

# FLEXIBLE, DYNAMIC SOLUTIONS FOR PORTFOLIO RISK MANAGEMENT



**Franck Sabbah**, Head of Overlay Management, Edmond de Rothschild Asset Management.

## WHAT IS YOUR OVERLAY MANAGEMENT EXPERTISE?

For more than 15 years, we have been providing dynamic hedging to our clients.

Overlay Management is basically a quantitative, disciplined and dynamic solution to risk management with one, simple goal: giving stability to client portfolios. The first goal is consequently to reduce overall portfolio volatility and to cushion losses during periods of market declines.

Risks we seek to hedge concern a broad client spectrum, mainly institutional, wherever they may be and whatever their investment profile.

Overlay solutions are tailor-made. Investors retain control over portfolio strategy; overlay can thus be integrated with an existing portfolio and be applied to all or part of an allocation. We also take particular care in making our positions transparent.

## HOW EXACTLY DO YOU ADD VALUE TO THE INVESTMENT PROCESS?

Currency markets have recently seen the sort of big swings that can disrupt a portfolio's performance. For example, the US dollar rose by a sharp 7% against the euro between July and September 2014. And the yen tumbled by 12.5% in 2014 due to Japan's central bank adopting extremely accommodating monetary policy. Dynamic hedging can protect all or part of a

portfolio's exposure, as we did on the dollar protecting positions at a level of 65%.<sup>1</sup>

Similarly, the Equity Overlay is an investment solution for "bad scenarios". Portfolios remain invested while enjoying gradual hedging during periods of declining markets, thus helping them to avoid absolute losses.

Instead of modifying investor portfolio allocation, which usually takes time, our added value is thus to offer a permanent, reactive and dynamic solution which acts as a shock absorber.

## "Overlay Management seeks to give stability to institutional portfolios"

## WHY IS THIS APPROACH PARTICULARLY ADAPTED TO THE CURRENT ENVIRONMENT?

Today's markets are highly sensitive to central bank decisions. This was clear to all last year when the Fed unwound its asset purchasing programme at the end of October 2014 and again on January 22nd 2015 when the ECB announced its QE programme.

High volatility immediately resurfaced with currency volatility returning to its historic mean of 12/13% while investors worried that the equity market might undergo a correction after rising for 5 years in a row.

Situations like this vindicate risk management tools. They provide protection against adverse movements while helping portfolios remain invested.

## A DEDICATED SOLUTION FOR EACH INVESTOR

Set up 15 years ago, Overlay Management is one of Edmond de Rothschild's Traditional strengths. The group is one of the first European banking groups to offer such a programme. Edmond de Rothschild Asset Management's teams have devised a quantitative investment system for currencies, equities and precious metals managing, as of today, more than

USD 10 billion. We capture trends with models that are solely based on price movements with no macro or fundamental bias.

We have also developed integrated solutions (Equity Low Vol) that benefit from synergies with other areas of expertise offered by the group Edmond de Rothschild.

Clients can thus choose between:

- applying Overlay to their existing portfolios or
- integrating an investment position that combines

Edmond de Rothschild Asset Management's equity expertise with dynamic overlay management.

## Company Profile:

Founded in 1953 by Baron Edmond de Rothschild and presided over since 1997 by Baron Benjamin de Rothschild, the Edmond de Rothschild Group specialises in Asset Management and Private Banking. As of 31 December 2014 the Group holds €136 billion of assets under management and employs nearly 2700 employees spread across 31 offices, branches and subsidiaries throughout the world. In addition to its core businesses of Asset Management and Private Banking, the Group is also active in Corporate Finance, Private Equity and Fund Administration.

With 6 investment hubs in the world (France, Switzerland, Germany, Hong Kong, Luxembourg and the UK), the Edmond de Rothschild Group is positioned as a multi-specialist investment firm in Asset management. This builds on recognised areas of expertise such as European and US equities, corporate debt, multimanager, overlay, asset allocation and quantitative asset management.

In Asset Management, the Edmond de Rothschild Group had close to EUR 49bn under management on December 31st 2014 and employed 530 people including 100 investment professionals.



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### FOOTNOTE

<sup>1</sup> Data as of 30/09/2014. Source: Edmond de Rothschild Asset Management (UK) Ltd.

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