



Pension Fund
Risk Management

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Strategy

Messages

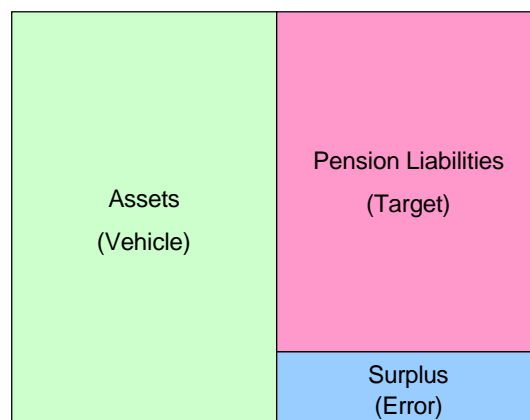
1. Pension funds should mark assets and liabilities to market
2. Pension funds should match assets and liabilities

Assumptions

- Fund sponsor intends to make the pension payments
- No inter-generational transfers
- Taxes are ignored
- anything else??



Corporate Finance View of Management of a Pension Plan



Investment Choices

- Invest now or invest later
 - Will it be easier to finance the costs later than it is today?
- Match or do not match
 - If we do not match under what circumstances will we have to contribute more and when will we be able to withdraw any surplus?



Hedge Fund Analogy

Unmatched Pension Plan
Long Unmatched Assets Short Pension Liabilities

=

Matched Pension Plan
Long Matched Assets Short Pension Liabilities

+

Hedge Fund
Long Unmatched Assets Short Matched Assets

