



# Active Risk Parity @ Raiffeisen Capital Management

March 2014

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# Set your Expectations right

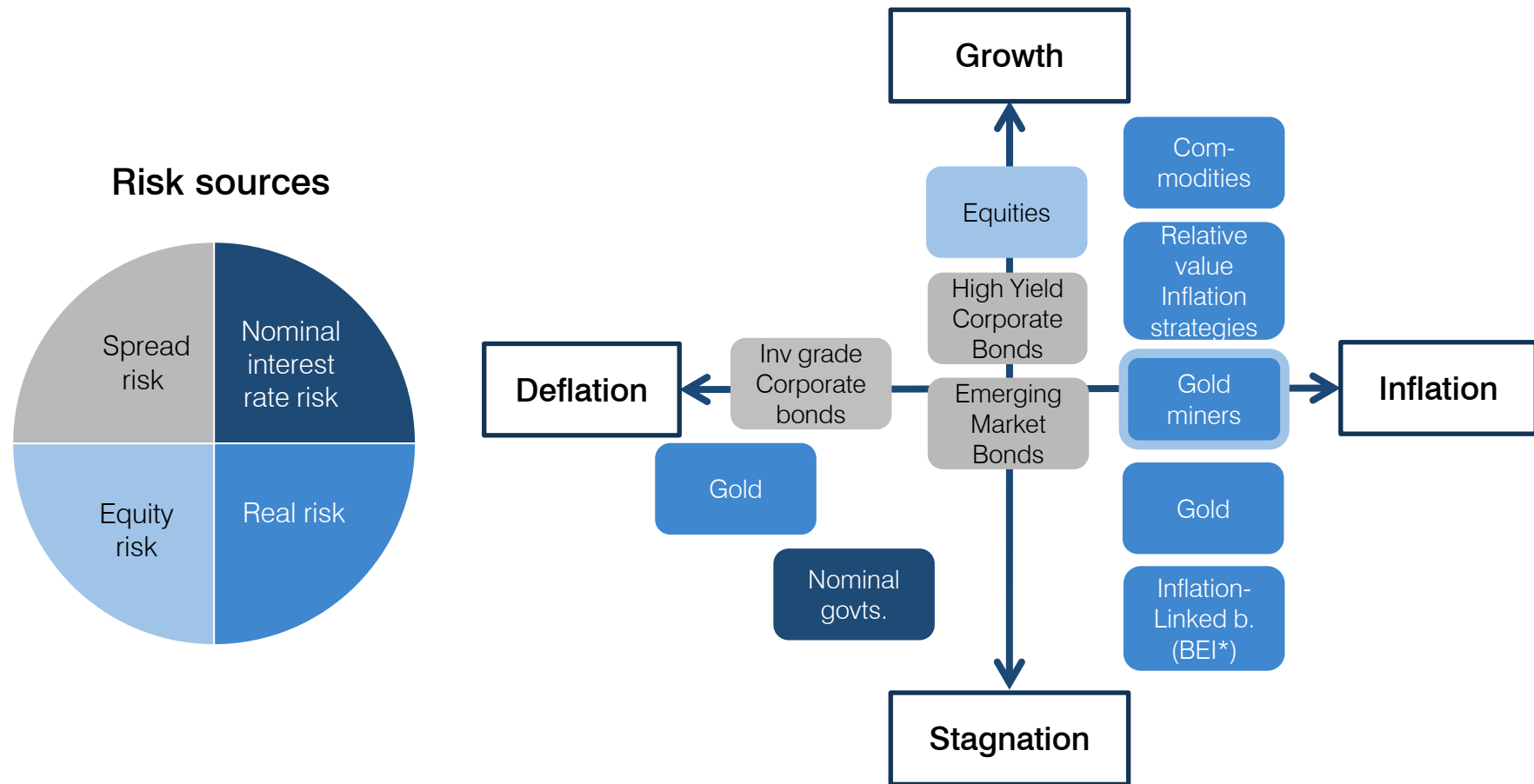
## What can risk parity deliver?

- Global multi asset portfolio
- High degree of diversification
- Long-only market exposure
- Superior long-term return/risk ratio
- Scalability to investor target

## What should you not expect?

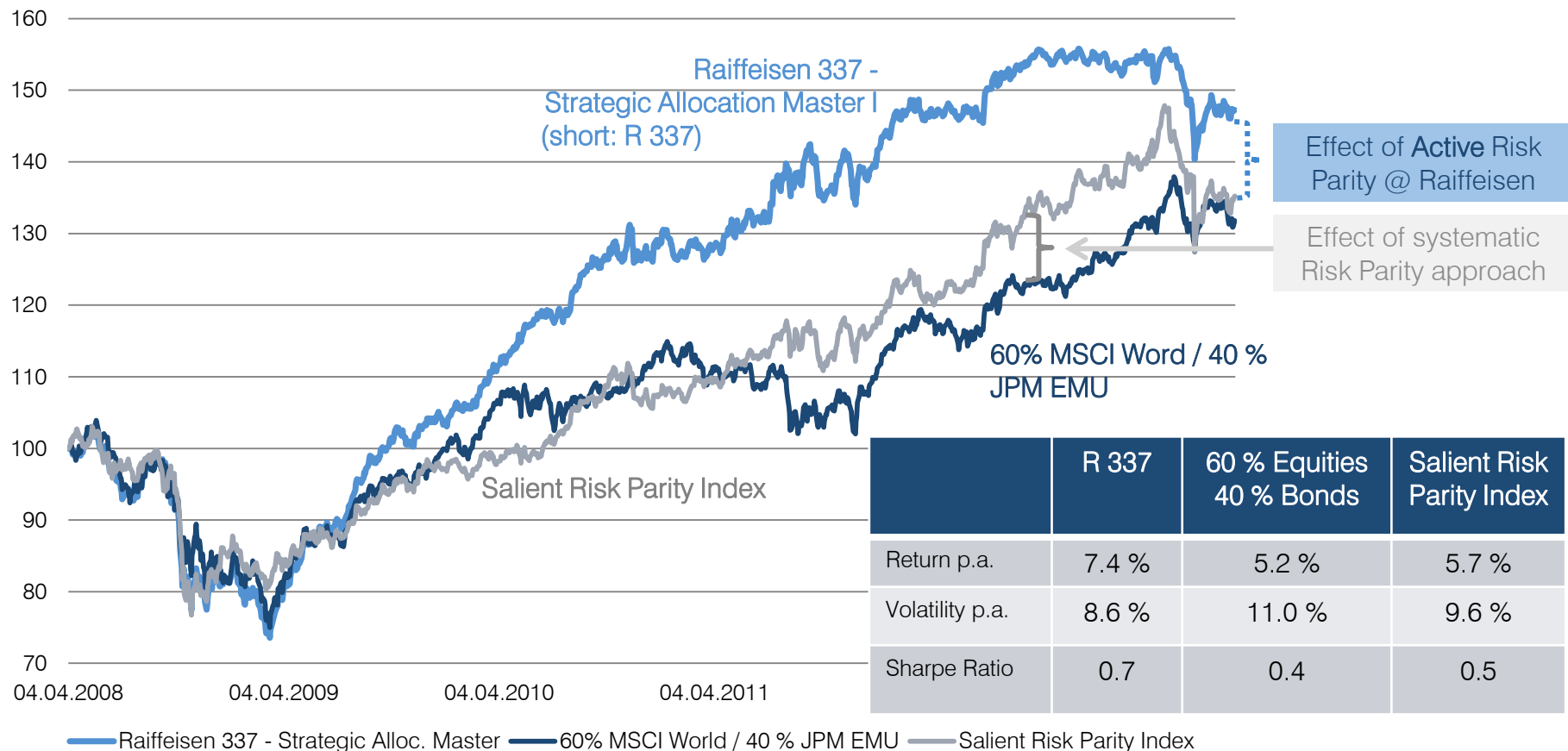
- Capital protection in the short run
- Short-term tactical allocation
- Market-independent returns – classical alpha
- High correlation with equity markets and beating equity returns

# Four Risk Sources for a better Diversification



Source: Raiffeisen KAG; \*BEI = Break Even Inflation (i.e. Long Inflation Linked Bonds & Short Nominal Duration)  
The colour(s) relate to the risk(s) associated with this asset class.

# The Benefit of Active Risk Parity



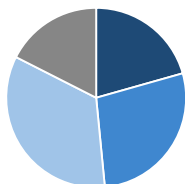
Source: Raiffeisen KAG, Bloomberg, Datawarehouse, daily data from 4 Apr 2008 through 2 Sep 2013, fund performance net of fees, market data from 04/02/2008 – 08/29/2013

The performance is calculated by Raiffeisen KAG in accordance with the method developed by the OeKB (Österreichische Kontrollbank AG) on the basis of data provided by the custodian bank (in the event that the payment of the redemption price is suspended, using an indicative price). Past performance results do not permit any reliable inferences as to the future performance of an investment fund.

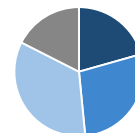
# Investment process: Active Risk Parity

## Step 1: Active Top Down Management of the overall risk of the fund.

Long-term volatility target: 10 % p.a. but active deviation based on the expected return to risk.



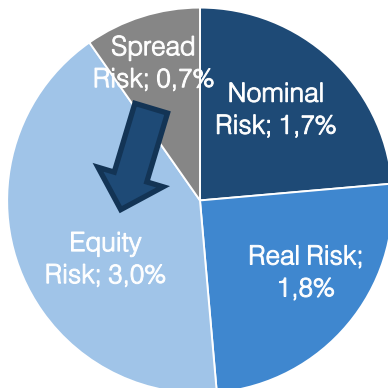
10%



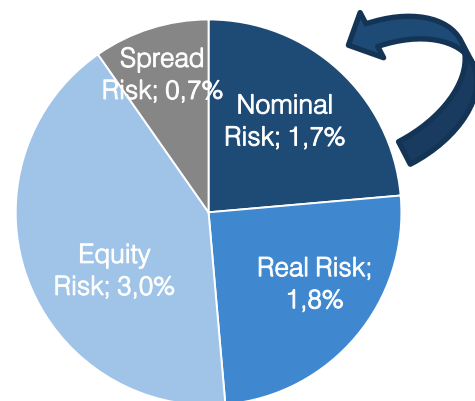
Current volatility target

## Step 2: Active risk allocation between the four risk blocks.

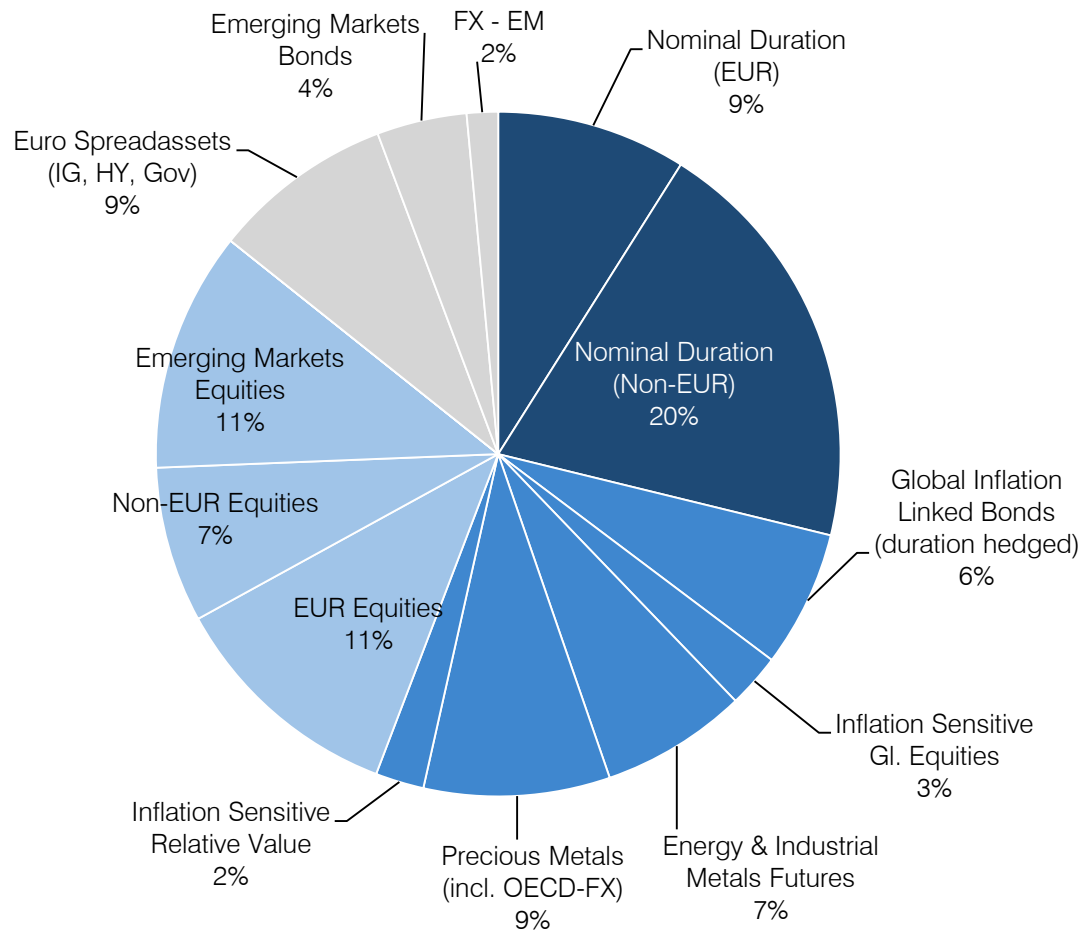
E.g: recent shift from spread risk to equity risk



## Step 3: Active risk allocation within each risk block.



# Strategic Risk Allocation in Detail\* - Feb 2014



Source: Raiffeisen KAG/FM MAS, as of Feb 2014;

\*Sum of expected total contribution to volatility based on long term estimates for volatilities and correlations

# Indicative Strategic Asset Allocation - R 337

Asset allocation	Q4 2013	Q1 2014
EUR Equities	10 %	9 %
Non EUR Equities	7 %	7 %
EM Equities (partly currency hedged)	6 %	6 %
<b>Total Equities</b>	<b>23 %</b>	<b>22 %</b>
EUR IG non-fin. corporates	16 %	16 %
Italy (BTP futures)	15 %	13 %
EM bonds & FX	6 %	10 %
<b>Total Spread Assets</b>	<b>37 %</b>	<b>41 %</b>
German gov. bonds 10y	32 %	12 %
Non-EUR gov. bonds 10y	34 %	54 %
Hedges of Inflation Linked Bonds	-33 %	-34.5 %
<b>Total Nominal gov. bonds</b>	<b>33 %</b>	<b>31.5 %</b>
Global Inflation Linked Bonds	45 %	43 %
Inflation Sensitive Global Equities	2.5 %	2.5 %
Inflation Sensitive Relative Value*	1.5 %	1.5 %
DJUBS Precious Metals	9.5 %	9.5 %
DJUBS Energy	3.5 %	3.5 %
DJUBS Industrial Metals	2.0 %	2.25 %
<b>Total Real Assets</b>	<b>64 %</b>	<b>62.25 %</b>

Sell 1 % German equities

Sell 2 % Italian gov. bonds  
Buy 4 % BRL vs. USD

Sell 20 % German gov. bonds  
Buy 10 % UK gov. bonds  
Buy 10 % US gov. bonds

slight increase in duration of  
linkers (and hedges)

slight increase of industrial  
metals

\* Long/Short strategy – short side is not deducted from Exposure

Source: Raiffeisen KAG, FM/MAS, as of Dec 2013

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# Raiffeisen GlobalAllocation StrategiePlus an asymmetric Return Profile

Strategy	Primary objective	Asset classes	„Comparison to beat“	Drivers
BoT (Best of Two)	Downside protection	Regional equity markets incl. Emerging Markets, German govt. bonds	Asset class + exchange option (naive: 50/50 mix)	Spread volatilities, trends
StratT	Downside protection	Regional equity markets incl. Emerging Markets, German govt. bonds	Asset class + long put	Trends, volatilities
ToM (Turn of Month)	Additional return	Regional European equity markets	Cash	Seasonalities, trends

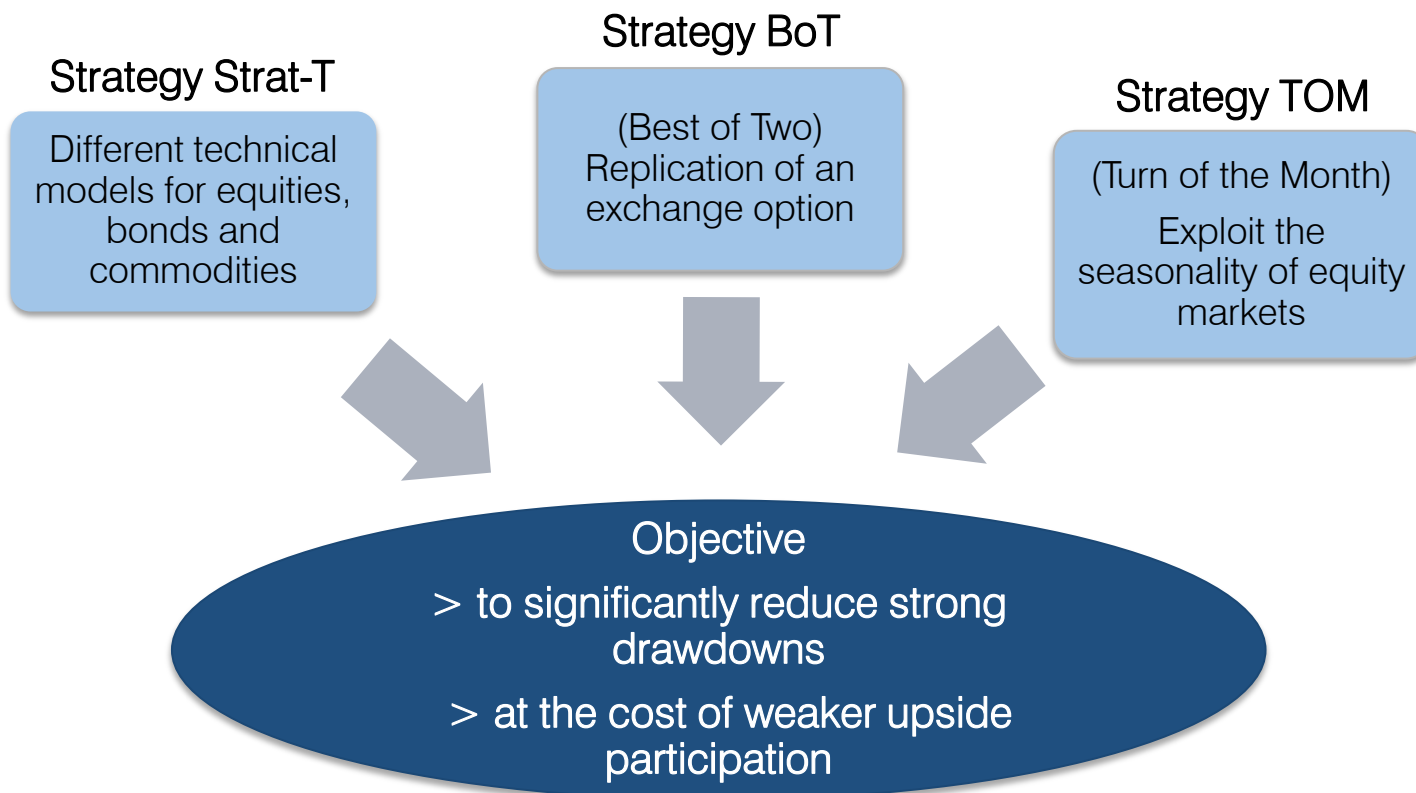
- Quantitative, systematic strategies
- Asymmetry, but no „hard“ floor

Source: Raiffeisen KAG, FM/MAS; active strategies/asset class coverage as of January 2012.

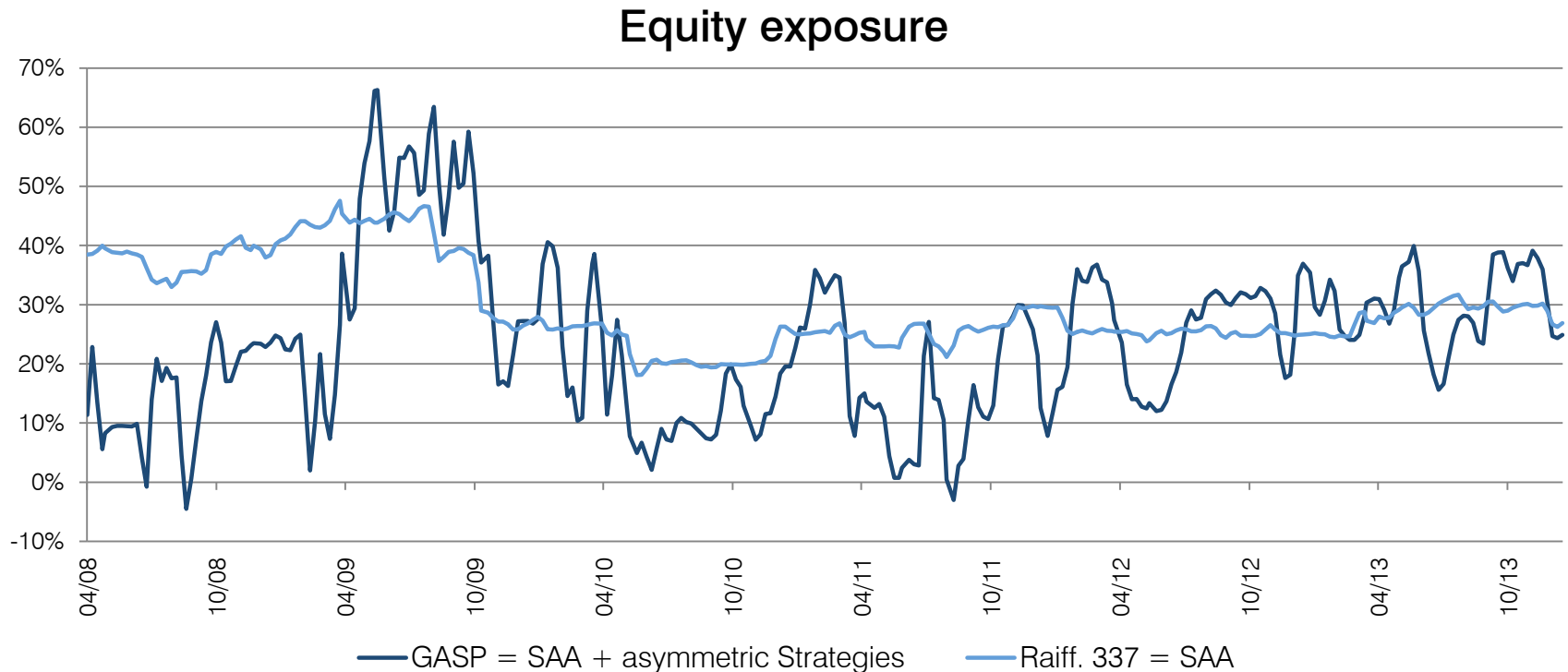


# Three asymmetric overlay Strategies

Better return to risk ratio through the use of 3 different **purely quantitative** strategies



# Effect of the asymmetric Strategies on Equity Exposure – GASP vs. R 337



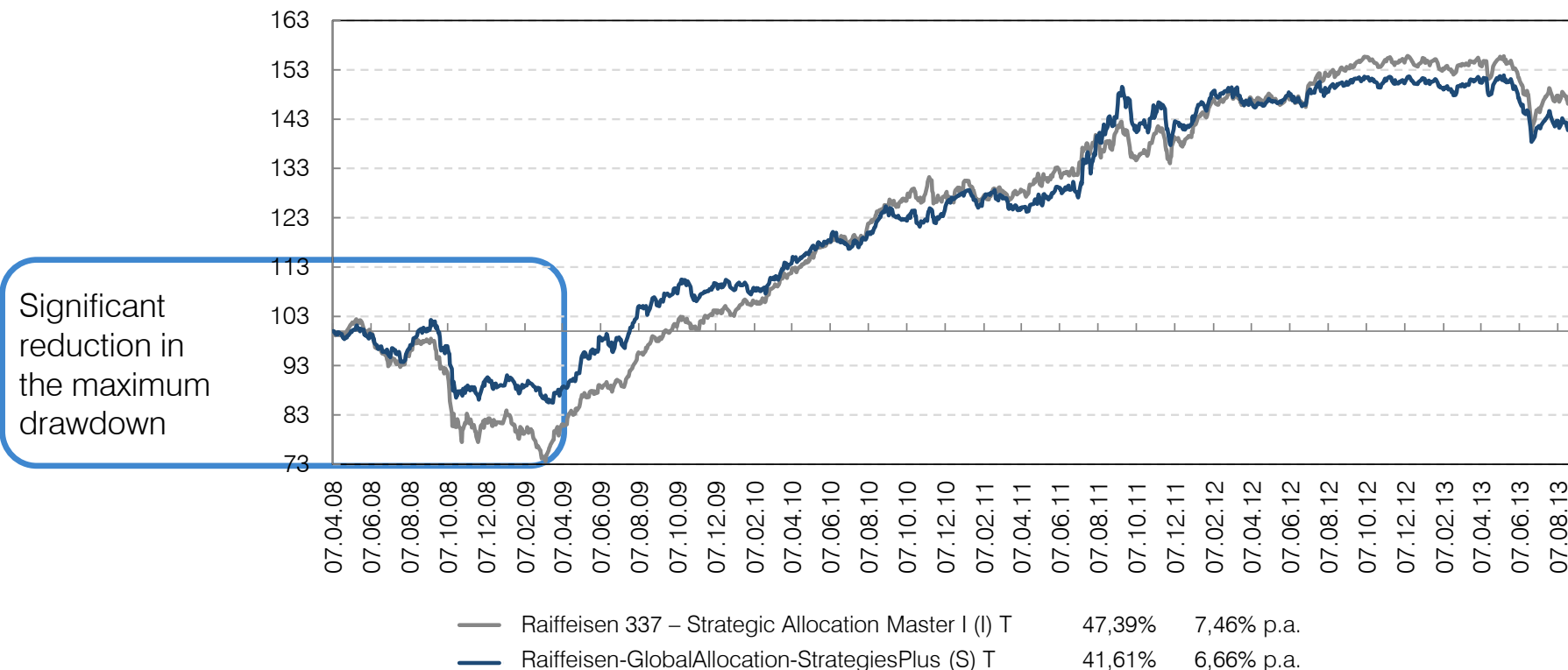
GASP = Raiffeisen-GlobalAllocation-StrategiesPlus = SAA + asymmetric strategies

Raiff. 337 = Raiffeisen 337 – Strategic Allocation Master I = Strategic Asset Allocation (SAA)

The performance is calculated by Raiffeisen KAG in accordance with the method developed by the OeKB (Österreichische Kontrollbank AG) on the basis of data provided by the custodian bank (in the event that the payment of the redemption price is suspended, using an indicative price). Past performance results do not permit any reliable inferences as to the future performance of an investment fund.

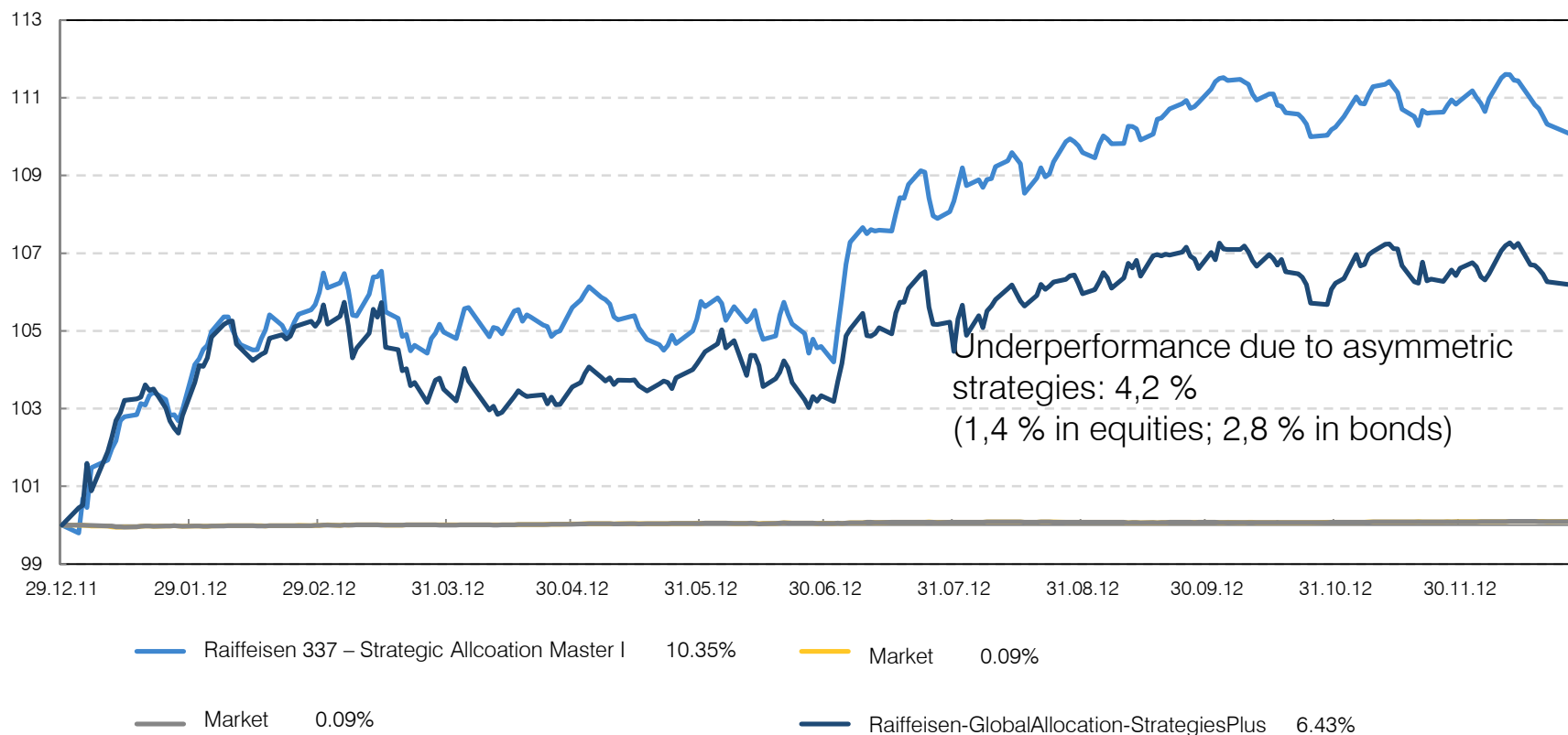
Source: Raiffeisen Kapitalanlage Gesellschaft mbH. Weekly data from April 2008 – Dec 2013; Data smoothed; for illustrative purpose only

# Benefit of The Asymmetric Strategies



Source: Raiffeisen KAG, Datawarehouse, daily data from 04/07/2008 until 08/15/2013; fund performance net of fees,  
 The performance is calculated by Raiffeisen KAG in accordance with the method developed by the OeKB (Österreichische Kontrollbank AG) on the basis  
 of data provided by the custodian bank (in the event that the payment of the redemption price is suspended, using an indicative price). Past performance  
 results do not permit any reliable inferences as to the future performance of an investment fund.

# And... potential Cost

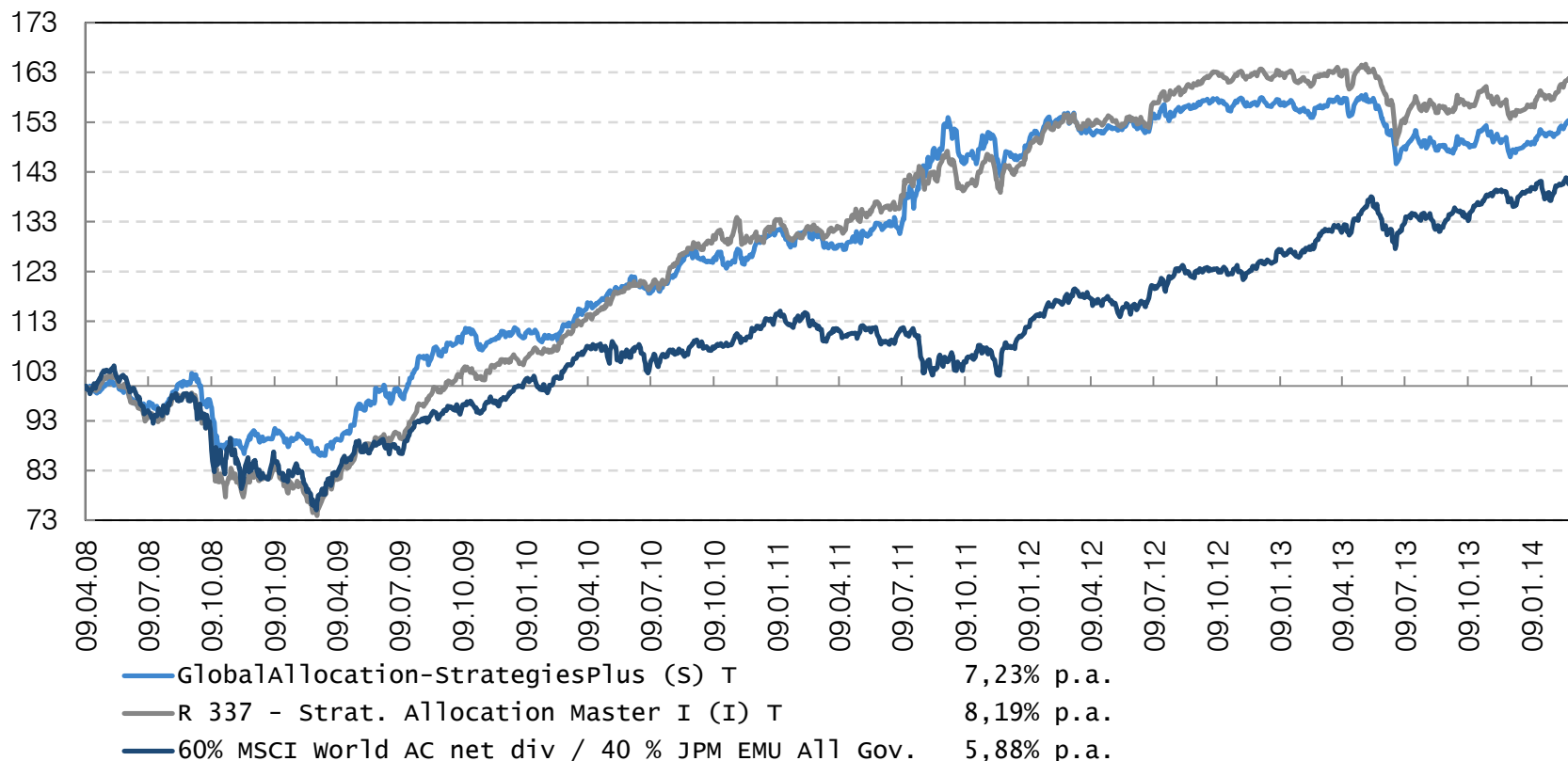


Source: Raiffeisen KAG, Datawarehouse, daily from 29th December 2011 to 28th December 2012

The share of class shown in the performance calculation is the primary share of class that was launched for this fund. It is possible that the shown share of class is not available for sale in your country. Performance is calculated by Raiffeisen KAG in accordance with the method developed by the OeKB (Oesterreichische Kontrollbank AG) on the basis of data provided by the custodian bank (in the event that the payment of the redemption price is suspended, using an indicative price). Past performance results do not permit any reliable inferences as to the future performance of an investment fund.

# Performance since Launch

Daily gross data from 9 Apr 2008 to 21 March 2014; indexed in EUR



The performance is calculated by Raiffeisen KAG in accordance with the method developed by the OeKB (Österreichische Kontrollbank AG) on the basis of data provided by the custodian bank (in the event that the payment of the redemption price is suspended, using an indicative price). Past performance results do not permit any reliable inferences as to the future performance of an investment fund. Individual costs – the subscription fee (a maximum of 5 % of the invested amount) and any redemption fee (a maximum of 0 % of the sold amount) – and taxes are not included in the performance calculation. Depending on their concrete value, they will reduce a performance accordingly. The name of the GlobalAllocation-Strategies Plus was originally R 338.

Source: Raiffeisen KAG, Datawarehouse, as of March 21, 2014

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# Summary

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- What to expect from Risk Parity
  - Risk Parity does not provide capital protection – it is no traditional alpha-product but a diversified beta approach with high long-term risk adjusted returns.
  - Active Risk Parity works on long-term risk-return-ratios per asset class (risk factor) – not dependent on short term views
  - Asymmetric strategies reduce the risk but may also reduce return - risk reduction costs!
- Most recent changes in the portfolio
  - More diversification in non-EUR equities with Japan/UK/Swiss bets
  - Q3/Q4 2013: hedge of the major local EM currency exposure in EM equity allocation – 4% still hedged today!!: Rouble, Renmibi, Korean
  - EM bonds held in hard currency only. A recent bet has been taken in the Brazilian real
  - Last year also: the gold exposure was shifted from gold-mining stocks toward precious metals index and gold certificates

# General information on Active Risk Parity products

Fund Name	Launch	ISIN Track Record	Class of Share	Management Fee p.a.	Currency	ISIN	Volume (in million EUR)
Raiffeisen 337 - Strategic Allocation Master I	April 4 <sup>th</sup> 2008	AT0000A090G 0	R I	2.0% 1.0%	EUR	AT0000A0LHU0 AT0000A0QRR4	133
Raiffeisen- GlobalAllocation- StrategiesPlus	April 4 <sup>th</sup> 2008	AT0000A090H 8	R I	1.80%+ 15% Perf. Fee 0.90%+ 15% Perf. Fee	EUR	AT0000A0SE25 AT0000A0SDZ3	301
Raiffeisen- GlobalAllocation- StrategiesDiversified	April 26 <sup>th</sup> 2013	AT0000A10097	R I	1.0% 0.5%	EUR	AT0000A105C5 AT0000A10097	19
Raiffeisen-Global- DiversifiedGrowth	April 26 <sup>th</sup> 2013	AT0000A10063	R I	1.6% 0.8%	EUR	AT0000A10592 AT0000A10063	4

Due to the composition of the funds mentioned above and the management techniques which are employed, the funds exhibit elevated volatility, meaning that unit prices can move significantly higher or lower in short periods of time, whereby it is not possible to rule out loss of capital.

As a part of the investment strategy of these funds, it is possible to invest to a significant degree in derivatives.

According to its investment strategy, the Raiffeisen 337 – Strategic Allocation Master I, the Raiffeisen-GlobalAllocation-StrategiesDiversified and the Raiffeisen-Global-DiversifiedGrowth mainly invests in other investment funds.

The investment strategy of the Raiffeisen-Global-DiversifiedGrowth and the Raiffeisen-Inflation-Shield permits the capital to be invested primarily in deposits.

The Fund Regulations of the mentioned funds have been approved by the FMA. The Raiffeisen 337 - Strategic Allocation Master I may invest more than 35 % of the fund's volume in securities/money market instruments of the following issuers: Austria, Germany, Belgium, Finland, France, Netherlands. The Raiffeisen-GlobalAllocation-StrategiesPlus may invest more than 35 % of the fund's volume in securities/money market instruments of the following issuers: France, Netherlands, Austria, Belgium, Finland, Germany. The Raiffeisen-GlobalAllocation-StrategiesDiversified may invest more than 35 % of the fund's volume in securities/money market instruments of the following issuers: Germany, France, Italy, United Kingdom, Switzerland, United States, Canada, Australia, Japan, Austria, Belgium, Finland, Netherlands, Sweden, Spain. The Raiffeisen-Global-DiversifiedGrowth may invest more than 35 % of the fund's volume in securities/money market instruments of the following issuers: Germany, France, Italy, United Kingdom, Switzerland, United States, Canada, Australia, Japan, Austria, Belgium, Finland, Netherlands, Sweden, Spain. The Raiffeisen-Inflation-Shield may invest more than 35 % of the fund's volume in securities/money market instruments of the following issuers: United Kingdom, United States, Germany.

## Our Services – Common Understanding

Our open-ended mutual funds and institutional funds are portfolios which we manage according to our investment philosophy, our proven investment processes and our current market view.

You are an investor who has the experience, knowledge and expertise to make your own investment decisions and to adequately evaluate the associated risks.

Our statements regarding capital markets and our funds are not based on an assessment of your particular investment needs and therefore shall not serve as an individual investment advisory service.

Please contact us if you wish to receive individual financial advice concerning securities transactions.



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