Anaxis AM Risk Management

Introduction

Our risk manager plays a key role in the management process. He sets the limits in terms of risk and market exposure. He has the capacity to reject a transaction suggested by fund managers if deemed inadequate. He also assesses the risk parameters of our funds, checks whether the risk is kept within the intended limits and analyzes portfolio performances.

Risks are monitored at various levels. Key risk measures are computed at portfolio level. An analysis is done on each individual line to determine how it impacts the risk and return of the portfolio and how it has evolved over time.

The risk manager is also responsible for the management of the operational risks relating to the assets and liabilities of our funds. In that respect, he monitors the settlement of security transactions, verifies fund valuations and tracks subscriptions and redemptions.

Constraints	Positions	Portfolio	Performance and market	Operations
• Setting limits • Diligence on products • Following regulations	• Eligibility • Contribution to global risk • Credit events • Special situations • Liquidity	• Credit • Sensitivity • Concentration • Volatility • Currency risk • Liquidity	• Performance monitoring • Bid-ask • Abnormal moves	• Settlement • Counterparts • Corporate actions • Subscriptions / redemptions

The risk manager attends the Bond Committee which meets once a week. At this committee, the fund managers discuss the evolution of their portfolios and, under the control of the risk manager, decide which adjustments are needed. If any breach is detected, changes to the portfolios are suggested by the risk manager to the management team. In exceptional circumstances, the risk management has authority to liquidate inappropriate positions or to adjust the portfolio as necessary.

The risk manager has the authority needed to fulfill his tasks and is completely independent from the management team.

Constraints

The risk manager is responsible for setting the constraints and investment limits of our portfolios. It ensures that these constraints are properly reported in the prospectus and strictly adhered to by being programmed into the tools used by fund managers.

In close co-operation with the head of compliance and internal control, it keeps abreast of the new regulations and liaises with the legal department of our custodians to ensure that portfolios comply with applicable regulations at all times.

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Analysis of individual position level

The risk manager verifies whether a security complies with the investment constraints of the portfolio before the new line may be purchased by fund managers.

On a weekly basis, the risk manager conducts an analysis of all individual lines to assess their contributions to return and risk. He quantifies their sensitivity to systematic risk factors and their potential mark-to-market impact on portfolios. He monitors their volatilities and historical draw-downs, follows the evolution of their yields and is attentive to the securities that might be called back by their issuers.

The risk management also performs a liquidity analysis of each security by monitoring more particularly the evolution of bid ask spreads, of the number of brokers quoting the security and of our holding ratios.

Risks at the portfolio level

The reports and risk sheets produced by the risk manager enable him to verify that the various risk limits are respected and that our portfolios are in line with the ratios set in the prospectus. The risk management monitors geographic and sector diversification. It also monitors the sensitivity of portfolios to interest rate movements, studies the drivers of systematic risk and analyses the evolution of the risk-return profile of the portfolios. Also, the cash available for each portfolios is closely monitored as well as the currency hedging of every non-euro denominated share classes and securities.

For our funds managed according to a fixed maturity date, the maturity of positions held in the portfolio is monitored in order to comply with the constraints specific to these portfolios.

Monitoring of performance

The risk manager monitors the performance of the portfolios and the bond positions both in absolute and relative terms by using a beta-adjusted performance measure. This analysis aims at identifying holdings over-performing or under-performing comparable securities over the short, medium, or long term.

The risk management also analyses the contribution to performances for each security, country, sector, rating and maturity range in order to identify advisable adjustments to the portfolios.

This information allows the fund managers to have a clear understanding of the various performance drivers in their portfolios.

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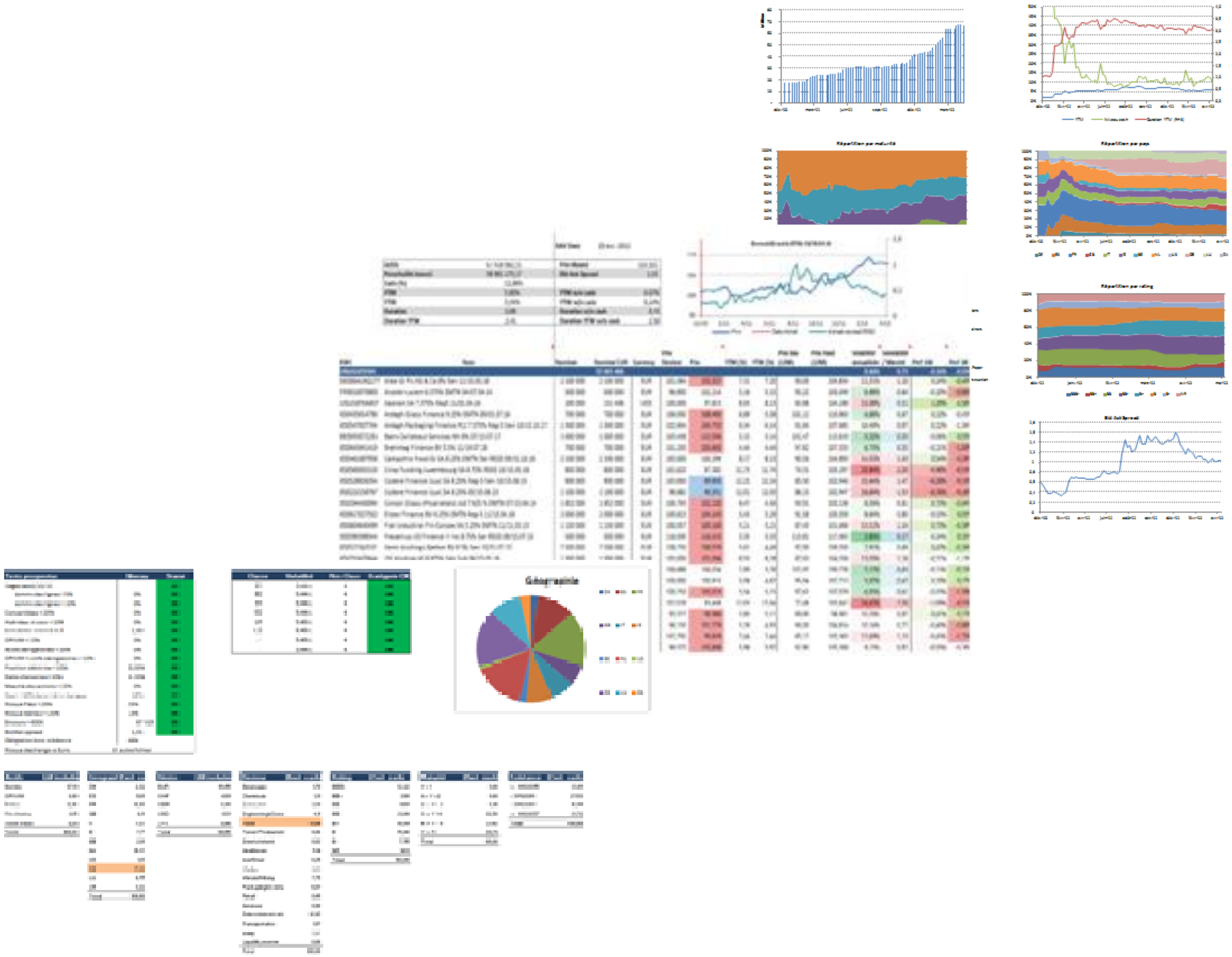
Proprietary tools

Anaxis Asset Management has created its own internal tools to answer to the specific needs of risk management. IT developments are supervised directly by the risk management team. These tools are integrated into a 5-pillar framework: procedures, resources, teams, balance of power and alerts.



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