

Taking its place among Europe's elite

Cardano offers two main services to European pension funds: solvency management and risk management. The group's 80 employees are split between the firm's Dutch and UK offices and growth in its personnel reflects that of its revenues and clientele in recent times.

As the solvency manager, Cardano says it provides full-time management of a pension fund's solvency position: its funding level. "This ensures that our focus and the measurement of our performance is based on the trustees' main objective: improving and stabilising the funding level," the firm says. "The trustees remain responsible for the most important long-term decisions. This includes setting clear investment objectives, risk tolerance and the permissible range of assets. They then delegate the day-to-day management of the assets to us as solvency manager, with the task of achieving these solvency-related objectives within the risk budget using the permitted assets."

Cardano stresses this means it can take responsibility for implementation, not just providing advice, in the following areas: designing and executing derivatives-based risk management strategies; asset allocation, and hiring and firing fund managers.

Cardano explains that its investment approach is dynamic and full-time. "We consider and implement new investment opportunities in real time, rather than at trustee meetings. In addition, we take responsibility for all operational aspects of investment and risk management, including legal negotiations, transitions and giving instructions to managers. This means that trustees can achieve more diversified and dynamic investment management and risk management arrangements while we take care of the increased complexity."

RISK MANAGEMENT

Cardano claims to be the European market leader in risk management, focusing on advising and implementing derivative overlay strategies for pension funds. "We combine knowledge of the pensions industry with our extensive experience in executing and managing derivatives. Our main aim is to help our clients control financial risks so that they can achieve their funding level objectives."

Over the past eight years, Cardano has advised about 70 clients on derivative overlay strategies, including their implementation. "In total, we arranged for over €150bn of these strategies. Our implementation service includes design, execution, negotiation of documentation and credit support annexes, collateral management and administration. In addition, Cardano's experience in counterparty selection, derivatives execution and managing counterparty risk ensures a cost-efficient implementation of strategies."

Cardano believes its solutions are flexible and easy to incorporate into existing investment processes. "We employ experienced staff with varied backgrounds such as asset management, investment banking, risk management and investment consulting. This ensures the highest quality of all elements of the process."

INNOVATION

Cardano's focus on innovation is driven by a combination of uncovering clients' needs and applying proven concepts in quantitative finance, risk management and investment management. "If truth be known,

part of our founding principles was providing new applications of quantitative risk management from the banking world to the pension fund industry."

Recently, Cardano has been involved in a number of other innovative initiatives, both inside and outside the pensions industry. "These range from being involved in the discussions about pension plan design, including hybrid defined benefit/defined contribution plans, to the introduction of new instruments to mitigate extreme market risk for DB schemes."

Much of Cardano's success lies in its understanding of derivatives. "Over the last decade, many pension funds have exchanged their asset-only portfolio construction practice for a much broader asset-liability management framework. As a result, many funds now manage their overall risk through the use of interest rate and inflation derivatives as well as equity derivatives. However, these risks are often managed individually. The next logical step therefore is to manage all risks jointly by focusing on the fund's overall solvency position or its funding level," it says. "We assisted the Rabobank Pension Fund in their drive for targeted risk management by implementing an innovative hedging strategy using 'hybrid derivatives'. By using hybrids the protection can be specifically tailored towards avoiding negative impacts on the funding level of a combined decrease in equity returns and real interest rates. The unprecedented size and the tailoring to Rabobank's objectives make the protection state-of-the-art. The protection resulted in a significant improvement of their risk profile, which did its job very well during the financial crisis in the second half of 2008."

CURRENCY FUND

Cardano believes that international financial institutions predominantly provide long-term finance in developing countries. "Currency risks in developing countries have repeatedly been the subject of extreme crises in recent history. International investors still remember vividly the impacts of events such as the currency devaluation crises in Asia, Russia, Argentina and others. In such an environment, international investors cannot assume currency risks outright without mitigation through hedging," it argues. "The specialist instrument TCX has provided a workable alternative solution to the problem, by developing a risk management model based not on direct hedging of exposures but rather on the benefits of global diversification to reduce currency risks to an acceptable level. Cardano is still the independent risk manager to TCX."

LONG LIFE PENSIONS

In the current market environment, interest rates, equity and credit markets may well be a major source of concern for pension funds. However, the potential cost of people living is just as threatening. "The issue with longevity is not that our generation expects to live longer than our parents. The problem is rather that we simply do not know how many years future generations will add in terms of life expectancy. This poses a real threat to our retirement system, unless we face this longevity risk now and learn how to deal with it in the not so distant future," Cardano believes. "Financial markets may be part of the solution to the longevity challenge and we have been involved in analysing the effectiveness of managing longevity risk using capital market solutions."

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