja Laud (01:29):

Uncertainty is part and parcel of being an investor, but I think it's the evolving nature of the key drivers behind uncertainty, which is so difficult sometimes to judge because they're changing over time. Arguably, we have quite a few these days that are not only changing, but there's an interconnectedness that makes it very difficult to capture the real impact on global markets.

(01:51):

Then you add the geopolitical risk to it. This is when it gets very interesting, because of course, it is now that the bond market takes particular focus on fiscal sustainability budget deficits and how this might influence the overall profile of the US in the future. This is what really matters. Their already interest cost by now outstripped the defense budget. This is what will, of course, influence massively the ability of the government to spend. That all of a sudden is this forceful reconsideration of budget deficits.

(02:25):

You cannot in perpetuity have a two trillion deficit that you roll over every year. It doesn't work. Let's face it, we have the same problem statement here in the UK. The French are grappling with the same. This is why the bond market will be such a key decider going forward on what's happening.

Adam Bass (02:42):

Xaviar Baraton, he's the Group Chief Investment Officer at HSBC Asset Management. Xaviar built on that same idea.

Xaviar Baraton (02:51):

I mean, for sure, the macroeconomic and market landscape of '24 and '25 was very different really. We've clearly observed the shifting market dynamics and investor behavior. What's been most striking, I think for us, was to handle both the short-term challenges, even driven for the most part, and the long-term themes, trends, and opportunities for us really.

(03:20):

So practically speaking, policy uncertainty remains and it's creating this inherent volatility. For us, volatility is now a feature of markets. The second challenge for investors is the fact that we see cooling growth and the lingering inflationary pressures. Despite that, markets have been pricing in superior growth, accelerating growth, and compressed risk premiums.

Fabiana Fedeli (03:47):

You know, you have a market where investors are now suffering of crisis fatigue. They've been used to so many of them: COVID, two wars, the tariff war, that they've just decided that they're going to almost ignore them.

Adam Bass (04:06):

That's Fabiana Fedeli, Global CIO at M&G Investments.

Fabiana Fedeli (04:12):

Now, some of that is rational because if you think that any geopolitical risk only has an impact on credit and equity markets, it actually has an impact on the underlying credit and on the underlying profits of companies, I know it's very rational that this crisis fatigue set in and investors continue to invest.

Adam Bass (04:13):

But...

Fabiana Fedeli (04:36):

But at some point, crisis fatigue becomes complacency, right? We need to figure out when that happens. The other thing is volatility, but I think now it's not only about volatility, it's also about velocity. We have to contend with the fact that in the past, as investors, we could see a movement and say, "Oh, that's interesting. Let me do some work on that, and perhaps that could be a good place to invest in."

(05:04):

You can't do it. You don't have the time now anymore because by the time you've done the work, whatever has already gone back to where it should be. So do your homework before and decide which are the areas that you really like.

Adam Bass (05:17):

Last but certainly not least, we turn to MSCI's Chief Research and Development Officer and friend of the pod, Ashley Lester, who pointed at something deeper laying underneath these market dynamics.

Ashley Lester (05:33):

We are living in a kind of state of uncertainty. Of course, we're always in a state of uncertainty, but I would argue that right now we're entitled to use that very overused word, a state of unprecedented uncertainty. Specifically, I think that back in my days of studying economics, that the way in which I learned to think about the process of economic growth and ultimately of financial growth is that it's driven by two deep forces.

(05:58):

Those forces are institutional capabilities of society and technological capabilities. And so, the reason I would argue that perhaps we're at an unprecedented moment right now is that right at this moment, we have both unprecedented institutional uncertainty, specifically with regard to the states, but perhaps more broadly as well, as well as perhaps unprecedented certainly once in a generation, technological uncertainty around the ultimate impact of AI.

(06:29):

And so, I think we can sort of frame specifically the types of uncertainty which we face today around those two pillars, and we can explore how those work through financial markets.

Adam Bass (06:40):

So how does this work through financial markets? Or I guess more specifically, how do investors adapt the way that they think about, measure, and act upon risk? We start with Mark Shi, Chief Risk Officer at Income Insurance in Singapore.

Mark Shi (06:57):

Now, it may sound a bit like a cliche, but it's the reality. Risks need to help the investment team to draw the boundaries. For risk team, we actually draw the boundaries and we say this, understand what is the worst that could happen. If you tell me that this is something that we can live with, either from a solvency, capital, P&L perspective, I'm going to leave you alone. You just go ahead, do your decision, make your decision within the boundaries, withdraw.

(07:25):

I think the other part of it is the risk budgeting. It's very important to really understand the risk. You have this limited risk budget or risk tolerance. How do you allocate it into different risk buckets in a more efficient way to really understand for certain risks you take, worst is risk reward? To do this, the risk team also needs to keep up with the investment team to really work with them, to understand the market dynamics, and also the short-term versus long-term return.

(07:54):

But also, what is the implication on capital on solvency? Certain portfolios need to be taken out if it's just strategic in purpose, and it shouldn't be countered towards the overall investment performance for the investment team. On that front, I think risk team has a big role to play to partner with the investment team. This kind of boundary are the worst case, need to be reviewed on a more frequent basis to really make it dynamic. These boundaries limits need to evolve.

Adam Bass (08:23):

One of the clearest transformations underway is the repositioning of risk from a control function to a strategic one.

Mark Shi (08:31):

In a traditional way or conventional way of CRO, how we work usually is you tell me what's the risk, tell me what you're going to do, let me document it, then my work is done. If there's incident, you give me a root cause, what are going to improve, then that's it. Ever since I took over the risk office, I think I started this thing for risk management to shift to the left, so to speak.

(08:55):

Risk should be a partner of the investment function, and especially I worked on the other side of the table before. I know how challenging it is to manage the investment portfolio. You have stakeholders on your back all the time, ask for performance. Asset allocation is becoming more complex.

(09:10):

The risks we take are very different, right? So it requires the risk officer really to engage with the front office, the investment team to sit down at the beginning, not only after we make the asset allocation decisions, but even start before we make going into such decisions to really understand where the investment team come from, what the challenges they're facing.

Adam Bass (09:34):

Risk is also becoming a translator. And to translate that for you, here's Vivek Agarwalla, Head of Analytics Consulting for South Asia at MSCI.

Vivek Agarwalla (09:47):

We're in a new paradigm now. The reason I say that is because we know that there is data maturity, and now we have the technology to not just give you risk numbers faster, but also numbers which are interactive, which can help the investment teams as well as the board in making investment decisions.

(10:08):

MSCI works with over 6,000 clients globally. When we speak to them, we are seeing similar voices and concerns being raised about how risk needs to move to an advisory function. We also hear about not just delivering risk numbers faster, but being able to translate some of these complex analytics into narratives.

(10:34):

Ultimately, if I was to summarize what's being asked here, is how can risk help shape decisions and not just be a record of them? The future of risk from an MSCI perspective is enterprise-wide visibility. It should be able to enhance communication and we need to broaden access. We also see that there's a crucial need to bring in efficiency.

(11:04):

A lot of times, our day-to-day as risk managers ends up being finding a needle in a haystack, of being able to explain why has risk moved in a global portfolio, being able to essentially say whether the risk limits have been breached, and in a big way, talk about anomaly detection. The idea is to develop deeper cross-asset insights and connect your bottom-up quantitative numbers, which we are very familiar with, with top-down narratives.

Adam Bass (11:40):

In the end, of course, the evolution of risk is not an academic exercise. It's a survival strategy for a market regime that is now faster, more interconnected, and more fragile. Risk has evolved simply because it had to. As the role of risk evolves for investors, so too does the investment portfolio, not just its composition, but how investors think about it in the first place. As things evolve, some of the old divisions between assets, sectors, and even public versus private investments, they're going away.

(12:17):

Now, we've talked about a total portfolio approach, or TPA, on this program before, of course, not that long ago, in fact. Check out our episode from September 12th. It's called the Portfolio Pie Reimagined. But TPA is a topic that keeps coming up in conversation after conversation, and there is a very good reason why.

Ashley Lester (12:43):

I think if we think about why TPA now, rather than the past, if we think to sort of an idealized version or a slightly simplified version of the investment world 30 years ago or even 20 years ago, basically there were two asset classes: there was public equity and there was public fixed income. They were bonds. And so, pretty much what you've got to decide as a matter of allocation is how much you're going to allocate to one versus the other.

(13:11):

You don't really need to think that much about factor risks or these other underlying types of dynamics. It makes a lot of sense in a world of strictly two asset classes to have a fairly straightforward asset allocation approach. The range of asset classes into which investors can make choices is very much expanding initially with hedge funds and so on, but more recently, obviously with the role of real assets, infrastructure, private equity, private credit.

(13:38):

Once you've got all these many asset classes, you're starting to ask boards of institutions that are investing across all of them to make a very complicated set of choices. It's the set of choices and the expansion of that investment opportunity set, I think, which is one of the key reasons why TPA now. Then lastly, and somewhat technically, if you're invested in a bunch of illiquids, infrastructure, private equity, for example, as a technical matter, you can't actually hit your strategic asset allocation.

(14:08):

Most of the time, you're not there because the valuation... You're not in control day by day or month by month even of your allocation to these illiquid assets, and therefore you have to live with deviations from a strategic asset allocation. For all of those reasons, SAA has become for investors who are exposed to these types of assets, less attractive.

Oleg Ruban (14:28):

The easiest way to think about CPA is its negative space, in that it moves away from the rigidities of the SAA.

Adam Bass (14:38):

Said Oleg Ruban, MSCI's Head of APAC Research and Development, during our Singapore summit.

Oleg Ruban (14:45):

It is a philosophy, not a formula, but it is a philosophy where you are essentially looking at the contribution of each investment to the total portfolio rather than just to each asset class. It's that kind of embodiment of systems thinking where you are thinking about the interconnectedness of all the various parts of your portfolio.

(15:06):

It's about serving overarching portfolio goals rather than necessarily just thinking about whether a certain decision outperforms a benchmark or not.

Adam Bass (15:15):

According to Oleg, it's systems thinking on a different level.

Oleg Ruban (15:19):

The way that we've defined asset classes historically has been really more about the characteristics of the instruments or the way that you do investments in those instruments, rather than sort of the underlying risk characteristics of those instruments.

(15:34):

What do I mean by that? It's actually easiest to see with fixed income. Both high yield corporate bonds and government bonds are part of fixed income allocation, but if you look at corporate bonds, they probably have a lot more in common with equities, especially high yield bonds than they do with government bonds.

(15:56):

With public and private equities, they tend to live in different parts of the asset allocation process, but they give you exposure to some of the same types of risks. This whole idea of kind of constructing portfolio piece-wise, it works if assets within an asset class are very similar to each other and they're different from assets in other asset classes.

(16:17):

It works less well if that assumption is broken, and also it works less well if we live in a world where the risks are becoming more and more interconnected.

Adam Bass (16:27):

Or to put it another way...

Ashley Lester (16:28):

The role of any given investment team has to change from kind of a focus on doing the best with their share of the pie to contributing to a discussion about how best to grow the overall pie. The ultimate benefit is greater alignment of the investment organization with the specific needs and objectives of the end investor. The capacity to meet and explain that alignment is what really sits behind this broader adoption.

Hassan Suffyan (16:55):

Client demand for personalization is growing.

Adam Bass (16:58):

Says Hassan Suffyan, MSCI's Wealth Segment Lead for EMEA and APAC.

Hassan Suffyan (17:05):

We carried out a survey at the beginning of the year, and approximately 60% of our respondents came back and said, portfolio personalization, service personalization is at the heart of not only the selection of the provider, but also the ongoing service of the relationship as well.

(17:22):

Personalization as a trend across the industry is growing. It could be themes, it could be the risk of tariffs and so forth. Advisors also now want to understand risk. And so, a total portfolio context is needed, granularity is needed.

Jean Chia (17:40):

For me, it's fit for purpose.

Adam Bass (17:42):

That's Jean Chia, Global Chief Investment Officer for the Bank of Singapore. I know it's another new voice, but look, to be fair, I told you upfront that this is a compilation episode. You know, I'm compiling here.

Jean Chia (18:00):

It's individual and it has certain objectives, but also fit for purpose for the current times. At Bank of Singapore, we are a private bank and we're a subsidiary of the OCBC group and we do have... If you think you have one board to satisfy, we have something at 15,000. Our clients are very diverse. They come from various regions: Greater China, Southeast Asia, Middle East, South Asia, et cetera. Their portfolios are as diverse as you can imagine.

(18:31):

About two years ago, we embarked on a journey to re-look at SAA. To the extent that we've gone to the TPA is that we have now come up with what we call robust SAA. It's not quite at the end of the spectrum, but it's certainly a lot more fit for purpose than we think the traditional SAA is. The reasons are we are trying to translate our investment intuition into an investment process.

(18:59):

Our investment intuition tells us that all the rules that we thought were rules or laws are no longer there. They're not something we can rely on today. This uncertain environment from a geoeconomics, and therefore investment outcome perspective, does have to shape or reshape our calibration of risk.

(19:21):

I don't think risks should always be seen as a drawdown or a loss scenario, but also upside risk. There is a risk of clients being overly conservative as well.

Adam Bass (19:33):

Not to mention, the broad range of clients often from generations with very different priorities, that investors and advisors will have to consider.

Jean Chia (19:43):

There is a shift in wealth management over the last, I'll say three to last five years, where we are going to see a greater and greater intergenerational wealth transfer. As the wealth is transferred to the next generation, it is the generation that did not build the wealth, but is a custodian of the wealth. Therefore, the objectives are converging towards that of the asset owner type.

(20:12):

We engage with our clients individually, especially our largest clients, to then do our bespoke analysis on their portfolios. It's extremely interesting because perhaps it's leaning towards what total portfolio approach is because it's about individual families. Firstly, the S is and the 2B outcomes. In that conversation, then you start talking about values as well. You start talking about my objectives for the next generation.

(20:42):

It becomes a lot more people-centric and wealth-centric in terms of the investment preferences, and also expectations of the clients, and the purpose that they want to do to fulfill with the capital that they have.

Adam Bass (20:55):

So far, we've established that many investors are moving towards a total portfolio approach, and there are many reasons for that, but I want to go back to something that Ashley said just for a moment. Basically, the question of why now? Well, part of the reason might be that the data and the tools that are needed to efficiently manage such a large number of portfolios, all with different constraints, objectives, and concerns might finally be available.

Ashley Lester (21:29):

You need to adopt some of the more sophisticated techniques of risk management, whether that's looking through asset class labels to underlying factor exposures. Private equity is just illiquid public equity, for instance. Or whether it's looking to, in this world of very kind of non-stationary risks in relatively illiquid asset classes, whether it's looking to some of the more scenario-based, or discretionary, or robust type frameworks.

(21:53):

Across the board, we at MSCI see a real shift towards a much richer set of portfolio analytics being demanded in order to meet the requirements of TPA type approaches.

Oleg Ruban (22:05):

You need a common language throughout the organization if you're implementing TPA principles, and the common language is often the language of factors. The way that you think about factors will be different depending on whether you are someone who is doing asset allocation where you'll think about relatively few influencers, or someone who is constructing a portfolio to align with systematic sources of risk and return, or someone who is doing risk management where you think about it really in terms of quite a lot of detailed factors.

(22:33):

Nevertheless, you need to come up with one answer in terms of your total risk number. You need to be able to decompose it differently depending on where you sit within the organization. What factors here, they establish a common language.

Hassan Suffyan (22:44):

As you grow and your AUM grows, things start to become more complex. I don't know why, but they tend to become more complex. Having a consistent ability to look at a portfolio, look at an instrument, look at an asset class, look at an asset allocation, it provides almost like the wraparound to be able to do both bottom up and a top down approach to running money.

(23:05):

It's the ability to break down the entire part of the entire value chain and the investment process, looking at the model construction process, portfolio rebalancing where a lot of personalization is actually overlooked. You need the ability and the technology to not only measure absolute risk and performance, but also look at relative risk and performance so that you're not necessarily going too far away from the mandate that you've been given by the client whilst trying to capture short-term market opportunities or even prevent certain market events from impacting the client portfolio.

(23:40):

A scalable process would allow you to then decompose each object of the model portfolio against the tactical asset allocation against the strategic asset allocation to see exactly where your bets are coming from, where your tracking error is coming from, where your active positions are coming from. Then there's some other personalization that's required, like allocating funds into certain tax wrappers and vehicles, and so forth. It's a process driven by humans, but supported by technology.

Adam Bass (24:09):

What kind of technology are we talking about? Say it with me, AI. In fact, across our conversations this year, artificial intelligence was one theme that came up again and again and again, not as a distinct possibility, but as something that is already reshaping research, risk management, as well as how institutions think about the portfolio as a whole. Just like the shift toward a TPA, the story of AI is not about replacing people, it's about augmenting them.

(24:46):

Let's turn back to the panels. One of the clear signals from the conference was that AI is not a tool. It's becoming foundational in terms of how investors interrogate the data. Here again is Fabiana.

Fabiana Fedeli (25:01):

Then last but not least, we are contending with macro uncertainty, but some very strong underlying themes such as, for example, artificial intelligence. In all of this, we have learned to be prepared.

Adam Bass (25:19):

She went on to explain that this is not theoretical.

Fabiana Fedeli (25:22):

We have a research management system that puts together all the research across all of our asset classes, and we have this now enabled with AI so that it's just easier for our portfolio managers, and our investment teams, and research analysts to be the most efficient possible.

Adam Bass (25:46):

And how AI is directly influencing decision-making itself.

Fabiana Fedeli (25:52):

We have a strategy that is managed by what I call an AI brain. It is an AI model that we have worked on and it has now been active as an investment strategy since 2019. It is interesting because it is a constant dialogue between the person and the machine. It's not a quantum mental strategy, but it's a strategy that probably has 80% is all machine.

(26:27):

It's very idiosyncratic. The machine comes out with stock recommendations and it gives you a certain level of conviction, and also gives you an explanation of what has been driving that recommendation. It's quite transparent.

Adam Bass (26:41):

Though there was a word of caution.

Fabiana Fedeli (26:45):

We know that there are areas where that AI brain is blindsided. Think about regulatory changes, think about geopolitical events, think about cases of fraud, for example, like credit events. We know that our research team and our portfolio management team has to vet the, this is an equity fund, the stocks that this strategy chooses to make sure that none of that is happening.

Adam Bass (27:16):

That's the insights portion. But of course, as we discussed earlier, in today's environment, insight is only half the challenge. The other half is speed. So here's Xaviar Baraton again on how firms are building augmented platforms to support decision-making.

Xaviar Baraton (27:35):

The concept for us is an augmented platform. It's basically looking 360 degree on how we can assist our staff in a variety of tasks really. We look at how it can assist analytical work, decision-making, risk controls, identifying biases in behavior, and there are hundreds of use cases. It's tremendous what we can do. It requires education, upscaling, making sure that your colleagues appreciate the risks as well. Again, we can't let contents go out without verification because otherwise it erodes the trust basically.

Adam Bass (28:20):

This concern was also echoed by Mark Shi.

Mark Shi (28:23):

People need to know that AI is good at summarizing, but don't use AI for extrapolation to predict certain things. There, you're going to a lot of trouble. If we rely too much on AI to generate the answers for us, then you lose this ability of thinking. Then how do we really get the insight?

Adam Bass (28:43):

Another AI theme that came up a lot was how the technology supports the move toward a TPA, not by creating new silos, but by helping investors see across them. Hassan Suffyan described how real-time analytics are becoming essential for advisors and CIO teams alike.

Hassan Suffyan (29:04):

We see a trend where the world is kind of moving away from static views of the world and the markets, moving towards more dynamic views, taking very short-term market situations into consideration, overlaying that with the client. Advisors need that capability real time to be able to translate what the client's concerns are. It could be themes, it could be the risk of tariffs and so forth, and then the ability to actually measure and slice and dice portfolios in a way that advisors typically haven't.

Adam Bass (29:38):

A similar trend is taking place in index and systematic investing, as Deepak Maharaj, Managing Director and Global Head of Equities and Cross-Asset QIS Structuring at JP Morgan explained.

Deepak Maharaj (29:52):

We did launch a family of QIS indices using AI. I think for us on the system, I saw the challenge with using AI is replicability, reproducibility. Having said that, we are using it quite broadly within our whole life cycle, whether it's coding, enhancements, business intelligence, monthly commentaries, stuff like that where we're finding a lot of very interesting value-adding processes with AI.

Adam Bass (30:24):

One of the more surprising themes from the conference was just how important communication has become. AI's role here is still emerging, but it's already proving useful. As Sebastjan Smodis, EMEA and UK Chief Risk Officer and Global Head of Traditional Investment Risk at UBS explains.

Sebastjan Smodis (30:46):

We have a lot of use cases already live, kind of talk to docs, summarize everything in a credit risk memo, or create auto commentary so that when a market liquidity risk officer comes into the office, can already look at, oh, okay, these are the outliers. What's going on there? What are the key drivers? How do I now explain this? Then focus is on communication. When it comes to AI agents to do some kind of repetitive tasks, we definitely see this as the next frontier.

Adam Bass (31:19):

What about governance?

Mark Shi (31:21):

We have established model risk management framework, but to apply that AI, I do see a lot of need to basically enhance the framework. Model validation as example. Model validation will change from a regular thing to really ongoing thing. Then the owner of the model really needs to go in, understand what kind of tools, what kind of data they're using to train the model and validate the model on the goal. Not wait for the quarterly or annual model validation cycle to perform that task.

(31:56):

I think to manage the AI risk, that will be one of the most important thing. The other thing I think is the data governance. As we open up the AI tool throughout the organization, the tool will actually access to all the data. I can easily search for the sensitive information within organizations. So how do you impose a top down, a clearer and strict standard? Data access control, data governance, what kind of data should be strictly confidential within an organization?

(32:24):

These rules need to be there. Without the guardrails in place, I think organizations probably will be too early to really adopt AI tools organization-wide. But at the same time, if we don't develop the risk management standard criteria quickly enough, then as an organization, we cannot keep on with the whole industry.

Adam Bass (32:44):

Before we wrap up this section of this episode, one other thing that came up time and again in all the panels, in the QA sessions, and let's be honest, it's probably on everyone's mind as they think about what's to come, is AI going to replace us?

Sebastjan Smodis (33:03):

Well, it's a question that's being hotly debated. I mean, yeah, the way I would frame it, and I know this also came up in our discussions earlier, it's sort of AI would not replace humans, but humans using AI will replace humans who do not use AI.

Adam Bass (33:24):

That's all for this episode, and that's all for this year. Before we sign off, I would like to take just a moment to say thank you. Thank you for your time, for your curiosity, and for your listenership throughout the year. Whether you've joined us recently, started listening back in January of this year, or you're one of our diehard fans that's been with us since our early days in 2020, we are grateful that you chose to spend part of your day with us. It truly means a lot.

(33:57):

We'll be back in mid-January with our first episode of the new year, Investment Trends and Focus, featuring MSCI's own, Ashley Lester, and Axel Kilian. Together, they'll explore the major forces shaping markets at the start of 2026, what's shifting, what's accelerating, and what investors should be watching most closely.

(34:20):

For now, Joe, Manish (phonetic), and I, and everyone here at MSCI wish you a wonderful holiday season. Please take the chance to rest, reset, spend time with family, and have a very happy new year. Until then, I'm your host, Adam Bass, and this is MSCI Perspectives. See you in 2026.

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