

# «There is no such thing as a black swan.»

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**Risk-controlled investment with Finreon Tail Risk Control®.**  
To systematically detect the next market crash.



## Due to the loss of capital of the assets, tail events generate a double damage

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**Volatility is »normal«** – even crashes! Normal stock market fluctuations are compensated with a risk premium over safe government bonds of approx. 4-6 % p.a. "Normal" market fluctuations can therefore be consciously borne by investors with robust SAA.

**Stock market crashes** (tail events) not only destroy returns, but also the capital with which future returns can be generated. During the 2008 financial crisis, the global stock market plummeted by more than 50% within one year. To recover this loss, investors subsequently had to achieve a return of 100% - this took more than 4 years. Avoiding loss of capital is therefore an integral part of good risk management.

**Crash and recovery in the global stock market  
(Global Equities, illustrative)**



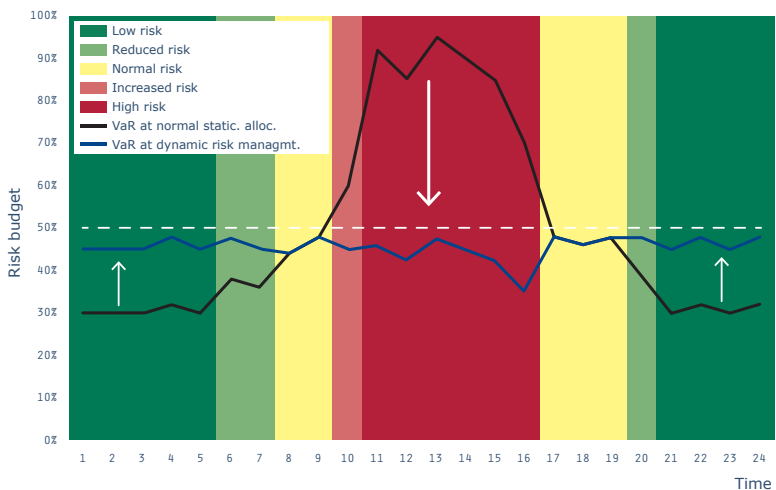
# Dynamic management of risks allows efficient utilization of the risk budget

**A static equity allocation** regularly exceeds the risk budget of investors in turbulent market phases (phases with increased crash risk). This can not only lead to high losses, but also results in a less than optimal utilization of the risk capacity in calm phases.

**The risk budget can be smoothed** by dynamic management of the equity allocation. In this way, equity risk premiums can be optimally earned in calm market phases thanks to a favorable risk/return ratio. In turbulent phases with a low risk/return ratio, on the other hand, the equity allocation can be systematically reduced, thus avoiding major asset losses.

**Scientific research confirms** – With systematic equity risk management, on the one hand the risk budget is utilized as evenly as possible, and on the other hand the return/risk ratio can be significantly improved over time.

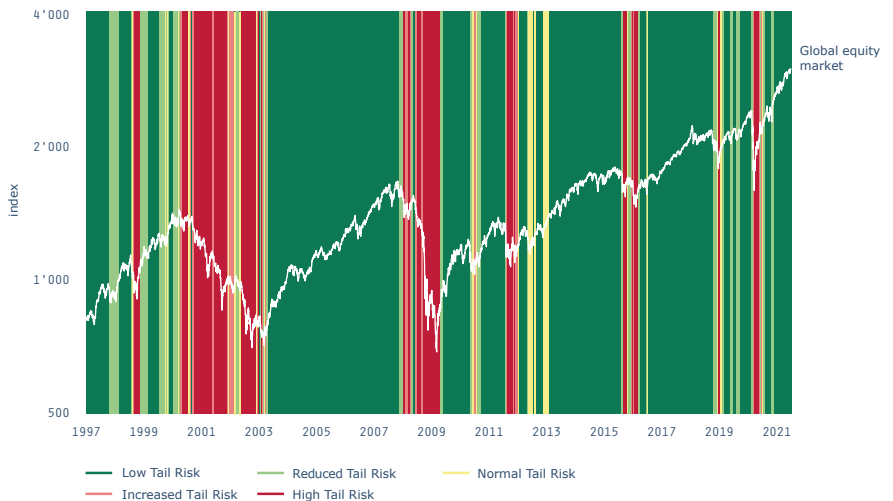
**Efficient usage of the risk budget (illustrative)**



# Finreon Tail Risk Indicator (TRI): The systematic risk engine

**How to detect a big crash?** The Finreon Tail Risk Indicator (TRI) was developed exclusively by Finreon and allows to identify market regimes with high or low «crash»-risk. For this purpose, a broad variety of different market factors are analysed systematically and on a daily basis. The result – the risk of the prevailing market regime – is shown as a risk signal light: Red for high risk, yellow for normal risk and green for low risk. Accordingly, the equity allocation is reduced in a red regime whereas the equity exposure is increased during a green regime. Applying this strategy to the Global Equities index, the risk of major asset losses has not only been significantly reduced since the launch (09/2011), but also a robust risk-adjusted outperformance has been achieved.

**Global stock market and the detected risk phases  
(simulated, live since 2011)**

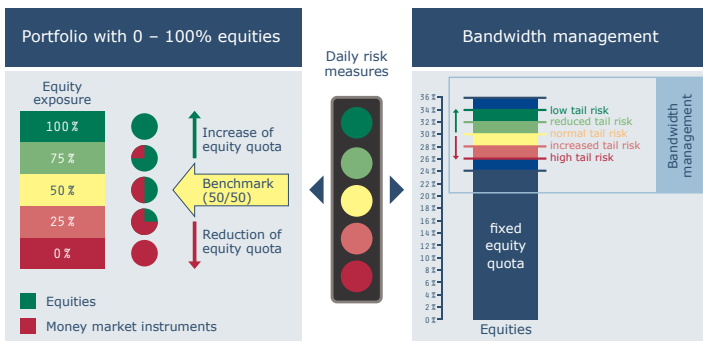


# Implementation of the Tail Risk Indicator

**The Tail Risk Indicator can** be used to control for the risk of an entire portfolio or to manage a given equity allocation bandwidth. In the case of a risk-controlled portfolio, the equity allocation, ranging e.g. between 0% and 100%, is controlled for by the risk signal. In the case of risk-controlled bandwidth management, the signal steers the equity allocation within the defined bandwidth. The 50/50 benchmark (50% equities + 50% money market instruments) corresponds to a neutral weighting and is similar to the long-term risk profile of the strategy.

**Tailor-made implementation** of the tail risk indicator: The investment can be undertaken via a Finreon Tail Risk Control® fund or via individual mandates. Furthermore, the signal may also be applied to different regional allocations.

## Risk-controlled management of the entire equity quota or of a bandwidth



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

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**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.

## CEO

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Dr. Ralf Seiz  
Lecturer at the University of St.Gallen (HSG)

## Contact

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Finreon Ltd.  
Oberer Graben 3  
CH-9000 St.Gallen

+41 71 230 08 06

info@finreon.ch  
www.finreon.ch

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