

A comprehensive and practical 2-day workshop on understanding and managing the risk inherent in investment portfolios, complete with worked examples and case studies to illustrate the key principles taught.

# RISK MANAGEMENT OF INVESTMENT PORTFOLIOS

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Caribbean Information &  
Credit Rating Services Limited

### **About the course**

This practical 2-day risk management workshop is being offered with the basic objective of imparting to participants the skills, approaches and techniques used in managing the risks inherent in fixed-income investment portfolios. The comprehensive programme will take a combined macro and micro approach to managing risk, and will provide an understanding of what types of risk are present in the portfolio and the governance structure required to effectively manage this risk, as well as provide an understanding of how to evaluate the credit and market risks inherent in individual securities and what tools and techniques are used to mitigate these risks. The training will also include extensive interactive discussions with the faculty experienced in risk management and benchmarking of risk for entities across the Caribbean.

### **About CariCRIS**

CariCRIS is the Caribbean's first regional credit rating agency. It is a unique market-driven initiative aimed at fostering and supporting the development of regional debt markets in the Caribbean. CariCRIS' mission is to contribute to the development of a vibrant, integrated Caribbean capital market by setting the highest standards of credible independent analysis and opinion to enable informed financial decisions. CariCRIS' technical consultant, CRISIL Limited, is the world's fourth largest rating agency and an associate company of Standard & Poor's (S&P).

### **Who Should Attend?**

The course should be of particular interest to anyone responsible for the oversight of an investment portfolio including:

- Investment Managers, Credit Analysts, Risk Managers and Finance Managers from insurance companies, securities companies, commercial banks, credit unions and other lending and investing institutions
- Dealers / Investment managers from banks, insurance companies, securities companies and other financial institutions
- Mutual Fund & Pension Fund analysts/ Asset managers
- Corporate treasury managers
- Banking, insurance and other financial sector regulators
- MBA / business graduates wishing to gain a clearer insight into practical aspects of risk management for investment portfolios.

### **Profile of the facilitators**

The lead facilitator for this workshop will be Mr David M. Weinstein. David has more than 30 years' experience in the areas of risk management, fixed income markets and derivative products and is currently engaged in his own risk management consulting business DWRM. He recently retired as a Capital Markets Specialist in the Bank Supervision area at the Federal Reserve Bank of Atlanta. Prior to that, he was employed by the New York State Banking Department, as a Supervising Risk Management Specialist in the Capital Markets Division, and before that he headed the Financial

Institutions, Fixed Income and Credit Derivatives Team at Dresdner Kleinwort Benson in New York. David will be supported in the credit risk segment by CariCRIS' Senior Rating Analysts who, between themselves, have over 40 years of experience in various fields of financial analysis and economics, and have executed several credit rating assignments across the region and conducted several training sessions for credit officers and middle and senior management staff from banks, insurance companies, securities brokerage firms and other financial institutions in the Caribbean.

### **Course Coverage**

Over the 8 sessions, the training programme will cover the following:

#### **SESSION 1**

- **Types of risk in a fixed income investment portfolio**
  - Market risk versus credit risk
  - Price risk versus income risk
  - Understanding the relationship between yield and price
  - Interest rate risk
  - Foreign exchange risk
  - Liquidity risk
  - Class exercise involving market risk, credit price and income risk

#### **SESSION 2**

- **Fundamentals of credit risk analysis**
  - Understanding the foundations of the global credit rating systems
  - Interpretation of rating symbols used by global rating agencies
  - Understanding 'Rating Outlooks' and 'Rating Watch'
  - Understanding national and regional scale ratings
  - Key differences with global scale ratings
  - Treatment of currency and sovereign risks
  - Long term and short term ratings
  - Linkages between long term and short term ratings
  - Default and transition statistics
  - Methodology and criteria for analysing the credit risk of manufacturing and service type entities
  - Methodology and criteria for analysing the credit risk of banks and financial institutions
  - How to factor in the possibility of Parent Company Support – Use of economic rationale, morale obligation and parent credit rating

### SESSION 3

- **Fundamentals of market risk analysis**
  - A deeper look at interest rate risk
  - The concept of a yield curve and yield spreads
  - Risk measurement tools – duration and convexity
  - The concept of breakeven forward rates
  - Use of worked examples to reinforce concepts covered

### SESSION 4

- **Effective governance and oversight of the investment portfolio**
  - Purpose of the investment portfolio – incremental earnings, or a source of contingent liquidity
  - The role of an ALCO and Investment Committee
  - The role and function of the Risk Management Committee
  - Board of Directors' oversight
  - Dual control and separation of duties
  - Appropriate use of limits
  - Case study to illustrate concepts covered above

### SESSION 5

- **Role of monetary policy**
  - Why do central banks care about interest rates?
  - Which part of the yield curve can they directly impact?
  - Money supply and economic growth
  - Bank lending, fiscal policy and impact on money supply
  - Class exercise – Impact of bank lending, government spending and central bank actions on money supply

## SESSION 6

- **Reaching for yield**

- Reaching for yield with weaker credits – Does the higher yield justify the added risk?
- Reaching for yield with longer maturities
- Reaching for yield with ‘Call’ risk
- The need for stress tests
- Class exercise

## SESSION 7

- **Risk Mitigation**

- Derivatives as a tool for mitigation risk
- Case study utilizing derivatives as a hedging tool
- An introduction to options
- Class exercise utilizing and applying options

## SESSION 8

- **Structured Investment Products**

- Securitisations
- Structured products and market risk
- Structured products and credit risk
- Customized investment products



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### **Biography of David M. Weinstein**

David has more than 30 years' experience in the areas of risk management, fixed income markets and derivative products and is currently engaged in his own risk management consulting business (DWRM). He recently retired as a Capital Markets Specialist in the Bank Supervision area at the Federal Reserve Bank of Atlanta. Prior to that he was employed by the New York State Banking Department as a Supervising Risk Management Specialist in the Capital Markets Division. Before that he headed the Financial Institutions, Fixed Income and Credit Derivatives Team at Dresdner Kleinwort Benson in New York. Over the years, he has focused on developing derivative related risk management solutions in areas ranging from investment portfolios to structured liability products. As a private consultant he has advised and assisted both sovereign and private sector clients and conducted workshops and seminars worldwide. He spent eight years as a part-time Adjunct Assistant Professor at New York University (NYU), teaching classes in Risk Management, Fixed Income Markets, Derivatives and Structured credit Products. David has a BS from Fairleigh Dickinson University and an MBA from Long Island University.