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A rigorous risk management process is the fulcrum of the investment process. It cannot be disassociated from the quest for performance. We are especially attentive to the identification, assessment, and analysis of the risks inherent in fund management. The monitoring of portfolio risks is assigned to the Risk Management function.

It operates independently of the management team.

What are the principal risks and how do we measure them?

Market risk

Definition: Risk of loss related to fluctuations in the market value of the portfolio

- Equities risk: (equity exposure)
- Exchange rate risk (currency exposure)
- Fixed-income risk (curve sensitivity)
- Credit risk (issuers' spread)
- VaR, CVaR, Stress tests

Counterparty risk

Definition: Risk of default of a counterparty unable to repay its credit

- risk of default of a counterparty unable to repay its credit
- Analysis of the spread of CDS, of volatility of the securities.

Limits and restrictions

Definition: Risk of noncompliance with the restrictions for each portfolio

- Risk of noncompliance with restrictions on each portfolio Regulations (AMF, CSSF), Prospectus
- Internal procedures

Liquidity risk

Definition: Risk of temporary impossibility to sell a security in the portfolio

- Risk of temporary impossibility to sell a security in the portfolio
- Less liquid positions Liquidation times
- Liquidity profile under normal market conditions and under stress

Limit levels

The Risk Management function ensures that the various limits are enforced for each portfolio.

The portfolio managers are constantly updated with a detailed report on the risk profiles of their respective portfolios, particularly at the start of day and before market closes.

- Regulatory limits prescribed by the supervisory authorities: They apply to all the actors in the asset management market.
- Established statutory limits: Defined in the prospectus, they represent the commitments toward investors.
- Internal limits established by the Risk Management function: These limits are examined in meetings and modified, if necessary, based on the macroeconomic context.

On risk management procedures

The Risk Management function has unlimited access to the same instruments as the fund management team. It can therefore follow in real time the positions opened by the managers. This monitoring gives the team the necessary fast response time, enabling it to immediately identify which risks to mitigate and nonconformities with the limits.

The monitoring and risk management actions are applied independently and uniformly to all managers and all portfolios.

1st level of risk management

The Risk Management function ensures that the limits are constantly enforced by conducting at least X audits each day/week/month...

In case of nonconformity with one or more limits, the portfolio manager is immediately informed.

This notification initiates an escalation process (which, in case of continued violation, may reach Giovanni Pesce).

2st level of risk management

The Compliance and Internal Control service ensures that the 1st level risk management mechanism is properly applied.

The procedure in detail

The Risk Management function assists the management team in monitoring the investment strategy.

A portfolio manager wishing to invest in a position can request the opinion of the Risk Management function to verify the impact of the choice on the overall risk profile of the portfolio.

The Risk Management function tracks the total risk profile of the portfolio—if the security is invested in the portfolio—and sends a report to the portfolio manager.

The portfolio manager makes the decision to invest once he receives the recommendations of the Risk Management function.

The Risk Management periodically checks whether the risk profile of the fund complies with the regulatory and statutory limits as well as limits established internally.