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## **Investment leverage ratio:**

$$\frac{\text{Invested Assets}}{\text{Net Position}}$$

This important “leverage” ratio measures exposure to a pool’s net position as the result of changes to value in its investment portfolio.

A pool with \$50 million of invested assets and a net position of \$30 million would have an Investment Leverage ratio of 1.67; or, said another way, for each \$1.67 of invested assets the pool has \$1 of net position.

Examined in conjunction with the Portfolio Yield, the Investment Leverage ratio can profile the level of risk a pool’s net position has to market fluctuations – in other words, how much of its total net position is subject to market fluctuations of invested assets. For instance, if the stock market suffers a severe depression, the net position of a pool with affected invested assets could decrease and the pool’s overall financial ability to sustain other volatility (such as in contribution or reserves) might be hindered.

The allocation of a pool’s invested assets is a key consideration when interpreting the Investment Leverage ratio. If the invested assets have a large proportion of equities, there will be greater volatility upon equity market swings. The Investment Leverage ratio, like other financial ratios, cannot be examined or interpreted in a vacuum. And, there is no currently identified acceptable pooling range for the Investment Leverage ratio, which is one of the reasons AGRiP is creating the FBI. Nonetheless, understanding what the Investment Leverage ratio is intended to measure and your pool’s results are helpful to understand your overall financial status.