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Knowing where your portfolio currently sits seems like an obvious requirement—and yet, historically, funds have had a hard time doing just that. *Chief Investment Officer* (*CIO*) Editor-in-Chief K.P. (Kip) McDaniel spoke with Dave Hsu and Susan Veksler, CEO and COO of Caissa, LLC, a risk management software platform for institutional allocators.

CIO: I understand that you were founded in 2010, and that Caissa, interestingly, is the Goddess of Chess. So what institutional asset management problem is your firm attempting to solve?

Veksler: Previously, technology solutions were very siloed and did not allow CIOs of endowments, funds-of-funds, wealth management firms, foundations, and pension funds to answer simple questions such as, "What percent of my entire portfolio, across public and private investments, is in Russia?" While manager due diligence remains important, there is a universal push to understand total portfolio exposures better in order to make better asset allocation decisions. Investors want to know what, not just who, is in their portfolio.

CIO: In the financial crisis, everyone thought they were diversified—yet every hedge fund, for example, seemed to fall near the average, and investors realized that their perceived diversification was largely an illusion. Is that the genesis of the firm?

Veksler: Absolutely, we wanted to give allocators a better way of understanding their exposures across managers, who don't report exposures in a unified manner, so that they can truly understand their portfolio's diversification across assets, sectors, regions, currencies, and any other investment attribute.

CIO: A lot of managers are wary about sharing information. How are you getting holdings data now?

Hsu: We process any exposure and position-level data that our clients receive, and when that is not available, use public filings. We are currently processing transparency data of over 2,000 funds, across a full range of public and private investments. Our system does not hinge upon getting full transparency from managers. There is plenty that can be gleaned from the investor letters, but not everyone has the resources to go through that process, which is why we are here to do that for them.

CIO: What you're doing seems so obviously necessary. Why then has the status quo persisted for so long?

Veksler: As allocators built out investment teams and began employing the multi-asset class "endowment model" way of investing, institutions became more advanced in their asset allocation approach. Arguably, quicker than technology solutions could keep pace.

Hsu: Yes, gone are the days when allocators are solely bottom-up focused—finding the top ten managers and putting them in a portfolio. A typical institutional portfolio may have hundreds of investment vehicles. The need to understand the portfolio positioning aggregated across these vehicles is even more crucial now, and that's precisely what Portfolio Navigator does.

CIO: What type of challenges are you facing?

Veksler: For sophisticated institutional allocators, our software and service resonate immediately with them. They are already seeking to understand their entire portfolio's exposures from an asset class perspective. Still, there are some groups that focus mainly on analyses of historical manager returns, perhaps because computationally, it is far less intensive than attempting to aggregate all managers' exposures in a portfolio.

Hsu: We are moving groups away from relying on historical manager performance to understand risk, and instead are looking at exposures. Take the end of 2007. Many managers had betas below 1.0 and yet they were down over twice the market, often due to having leverage or being in highly cyclical sectors. These funds' exposures were telling a different risk story than their betas, and a sound risk management framework should be based on the most up-to-date information about portfolio positioning, rather than historical averages.

CIO: Do you have a scenario and hypothetical analysis function? I imagine that would be entirely useful.

Hsu: Absolutely, our clients use both. Endowments in particular have real funding obligations, so it is important to them to manage downside risk to meet the university's needs. They test how their portfolio would perform if, say, the S&P went down 20% or if the subprime crisis were to happen again. Our clients are running these types of stress tests on the actual holdings in their portfolio, as opposed to using managers' historical returns, which may give false comfort.

Veksler: Yes, and to your point about hypothetical and what-if analysis, this is a commonly used feature among our clients who now collectively represent over $110 billion in assets. Chief investment officers use Portfolio Navigator to assess the big picture, as in: How would adding this particular manager with this sizing change my portfolio's risk profile? Exposures? Liquidity?

CIO: So it seems as though CIOs have embraced this product?

Hsu: Yes, we are proud to have a sophisticated client base, and I think our clients appreciate that we, as a firm, are building portfolio analytics exclusively for allocators. This is our flagship product, and we feel great when we hear a client say, "It used to take me weeks to figure out what my exposure is to Ukraine. Now I can do it with a click of the mouse."

Veksler: It's very encouraging for us to see a wide range of groups implementing Portfolio Navigator, including family offices, funds-of-funds, pensions, endowments, and wealth management firms. Investment teams are excited to have a real Exposure Management System in place, as before they were storing this information in Excel or perhaps a CRM with a few fields for exposure entries.

Hsu: When people think about asset allocation, they have a target, similar to a destination on a map. A destination is only useful when you know your starting point. Before you consider where you want to go, the very first question, in our opinion, should be, "Where are we today?" ■

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