



**ROBERT P.
CLANCY, FSA**

Bob specializes in derivatives and mortgage-backed securities at Dwight.

As client demand for creative investment solutions has increased, Bob Clancy's responsibility as a derivatives specialist has likewise evolved into a key role at Dwight. However, Bob's expertise in this area is hardly a recent development.

AN AUTHORITY ON OPTIONS

In 1985, Bob authored a paper on pricing options on bonds, which won the prestigious Halmstad Prize. Since then, he has developed derivatives trading programs at two other firms before implementing these programs at Dwight.

Bob believes that futures and options are very useful tools for adjusting duration and yield curve exposure in portfolios where derivatives are allowed. "When we decide to shorten or lengthen duration, making a derivatives trade is a more efficient way of adjusting to the new target because we do not have to sell bonds that we hold and want to keep in order to achieve the target."

Bob also looks for strategies, typically options, where he thinks we can add value. "With options, you can tailor some strategies to a particular outlook. For example, when interest rates were approaching really low levels, mortgage-backed securities (MBS) were performing very well. If interest rates went back up, they would still do well. But, if rates went down, MBS could implode due to fears of a pending spike in refinancing and prepayments. So we bought call options on Treasuries and sold call options on MBS. This trade gave us protection against the worst case scenario and would not harm us if all went well." Bob consults regularly with Chief Economist, Jane Caron, to structure derivative trades consistent with Dwight's economic outlook.

According to Bob, by and large, futures and options have been used the same way for about 20 years. However, Bob views the recent introduction of credit default swaps (CDS) as a huge evolutionary step with the potential to revolutionize the fixed income investment management business. "We are very excited about potential uses of CDS in our portfolios."



Bob Clancy with a bonefish in the Bahamas.

A PIONEER IN ASSET/LIABILITY MANAGEMENT

Bob is well versed in this area as he was one of three faculty members in the first insurance company asset/liability management seminar sponsored by the Society of Actuaries. His background as an actuary, his prior experience managing immunized and dedicated portfolios, and 35 years of financial services experience allow Bob to comprehensively understand the issues and risks surrounding pension plan sponsors' asset/liability management.

With the enactment of the Pension Protection Act of 2006, it is clear to Bob that many pension plan sponsors will be taking a fresh look at their asset mix versus their defined benefit pension liabilities. As he notes, certain managers appear to be constructing interest rate swap or derivative overlay products, which could be applied to some assets or an entire portfolio to better match the current liabilities. He says this approach might keep a plan from having to make any major changes to existing allocations; however, such long duration portfolios would be especially vulnerable to rising interest rates.

Since there are very few plans actually making moves toward the new offerings yet, Bob believes that it is difficult to predict how future products will evolve. In the meantime, Bob thinks that client demand should inspire innovation. At Dwight, Bob is confident that we have the actuarial and investment expertise in house to effectively address asset/liability needs. And, as the head of this product development team, Bob is analyzing new strategies, speaking to experts, and preparing for this shift in the market.

A SEASONED FISHERMAN

Bob has been an avid fly fisherman for 40 years. While he enjoys fishing Vermont streams for trout, his real passion is salt water fishing, mostly in southern New England. "The ocean fishing was a little disappointing this summer, so I can't tell you where the hot spots are. Some seasons are better than others." However, Bob does feel that his regular tactics are sound: 1) talk to people at fishing/tackle shops and read the internet to find out where the fish are, 2) rely on past experience, 3) heed the tides of the ocean, and 4) figure out what the fish want. Like the markets, he says that fish can change their minds often.

*Interview by Ann Janda,
Editor of Dwight Publications*