=Finreon
St.Gallen Asset Management Solutions

No Duration. No Credit. No Problem?

Risk control for interest rate and credit risk with Finreon Fixed Income Risk Control®.
Systematic risk premia, reduced drawdowns.

Interest rate and credit risk are rewarded in the long-term

The current low interest rate environment leads to a scarcity of investment opportunities After thirty years of falling interest rates, yields are near historical lows – investment opportunities are scarce. But as alternatives are limited, bond quotas remain high with most investors.

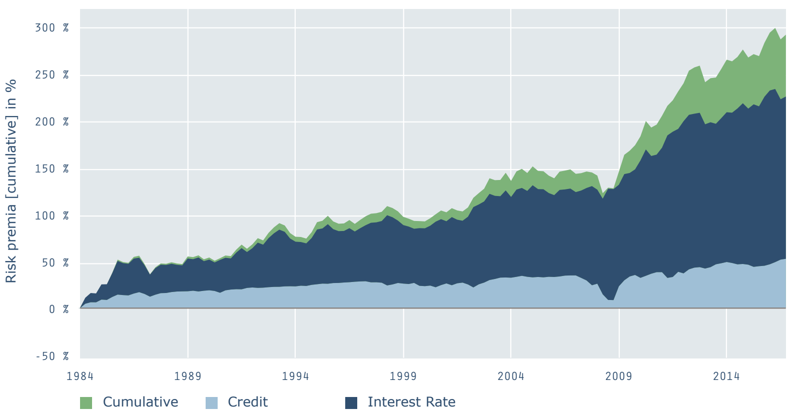
Risk premia for interest rate and credit risk Academic studies reveal a systematic risk premium for interest rate and credit risk, as both risks are rewarded in the long-term. A forgoing of these risks means ongoing lower returns for investors (carry & roll-down effect for duration and credit risk) due to forgone risk premia.

Over the last thirty years, an investment in long-term corporate bonds yielded 4.28 % p.a. (250 % cumulative) higher returns than an investment in short-term treasuries.

Risk premia	Interest Rate	Credit	Cumulative
annualized	**3.02 %**	**1.26 %**	**4.28 %**
cumulative	**141 %**	**45 %**	**250 %**

Period 1984-2014

Risk premia in the bond market



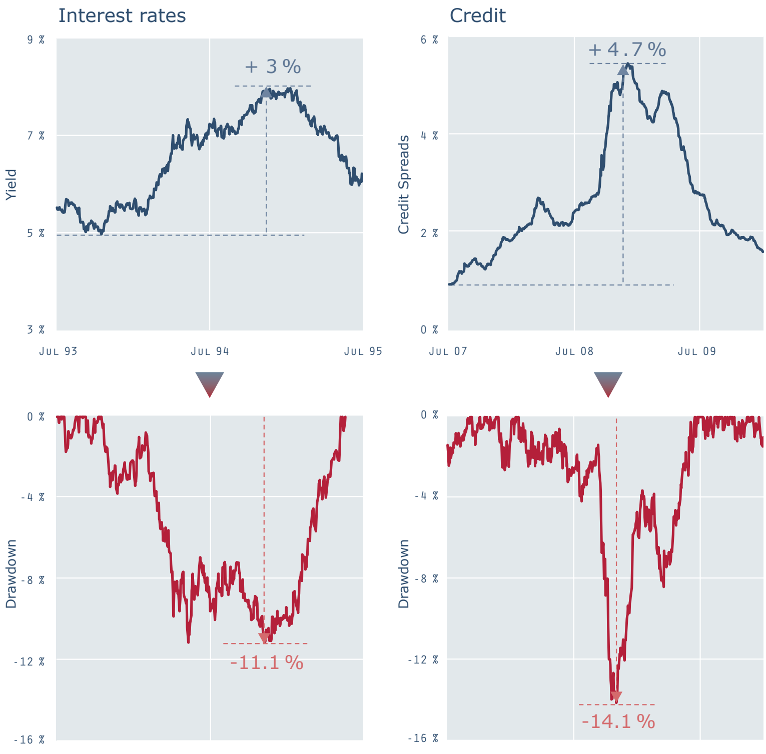
Period: 1984 – 2017, risk premia duration: 7yr U.S. Treasury Zero Coupon Bonds vs. 2yr U.S. Treasury Zero Coupon Bonds, risk premia credit: Bonds US Aggregate: Credit vs. Bonds US Aggregate: Treasury (duration-adjusted)

Only problem: Higher drawdowns

Drawdowns in interest rate markets Historically, periods of rapid rise in interest rates have been rare. Over the last thirty years only three such occurrences have led to negative annual returns. Nonetheless, in the current low yield environment bonds are vulnerable to an increase in yields and therefore enlarged drawdowns.

Drawdowns in credit markets Crises in credit markets have increased in frequency and significance in recent years. Especially in times of a systemic crisis (Financial crisis 2008, European crisis 2011), corporate bonds are subject to substantial price corrections and rising credit spreads.

Drawdowns due to rising interest rates and credit spreads



Data: 7yr U.S. Treasury Zero Coupon Bonds

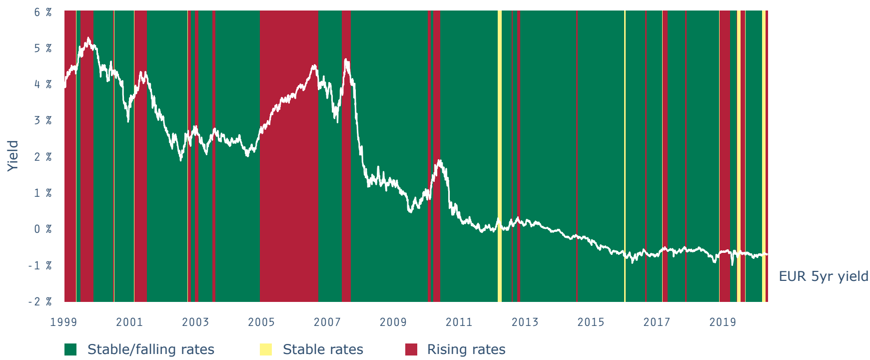
Data: Bonds US Aggregate Credit

Fixed Income Risk Indicator (FIRI): The systematic risk engine for fixed income

How can regimes of high interest rate and credit risk be identified? The Fixed Income Risk Indicator (FIRI), which has been exclusively developed by Finreon, is a combination of two risk engines and allows the identification of interest rate and credit risk regimes in the bond market.

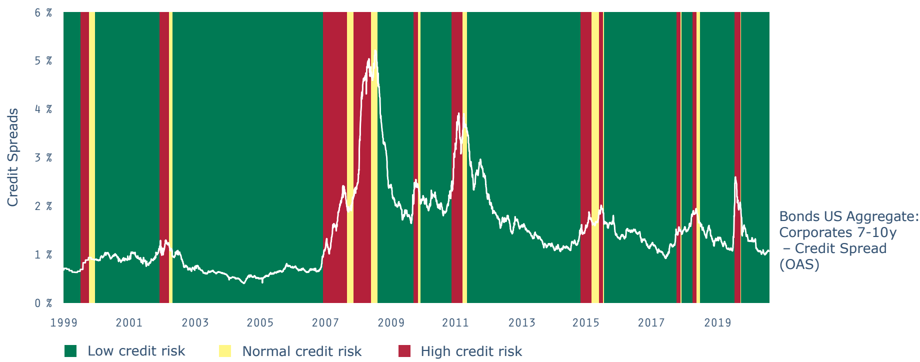
Interest Rate Indicator (IRI)

The «Interest Rate Indicator (IRI)» is based on a multitude of daily measures. The result – the current interest rate regime – is shown as a risk signal: red for rising rates, yellow for stable rates and green for stable/falling rates.



Credit Risk Indicator (CRI)

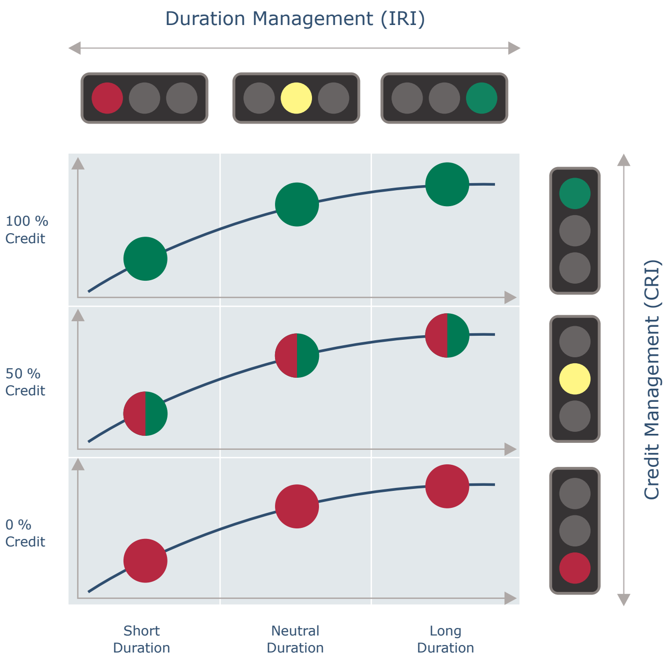
The «Credit Risk Indicator (CRI)» is based on a multitude of daily measures as well. The result – the current credit risk regime – is again shown as a risk signal: red for high credit risk, yellow for normal credit risk and green for low credit risk.



Implementation:
Systematic duration and credit management with Finreon Fixed Income Risk Control®

Finreon Fixed Income Risk Control® solutions manage duration and credit exposure dynamically and systematically through the Fixed Income Risk Indicator (FIRI). This way investors can profit from risk premia on interest rate and credit risk, while at the same time controlling for drawdowns. Thereby, Finreon Fixed Income Risk Control® is ideally suited to optimise the risk/return profile of fixed income securities and circumvent the scarcity of investment opportunities in the current low yield environment. With a systematic risk control, bonds become «investable» again.

Systematic implementation of FIRI within the Finreon Fixed Income Risk Control® solution



Finreon – a spin-off from the University of St.Gallen (HSG)

Finreon, founded in 2009 as a spin-off from the University of St.Gallen (HSG), has established itself as a competent partner for innovative investment concepts in the field of asset management and investment consulting. In its solutions, the company combines many years of investment experience with the latest findings in financial research.

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