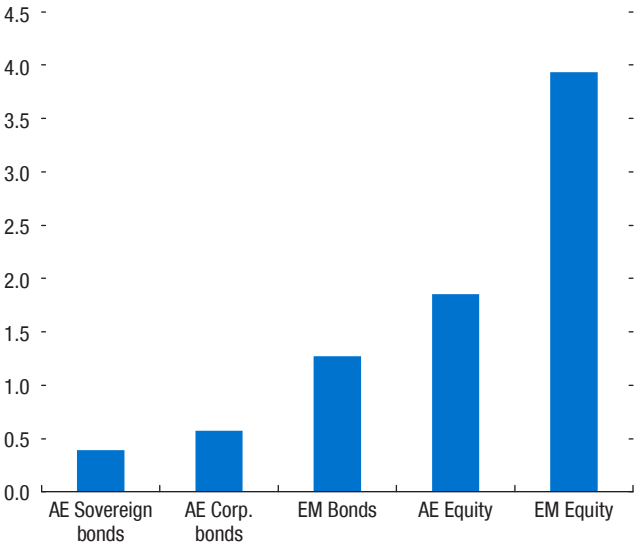
Figure 3.16. Contribution to Systemic Risk by Mutual Funds

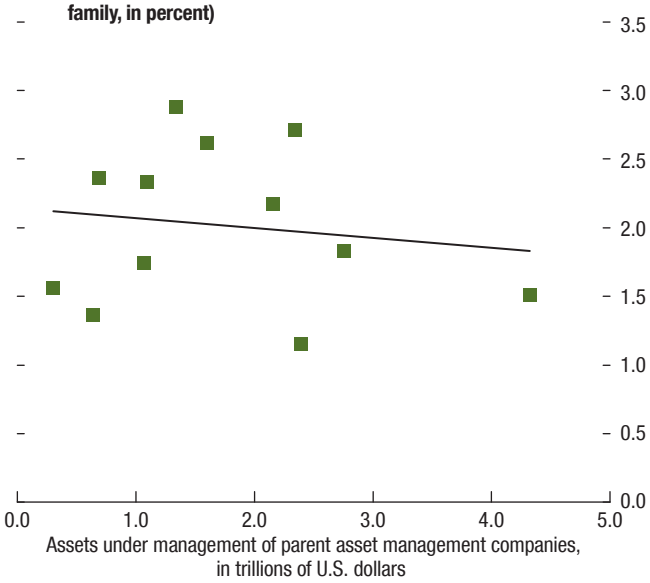
The systemic risk contribution differs across funds' investment orientation.

1. Average Contribution to Systemic Risk, by Investment Focus (in percent)



A fund's systemic risk contribution is not related to its AMC's size.

2. Contribution to Systemic Risk of Top Fund Families, by Size of Asset Management Company (Contribution to systemic risk averaged across funds in the same family, in percent)



Sources: Lipper; Pensions and Investments and Towers Watson; and IMF staff estimates.
Note: AE = advanced economy; CoVaR = conditional value-at-risk; EM = emerging market. The impact of fund A's distress on systemic risk is measured by the difference of CoVaR when fund A is in a normal state (median VaR) and in a distressed state (worst 5 percentile VaR). The financial system consists of an equity index for banks and insurance from AEs and about 1,500 mutual funds, taking the largest 100 funds (globally) for each of the five investment focus categories (AE sovereign, AE corporate bond, EM bond, AE equity, and EM equity) and for three different fund domiciles (the United States, Europe, and the other advanced economies). Weekly net asset value data are used to compute fund returns and monthly total net asset (TNA) data to measure the size of each fund from January 2000 to November 2014. The system is measured by a TNA-weighted average of fund returns (the results are robust when the simple average is used instead). The assets under management of the AMC include assets managed with different investment vehicles such as separate account and alternative funds.

Caution should be taken in comparing the precise ranking of systemic risk contributions across fund categories since the sample period may not capture the realization of relevant tail risks. Moreover, the measure does not distinguish whether the contribution is causal or driven by a common factor.