

STUDY REVEALS US PUBLIC SECTOR PENSION PLANS ARE SET TO INCREASE SPENDING ON STRESS TESTING

- Ninety per cent of plan sponsors will boost budgets for scenario modeling and stress testing in the next two years, with 24% making dramatic increases

U.S. public sector pension plan managers believe the plans they support will spend more on scenario modeling and stress testing in the next two years to help manage the increased risk of market shocks according to new research* from Ortec Finance.

The study with senior U.S. public sector pension plan professionals who collectively help manage over \$1.315 trillion, found increased appetite for investment in tools that help generate and analyze plausible risk–return scenarios.

Despite reporting extremely high levels of efficacy with existing stress testing and scenario modeling – 44% say they are very effective and 56% say they are quite effective at asset liability management (ALM) - over the next two years 90% of the public sector pension professionals interviewed say the plans they work for will spend more on tools in this area.

Currently 44% of the public sector pension professionals interviewed by Ortec Finance, which has clients with over \$3.2 trillion in assets under management and an office in New York, outsource their asset liability management (ALM) studies entirely to third parties, and 54% say they outsource partially.

When asked to assess their in-house ALM capability, 26% of those pension professionals interviewed rated their teams excellent; with the remainder describing them as good or average.

Just one in five (20%) of those surveyed say they take both assets and liabilities into account when assessing risk; 42% say they look solely at liabilities while 38% consider assets only.

Marnix Engels, Managing Director, Pension Strategy Ortec Finance said: “Market shocks continue to dominate the investment climate and the degree of uncertainty is extremely high for U.S. public sector pension plan sponsors.

“The stochastic models currently available to sponsors and their advisors including the Monte Carlo simulations are too simplistic and may generate results that do not fully account for major economic and market shock events - such as COVID-19. It makes sense to increase spending on advanced tools that offer more realistic and useful insights in changing market conditions.”

Marnix adds: “An ideal model would be adaptive and time-varying, and able to account for current market conditions and factor in uneven distributions of results in real-time.”

Ortec Finance models and maps the relevant uncertainties in order to help pension funds monitor their goals and decisions. It designs, builds, and delivers high-quality software models for asset-liability management, risk management, impact investment, portfolio construction, performance measurement and attribution, and financial planning.

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Notes to editors:

* Independent research company PureProfile interviewed 50 US public sector pension fund managers responsible for a collective \$1.315 trillion assets under management. The survey was conducted during February 2023.

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About Ortec Finance

Ortec Finance is the leading provider of technology and solutions for risk and return management. It is Ortec Finance’s purpose to enable people to manage the complexity of investment decisions.

This is accomplished via the delivery of leading technologies and solutions for investment decision-making to financial institutions around the world. Ortec Finance’s strength lies in an effective combination of advanced models, innovative technology, and in- depth market knowledge. This combination of skills and expertise supports investment professionals in achieving a better risk-return ratio and thus better results.

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