Editorial

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We are pleased to close the year 2018, our first year running as editors of the journal, with the appearance of this issue, which adds to the continuous feed of high-standard research articles in the field of asset management. We are very grateful to the authors for choosing this journal as the outlet for publishing their work. It is a truly rewarding experience for us to work closely together with them and to be of help in the finalizing stage of their research projects.

We take the opportunity to thank the many reviewers as well whom, from the large community of researchers we know, we have solicited over the year. We are impressed by the rigorous assessment reports they produce, and we feel much obliged for the time and effort they dedicate to the journal. As a token of thanks, we intend to publish the reviewers' names on the website early next year (of those who so wish). We feel privileged to be part of the community of researchers, who in an informal yet in an effective way make science progress.

Let us introduce the first two articles this issue features, written by Roy Kouwenberg, and by Giuliano De Rossi and Gurvinder Brar. Preliminary versions of these articles were presented earlier this year at a conference that was jointly organized by Inquire Europe and Inquire UK on the theme of risk management. Both articles deal with issues linked to the question how the capital markets are—or rather, should be—regulated. The question is not simple. On the one hand, too lax rules could lead to the same excesses that

were seen 10 years ago during the near-meltdown of the banking sector, while on the other hand too strict rules could obstruct an efficient market functioning just as well.

Roy analyses the impact of the capital requirements which are imposed on European insurance firms as part of the Solvency II regulation that has come into force in 2016. He observes that insurance firms which focus on minimizing their solvency capital will follow investment strategies that are sound in principle, the hedging of the insurance liabilities being a key component of the optimal strategy. However, in the process of minimizing the solvency capital requirements, the SCR, it seems that certain assets are being favoured, notably government bonds, but also the most risky ones within a category of equal capital charges. The rationale of these shifts is easy to follow. Roy gives more complex examples of allocation shifts which are provoked by the parameters of the Solvency II standard formulae, a simplified risk model. The prescribed numbers are round numbers, e.g. 0.25 or 0.5, which may in effect be at odds with market reality.

We appreciate the initiative Roy has taken to demonstrate the impact of the solvency requirements on the investment decisions and by doing so to contribute to the ongoing debate on these regulation matters.

Giuliano and Gurvinder pick up on another question that stirs debate at present between market regulators and practitioners, which is whether or not it should become compulsory for investment firms to report the active shares of their funds. The active share measures the extent to which a fund diverges from its benchmark and may on that basis be considered active. It is common practice to report this measure to clients and use it for defining the fund's investment objective. The European Securities and Markets Authority (ESMA) had initiated the debate on active share in 2016, seeing the compulsory reporting as a means of

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fighting against falsely active funds, the so-called closet funds or the benchmark-hugging funds. The Authority feels concerned that funds, which are marketed as active but in practice turn out to be passively managed, are misleading for clients and may be unduly charged high management fees.

The analyses the authors make in their article pull into question whether the way the active share tends to be used by practitioners, is actually as sound as the regulators may

believe it to be. Doubts indeed arise, especially in situations where the active share is used to define the investment target of a fund. It often crops up as a lower bound for portfolio holdings, and it is not sure whether such bound is an effective means to lure funds out of their closets.

We again much appreciate the initiative Giuliano and Gurvinder have taken to have given this demonstration and by that make an important contribution to this debate.