



P R O D U C T S

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**QUANTITATIVE PORTFOLIO MANAGEMENT**  
**DYNAMIC RATCHET MANAGEMENT**  
**AND PORTFOLIO INSURANCE**

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 of business, it has acquired extensive know-how and contributed actively to its expansion and diversification. Thanks to this track record, it offers its clients exclusive expertise in the field.

- Dynagest's strengths**
- ◆ expertise in developing new portfolio insurance products and applications
  - ◆ dynamic ratchet strategy experience unparalleled in Switzerland
  - ◆ integration of portfolio insurance into quantitative management, index tracking, enhanced indexing or active management\*
  - ◆ ability to create synergistic relationships
  - ◆ proven track record
  - ◆ institutional reporting.

\*See brochure "Quantitative Portfolio Management. Index Tracking and enhanced indexing".

- Implementation of management techniques**
- ◆ direct management of long positions
  - ◆ insurance of existing long positions through overlays.

- Applications**
- ◆ equity markets
  - ◆ bond markets
  - ◆ currencies
  - ◆ precious metals.

**Fees** Management fees vary between 0.15% and 1% depending on the complexity of the product and amount under management. A degressive fee structure is preferred.

- Medium- and long-term objectives**
- To meet the demands for renewal encountered in daily practice, Dynagest continues to explore the opportunities offered by portfolio insurance techniques. The principle lines of research that play a significant role in the improvement of portfolio insurance are:
- ◆ active contribution to the development of management techniques in the field of portfolio insurance
  - ◆ further development of synergies with other quantitative management techniques\*
  - ◆ creation of new products.

\*See brochure "Quantitative Portfolio Management. Index Tracking and enhanced indexing".

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- Strengths of dynamic ratchet management**
- ◆ allows systematic management of exposure to rises and falls in the market
  - ◆ provides permanent protection of initial investment capital and accrued gains
  - ◆ takes advantage, as much as possible, in any rise in the underlying depending on initial exposure
  - ◆ controls risk of the underlying
  - ◆ contributes to long-term portfolio growth thanks to a systematic management strategy.

- Funds managed and advised by Dynagest**
- As of 31 March 2011, Dynagest was using ratchet management and portfolio insurance techniques 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
  - ◆ BCV Dynamic Fund - BCV Dynagest World Expobond (EUR), Banque Cantonale Vaudoise, Lausanne
  - ◆ BCV Dynamic Fund - BCV Dynagest World Expoequity (EUR), Banque Cantonale Vaudoise, Lausanne
  - ◆ BCV Dynamic Fund - BCV Dynagest World Expoequity REP (EUR), Banque Cantonale Vaudoise, Lausanne
  - ◆ BCV Dynamic Fund - BCV Dynagest World Expoequity REP (CHF), Banque Cantonale Vaudoise, Lausanne
  - ◆ DMC Fund - Dynamic Flooring Expo Bonds Europe "DF" in EUR and in CHF (hedged), Units R, Dynamic Asset Management Company (Luxembourg) SA, Luxembourg
  - ◆ DMC Fund - Dynamic Flooring Expo Bonds USD "DF" in USD and in CHF (hedged), Units R, Dynamic Asset Management Company (Luxembourg) SA, Luxembourg
  - ◆ DMC Fund - Dynamic Flooring Expo Bonds Euro «MAS» (EUR), Units I and R, Dynamic Asset Management Company (Luxembourg) SA, Luxembourg
  - ◆ DMC Fund - Dynamic Flooring Expo Bonds USD «MAS» (USD), Units I and R, Dynamic Asset Management Company (Luxembourg) SA, Luxembourg
  - ◆ DFF Prime Bond Expo- EUR Bonds Classes A (EUR) and Classes B (CHF), Gérifonds, Lausanne
  - ◆ Dynamic Ratchet Bond Fund - Japan (JPY), CACEIS Fasnet (Suisse) SA, Nyon.

- Management mandates**
- Dynagest also provides management and advisory services directly on behalf of institutional clients, particularly in the field of currency overlays. The direct mandate is a particularly flexible means of tailoring portfolio insurance principles to specific investor needs.
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**Dynamic ratchet management:  
a portfolio insurance approach**

Dynamic ratchet management, or Time Invariant Portfolio Protection (TIPP), is a hedging technique. When strictly applied, it uses systematic exposure management to protect an investment floor, which can only be adjusted upwards. This allows the investor to take advantage of the upside potential of a risky asset while always insuring a specified portion of the investment.

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. Dynamic ratchet management is based on two principles:

- ◆ a financial principle: Constant Proportion Portfolio Insurance (CPPI), a systematic exposure management technique which is designed to protect a given investment floor, and
- ◆ a mechanical principle: the ratchet, which introduces gradual protection of accumulated profits when the market rises.

As with other hedging techniques, the cost of protection depends mainly on the volatility of the underlying and the return on the risk-free asset.

**Dynamic ratchet management:  
from pure protection  
to real asymmetry**

When 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 underlying risky asset is maintained at a minimum level if the asset falls, the implication being that there can be a temporary "break" in the floor.
- ◆ exposure to the underlying can be resumed on the basis of an additional annual risk budget. This resumption, which is achieved by lowering the floor, is assessed at fixed intervals, or conditionally based on the risky underlying, or on a discretionary basis;
- ◆ charging management fees to the floor so that they do not affect management of the exposure.

All these approaches, whether implemented individually or in combination, increase the ability to participate in upward movements in the underlying. 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.

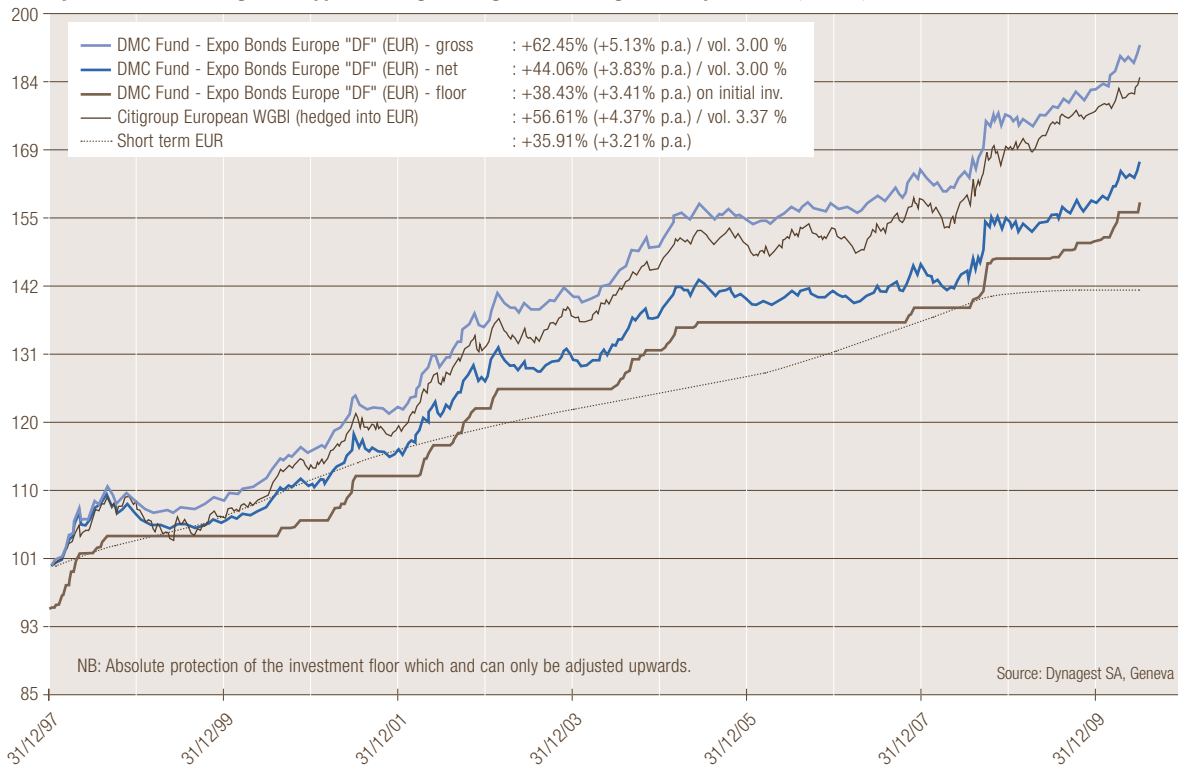
Moreover, the greater the participation in rising markets, the higher the upward adjustment over time to the floor (a reference floor in these approaches). Lowering protection costs, therefore, does not necessarily mean less protection, at least in the longer term.

**Insight articles authored by Dynagest\***

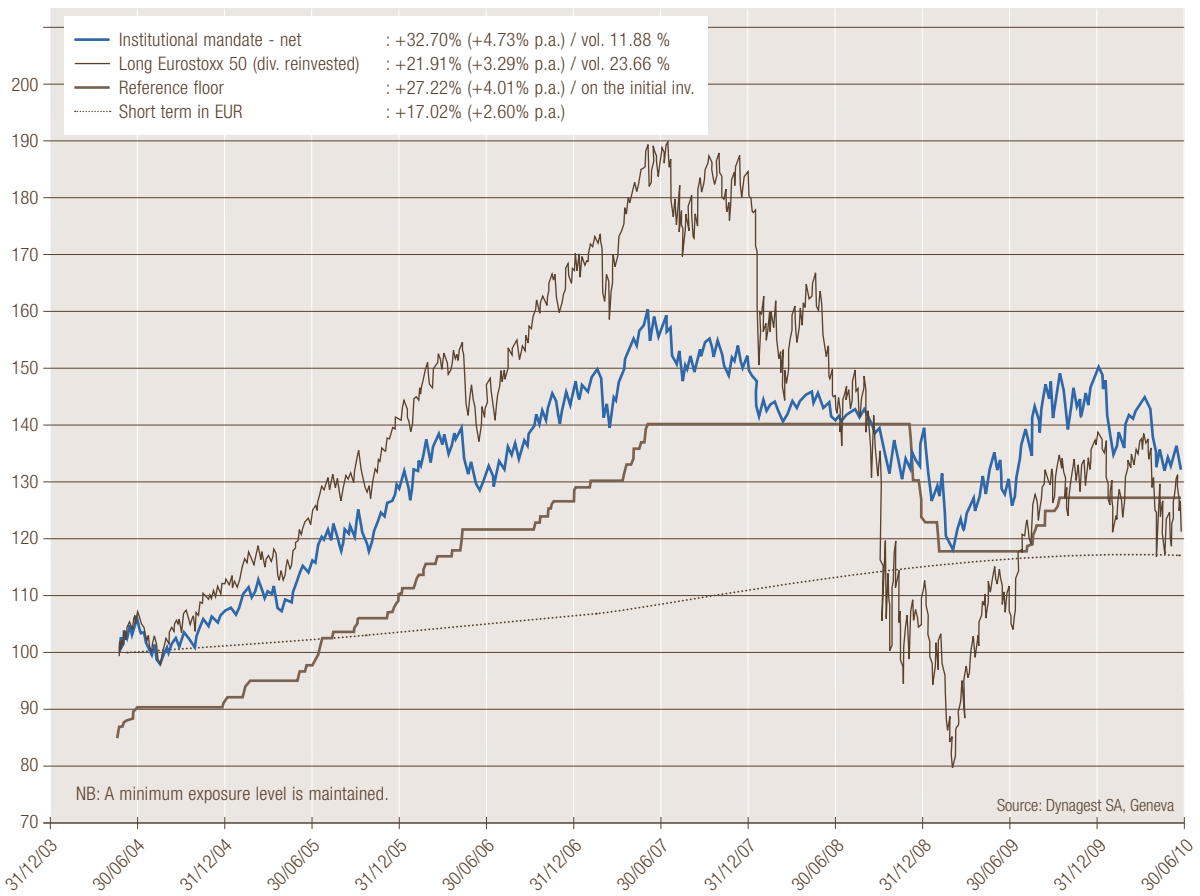
- ◆ "Currency overlay" obligataire: la preuve par le cliquet
- ◆ La gestion à cliquets à l'épreuve de la baisse
- ◆ La gestion à cliquets appliquée au secteur des obligations/Dynamic Ratchet: Anwendung in der Anleihenverwaltung
- ◆ La gestion à cliquets: de la pure protection à une vraie asymétrie
- ◆ La pertinence du cliquet appliqué aux obligations
- ◆ Ratchet Management: Experience and practical application. Rigorous and systematic management
- ◆ Risque de change: impact sur les principales classes d'actifs
- ◆ Systematic exposure management. «Dynamic ratchet» management.

\*Available from Dynagest SA or on our website at [www.dynagest.ch](http://www.dynagest.ch)

**Dynamic ratchet management applied to long term high investment grade European bonds, in EUR, June 1998 to June 2010**



**Dynamic ratchet management applied to the EMU equity market, in EUR, May 2004 to June 2010**



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

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