

Risk Management

Global Fixed Income

Risk Management – Middle Office

At Raiffeisen Capital Management, two departments separated from the fund management function are monitoring risks, so the review and control functions are organizationally separated from the risk taking units themselves:

The department Middle Office is responsible for

- the monitoring of legal, contractual and internal investment restrictions,
- reconciliation and
- quality monitoring.

At present, a group leader and three further employees are dedicated to monitoring legal, contractual and internal limits and guidelines. Checks are performed at multiple levels:

The first level is always the risk taking unit itself. As mentioned before we use Asset Arena® as Front Office system. In this way the fund manager can immediately see the restrictions on order basis imposed on a fund and take them into account in his/her investment decisions. Asset Arena® is an online system that takes open orders, executions and transactions into account immediately. In this way, the risk of inaccurate or out-of-date information is minimized considerably.

The second level of checks is on execution basis. By entering the execution all restrictions are immediately checked, using SUNGARD™ system Asset Arena®. All trades not compliant with the fund restrictions are blocked. Detailed information about the breach is given to the fund manager and to the dedicated compliance officer. In addition, there are implemented warning constraints for all limits, informing the fund manager and the compliance officer that a limit is reached.

Risk Management – Middle Office

- The third level of checks is found in the Compliance group in the Middle Office. On a daily basis, ex-post reviews of all legal and contractual limits based on back office positions, are done to see passive violations due to price changes or subscriptions or redemptions. There is a permanent contact between the Compliance group and the fund managers.
- There is a permanent contact between the Compliance group and the fund managers. Any violations detected are to be remedied using defined procedures within a set period of time. Active violations must be corrected immediately, while passive violations are generally allowed a 5-day grace period. All violations detected during a one month's period are reported to the CIO and the General Management. In addition, our procedures implemented for compliance checks are audited on an annual basis by an external auditor.
- In the area of Middle Office, all risk controls are conducted automatically by the SUNGARD™ system Asset Arena®. All data is automatically fed to the system that can show restrictions imposed on a fund, show violations and block an order when a limit is reached, warn when the usage approaches a certain limit, and check restrictions when fund manager entries a trade to avoid active violations, and review the daily passive violations based on back office positions.

Risk Management – Department Risk Management

At Raiffeisen Capital Management, two departments separated from the fund management function are monitoring risks, so the review and control functions are organizationally separated from the risk taking units themselves:

The department Risk Management is responsible for

- definition of the risk profiles and the internal limit system at the portfolio level
- quantitative risk analysis: ex-ante and ex-post market risk analysis (volatility, tracking error and VaR analyses), risk attributions, risk controlling (in cooperation with the department Middle Office)
- performance analysis (GIPS compliance, performance reporting, peer group comparisons, etc)
- company-wide risk management

The process of the market risk controlling in the department Risk Management comprises three components: analysis, review and documentation.

The department Risk Management carries out the ex-ante quantitative risk analysis with the market risk system "CONTEGO".

The risk-analysis system CONTEGO is a proprietary development of Raiffeisen Capital Management (technically implemented by Spirit Business & Finance Solutions GmbH) and based on an ex-ante historical simulation and a full-valuation approach incorporating the UNRISK® pricing engine. Various depths of analysis are available, including fundamental ex-ante statistics (such as Value at Risk and Volatility), back-testing and stress-testing up to detailed sensitivity and risk attribution analysis.

Risk Management – Department Risk Management

As part of the review process, the risk ratios calculated for each fund in the analysis phase will be analyzed against the existing system limits. The findings are presented and discussed with the CIO and general management on a monthly basis, where the deviations from investment strategies are identified and discussed with the responsible fund managers.

In the final documentation it will be ensured that all limit violations, the fund managers' comments and the actions taken, are available for later reference. The risk report will be presented monthly as a part of the monthly management-board-level reporting.

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