



P R O D U C T S

**QUANTITATIVE PORTFOLIO MANAGEMENT
DYNAMIC RATCHET MANAGEMENT APPLIED
TO CURRENCY OVERLAY**

Dynagest specialises in portfolio insurance, and is regarded as a major player in the development and application of dynamic ratchet management in Switzerland. With over fifteen years' experience in this technique, it has acquired extensive know-how and contributed actively to its expansion and diversification, particularly in connection with currency risk management. This purely quantitative approach, which is based on a risk allocation model, is implemented systematically in accordance with the model's predetermined parameters. It involves dynamic management of the hedge ratio based on the movements observed in the underlying currency. The objective is to generate an asymmetric return profile with a view to limiting downside risk, while retaining a significant participation in upside potential.

- Dynagest's strengths**
- ◆ independent management
 - ◆ unique experience in applying dynamic ratchet strategy to currency overlay in Switzerland
 - ◆ integration of currency overlay into semi-active or active quantitative management and index tracking*
 - ◆ ability to create synergistic relationships
 - ◆ proven track record
 - ◆ institutional reporting.

*See brochure "Quantitative Portfolio Management. Index Tracking and Enhanced Indexing".

Fees Management fees vary between 0.08% and 0.35%, depending on the complexity of the product and on the amount and number of currencies under management. A degressive fee structure is preferred.

Medium- and long-term objectives In order to meet the renewal demands encountered in daily practice, Dynagest continues to explore the opportunities offered by the application of dynamic ratchet management to currency overlay. The principle lines of research adopted by Dynagest are:

- ◆ further development of synergies with other quantitative management techniques*
- ◆ creation of new products
- ◆ active contribution to the development of portfolio insurance management techniques.

*See brochure "Quantitative Portfolio Management. Index Tracking and Enhanced Indexing".

- Strength of dynamic ratchet management applied to currency overlay**
- ◆ track record with top-class clients since 1996
 - ◆ asymmetric yield profile
 - ◆ transparent costs and management processes
 - ◆ flexible implementation and management of the various parameters.

- Funds managed and advised by Dynagest**
- As of 31 March 2011, Dynagest was applying dynamic ratchet management techniques to currency overlay in the following funds:
- ◆ BCV Dynamic Fund – BCV Dynagest International Bond Expo (CHF), Banque Cantonale Vaudoise, Lausanne
 - ◆ BCV Dynamic Fund – BCV Dynagest Corporate Bond Expo (CHF), Banque Cantonale Vaudoise, Lausanne.

- Management mandates**
- Dynagest also provides management and advisory services directly on behalf of institutional clients. The direct mandate is a particularly flexible means of tailoring portfolio insurance principles to specific investor needs.

Insight articles authored by Dynagest*

- ◆ "Currency overlay" obligataire: la preuve par le cliquet
- ◆ Risque de change: impact sur les principales classes d'actifs
- ◆ L'impact du risque de change sur les principales classes d'actifs et l'apport d'un "currency overlay" asymétrique.

*Available from Dynagest SA or downloadable from our website

Comparison of different currency overlay approaches

Passive approach	Options approach	Ratchet approach	Active approach
Eliminate the currency risk	Limit currency risk, benefit from upside	Limit currency risk, benefit from upside	Generate performance via currency management
<ul style="list-style-type: none"> ◆ risk eliminated ◆ cost known ◆ no profit potential, final result determined by differential in short interest rates. 	<ul style="list-style-type: none"> ◆ risk limited, even eliminated, by systematic purchase of hedging options ◆ cost known in advance for a given hedging horizon, depends mainly on the currency's volatility ◆ relatively high upside potential. 	<ul style="list-style-type: none"> ◆ pre-determined level of downside risk ◆ cost not known in advance as it is path dependent ◆ significant participation in upside. 	<ul style="list-style-type: none"> ◆ despite potential for decorrelation, this is not necessarily a hedging approach ◆ result depends on manager's ability to take positions in "good" currency pairs, based on different approaches and models.

Dynamic ratchet management applied to currency overlay: a pertinent approach to hedging currency risk

Dynamic ratchet management, or Time Invariant Portfolio Protection (TIPP), is a hedging technique. The technique makes particularly interesting use of derivatives: the implementation, management and monitoring of exposure to a given underlying asset according to precise, predefined rules.

When dynamic ratchet management is strictly applied, the cost of absolutely protecting an investment floor can be high. This is particularly true in cases where there is erratic movement in the underlying and risk-free returns are low. Dynagest employs several approaches to help reduce this cost:

exposure to the currency is maintained at a minimum level in order to protect the potential - after a decline - for upside participation, but with the possibility of the value dropping below the floor (a reference floor);

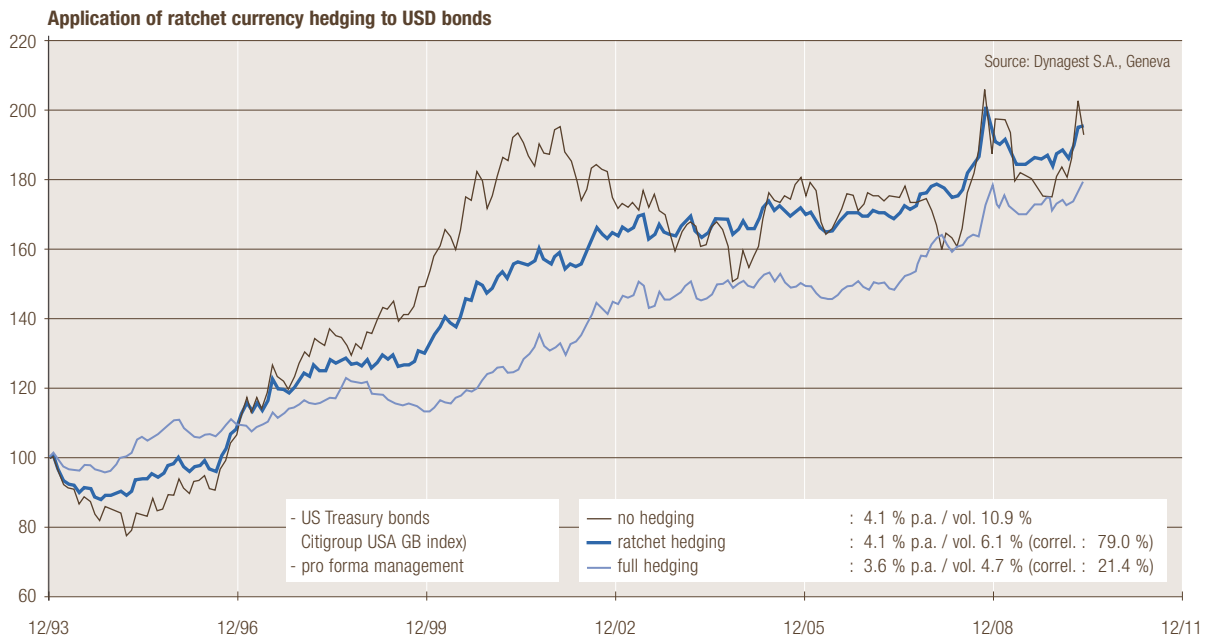
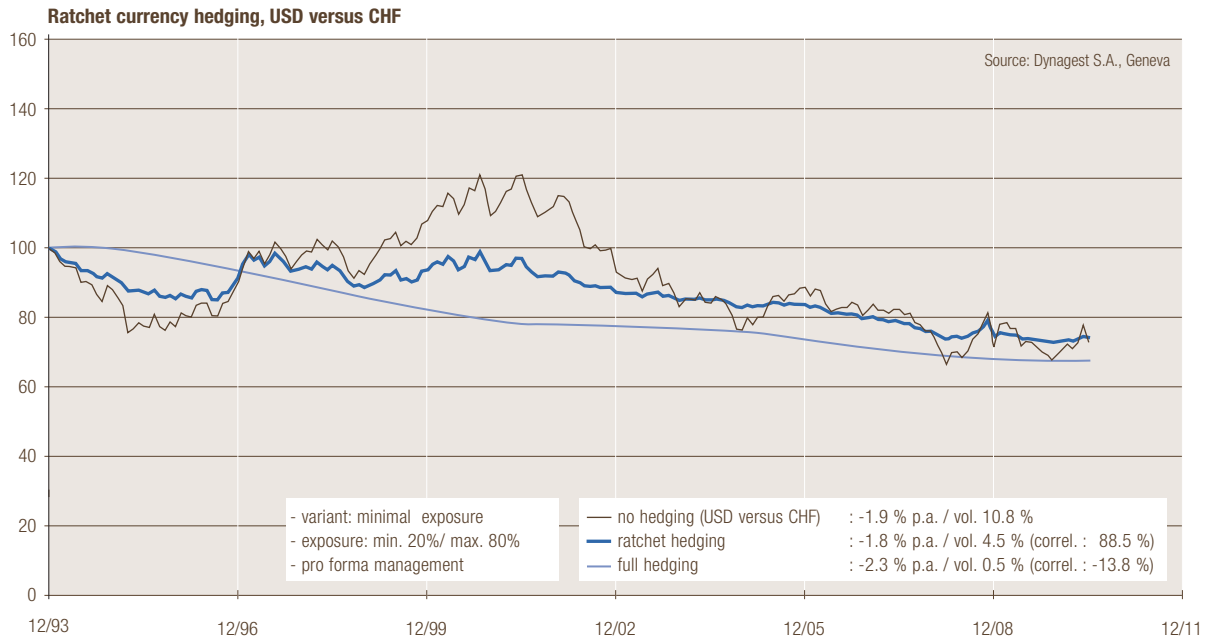
exposure to the foreign currency can be resumed on the basis of an additional annual risk budget. This resumption, which is achieved by lowering the floor, is assessed conditionally or on a discretionary basis.

All these approaches, whether implemented individually or in combination, increase the ability to participate in upward movements in the currency. The objective is shifted away from protection of an absolute investment floor which can only be adjusted upwards, to the generation of investments with real asymmetric return profiles.

- ◆ Moreover, the greater the participation in rising markets, the higher the upward adjustment over time to the floor (a reference floor in these approaches). Lowering protection costs, therefore, does not necessarily mean less protection, at least in the longer term.

* "Quantitative Portfolio Management, Dynamic Ratchet Management and Portfolio Insurance".

Dynamic ratchet management applied to currency overlay: for investors whose reference currency is CHF



Dynamic ratchet management applied to currency overlay: methods of application

Dynamic ratchet management is applied to an existing long cash position representing the client's foreign currency assets. Depending on the client's risk profile and the currency used, exposure varies dynamically between a maximum (normally 80% - 100%) and a minimum (normally 0% - 40%).

This exposure is managed by means of derivative instruments: currency forwards, OTC options or futures and options in regulated markets. This type of management is particularly suitable for currency pairs which offer sufficient liquidity and an efficient options market.

The information provided in this brochure is valid as of 31 March 2011.

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