=Finreon
St.Gallen Asset Management Solutions

Systematically higher return per unit of risk

Efficient and scientifically grounded investment with IsoPro®.
An optimized alternative to passive core investments.

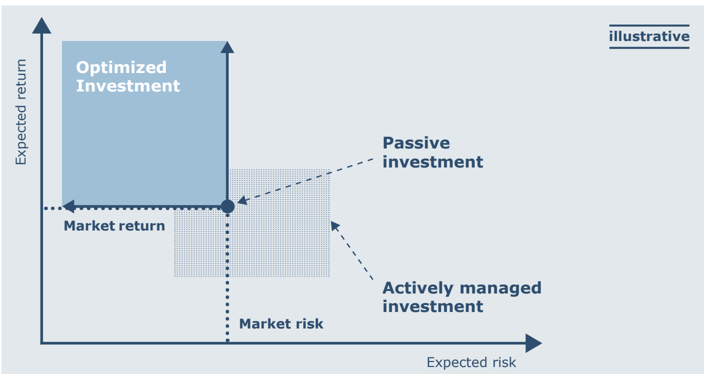
How can an investor outperform the stock market?

Traditional passive, indexed investments have proven cost-effective and transparent. The risk-return profile of such passive investment strategies corresponds to that of the benchmark index less costs. Traditional benchmarks, however, are constructed according to the market capitalization of its constituents, which leads to a suboptimal risk-return profile. Choosing a passive, indexed investment thus always means to actively opt for market capitalization and its inherent weaknesses.

In an actively managed fund, the investor relies on the manager's experience and forecasting skills (stock picking and timing). The necessary effort leads to high costs for actively managed portfolios – without any guarantee for a good performance. The risk-return profile of active managers remains unknown on an ex-ante perspective and may greatly deviate from that of the benchmark.

A systematic and scientific approach leads to the desired result. A systematic optimization can achieve what neither passive strategies nor active management can. The implementation of established methods in the portfolio construction allows for the rule-based, non-predictive generation of a higher return per unit of risk.

Comparison of different investment approaches



Three systematic drivers of outperformance

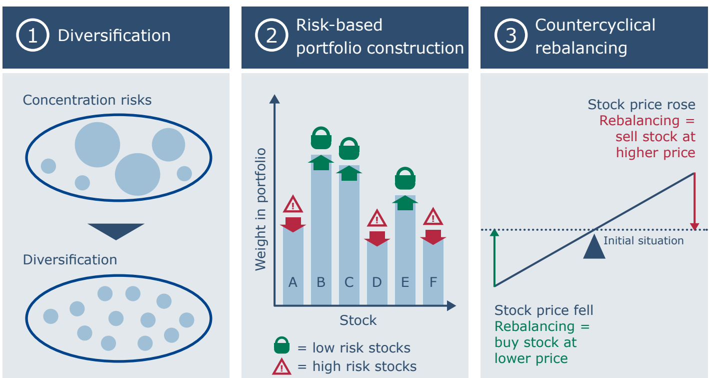
In academia as well as in practice, three straightforward investment principles have been established. These principles make it possible to generate an outperformance over the medium term.

The power of diversification An equal distribution of the portfolio weights enables the reduction of company-specific (concentration) risks without having to forego any portfolio return. In financial research, diversification is thus often considered as the only true «free lunch».

Risk as central component of the portfolio construction The consideration of risk measures such as volatility and correlations of the single stocks allows to systematically optimize the portfolio. Based on the initial broadly diversified portfolio, low-risk stocks are overweighted while high-risk stocks are underweighted. Thus, this improves the return-risk characteristics of the portfolio.

Rebalancing as a source of return Various scientific studies show that regular rebalancing leads to an improved long-term return. Stocks with increased or decreased value are lead back to the target allocation – a systematic «buy low, sell high» thus takes place, which in the meantime alleviates the risk of a bubble formation.

Three scientifically proven approaches to generate systematic outperformance



The solution: the IsoPro® investment concept

Finreon IsoPro® combines these three straightforward drivers of outperformance to a robust investment concept.

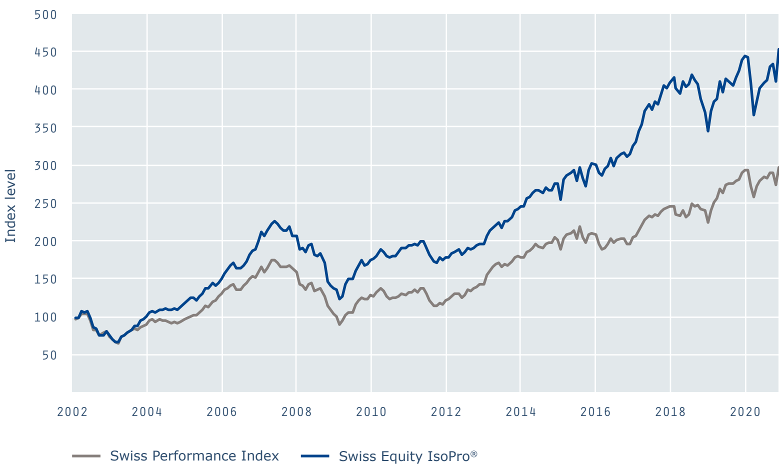
Diversification (Iso) In a first step, the equal weighting of all stocks in the portfolio ensures a broad diversification: the dependency from few large-cap index heavyweights (concentration risks) is thereby systematically reduced.

Risk-based portfolio construction (Pro) In a second step, both the risk and the correlations are included in the portfolio construction: low-risk stocks are overweighted while high-risk stocks are underweighted based on the initial equal weighting (optimization towards MinVar portfolio).

Both elements define the IsoPro® weighting. The quarterly rebalancing then ensures the recalibration of the portfolio to the IsoPro® weights. This systematic «buy low, sell high» strategy ensures the exploitation of the rebalancing bonus.

The IsoPro® portfolio exhibits risk characteristics approximately similar to that of the benchmark and is thus perfectly suitable as alternative to a direct passive core investment. As a matter of fact, when applying the concept over the last 14 years, an outperformance of 3 % p.a. is generated relative to the Swiss stock index SPI.

Performance of the Swiss Equity IsoPro® investment strategy (simulated; live since 2010)



Backtesting: Jan 2002 – Dec 2009
Real Data: since Jan 2010

The IsoPro®
solution range

Equities Switzerland

- **Swiss Equity IsoPro®**
  Investment universe contains 75 of the largest Swiss stocks.

Equities Europe

- **European Equity IsoPro®**
  Investment universe contains 150 of the largest Eurozone stocks.

Equities US

- **US Equity IsoPro®**
  Investment universe contains 400 of the largest US stocks.

Equities Emerging Markets

- **Emerging Markets Equity IsoPro®**
  Investment universe contains 300 of the largest stocks from emerging countries.

- **Sustainable Emerging Markets Equity IsoPro®**
  Investment universe contains 125 of the largest sustainable stocks from emerging countries.

Equities World

- **World Equity IsoPro®**
  Investment universe contains 750 of the largest stocks worldwide.

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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