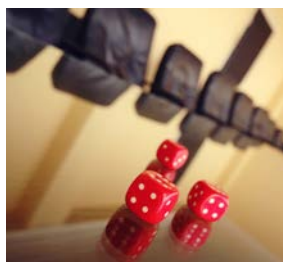


## Risk governance review



How should fund boards handle non-quantifiable risk? Everyone knows that risk is much more than a number generated by VaR or some similar calculation. But examining it beyond the number-crunching stage is difficult. As result it can get ignored. At a time of when macro and geo-political risks are growing that is a mistake.

The well-known statistician and risk analyst, amongst many other things, Nassim Taleb, does not believe that risk can be packaged-up and accurately measured. The Sunday Times called his book 'The Black Swan' one of the 12 most influential since World War II.

Taleb has several criticisms of VaR and similar quantitative static risk systems that use complicated mathematical modelling to come up with a number to determine a particular level of risk. He predicted the 1987 stock market crash, the bursting of the dotcom bubble and the 2008 financial crisis.

[Continued on page 11 >>](#)

## Identifying potential problems

Macro and geo-political risk indicators are pointing sharply upwards this autumn. A review of the macro risks that could upset markets in the months ahead.

### The end of cheap money



The financial media has been full of pessimistic articles on the prospects for the global economy this autumn. More than one commentator has made the point that the global financial crisis of 2008 never went away, it was just anaesthetised by cheap credit and central bank money printing.

One of these commentators, Jeremy Warner, makes the point that the global financial crisis was caused by excessive credit. But since then, debt as a proportion of global GDP has continued to rise. Aggregating all borrowing together – public, household and corporate – global debt is today more than a fifth higher than back then at around 250% of GDP, according to estimates by the International Monetary Fund. He says that rising interest rates are beginning to expose the wrecks that were previously hidden by cheap money.

[Continued on page 13 >>](#)

## Contents

<b>News</b>	<b>2</b>
IFI Global's podcast library launches November	2
The NED's 2022 Director Survey & e-Forum	3
The NED's green independent directors	4
SIS expanded to include ESG functionality	4
Emission reduction investing report	5
<b>Liquidity risks at UCITS funds</b>	<b>6</b>
<b>Third-party ManCo risk</b>	<b>9</b>
<b>Risk governance review</b> – continued from page 1	<b>11</b>
<b>Identifying potential problems</b> – continued from page 1	<b>13</b>
<b>Fund board effectiveness</b>	<b>16</b>
<b>The NED's fund director ratings</b>	<b>19</b>
<b>The NED leading governance &amp; ManCo listings</b>	<b>21</b>
<b>Non Executive Fund Directors Database</b>	<b>24</b>

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