

# Manager Rating

2003-12-08

## CSAM – Credit Suisse Asset Management Deutschland

**CREDIT  
SUISSE**

ASSET  
MANAGEMENT



**RCP & Partners GmbH**

Risk rating of asset managers: the investor's measure of trust

## Contents

<b>Summary</b>	<b>3</b>	<b>C Production</b>	<b>17</b>
Introduction	4	C.1 Process	17
Management	4	C.1(i) European Fixed Income	17
Clients	4	C.1(i).a Investment Process	17
Production	4	C.1(i).b Research	21
Infrastructure	5	C.1(i).c Implementation	22
		C.1(i).d Settlement	22
<b>Zusammenfassung</b>	<b>6</b>	C.2 Team	22
Einleitung	7	C.2(i) European Fixed Income	22
Management	7	C.2(i).a Education & Experience	22
Kunden	7	C.2(i).b Stability	22
Produktion	7	C.3 Quality Management	22
Infrastruktur	8	C.3.a Quality Assurance	22
		C.3.b Investment Controlling	23
		C.3.c Performance Measurement	23
<b>Rated Party</b>	<b>9</b>	<b>D Infrastructure</b>	<b>24</b>
Units	9	D.1 IT & Operations	24
Client Groups	9	D.1.a IT Organisation	24
Asset Classes	9	D.1.b IT Infrastructure	24
Effective Date	9	D.1.c Back-up Procedures & Disaster Recovery	24
<b>A Management</b>	<b>10</b>	D.1.d Security	24
A.1 Organisation	10	D.1.e Fund Accounting	24
A.1.a Group Structure	10	D.2 Supervisory Functions	24
A.1.b Organisational Structure	10	D.2.a Risk Management	24
A.1.c Co-operations	10	D.2.b Compliance	25
A.1.d Financials	10	D.2.c Audits	25
A.1.e Competitive Position	10		
A.1.f Strategy	11	<b>Index</b>	<b>26</b>
A.2 Team	11		
A.2.a Education & Experience	11	<b>List of Tables</b>	
A.2.b Stability	11	1 Companies	9
A.3 Personnel	11	2 Employee turnover	11
A.3.a Remuneration	11	3 Curricula	12
A.3.b Training	11	4 Profile (European Fixed Income)	17
A.3.c Corporate Culture	11	5 Analytical approaches (European Fixed In- come)	22
A.4 Policy	11	6 Brokers (European Fixed Income)	22
A.4.a Corporate Governance	11	7 Custodians	25
A.4.b Rules of Conduct	12		
<b>B Clients</b>	<b>15</b>	<b>List of Figures</b>	
B.1 Marketing & Sales	15	1 Organisation (CSAM Europa)	13
B.1.a Marketing	15	2 Internal structure (CSAM)	14
B.1.b Sales	15	3 Asset classes	16
B.2 Products & Services	15	4 Organisation (European Fixed Income)	18
B.2.a Product Range	15	5 Process (European Fixed Income)	19
B.2.b Product Development	16		
B.3 Client Care	16		
B.3.a Reporting	16		
B.3.b Client Relationship Management	16		



# RCP & Partners GmbH

Risk rating of asset managers: the investor's measure of trust

## CSAM – Credit Suisse Asset Management Deutschland

**CREDIT SUISSE** | **ASSET MANAGEMENT****2**  
**Very good**

### Manager Rating – Parameters

<b>Date</b>	2003–12–08
<b>Units</b>	Credit Suisse Asset Management (Deutschland) GmbH (CSAM-DE), Credit Suisse Asset Management Kapitalanlagegesellschaft mbH (CSAM KAG)
<b>Client Groups</b>	Institutional Clients
<b>Asset Classes</b>	European Fixed Income

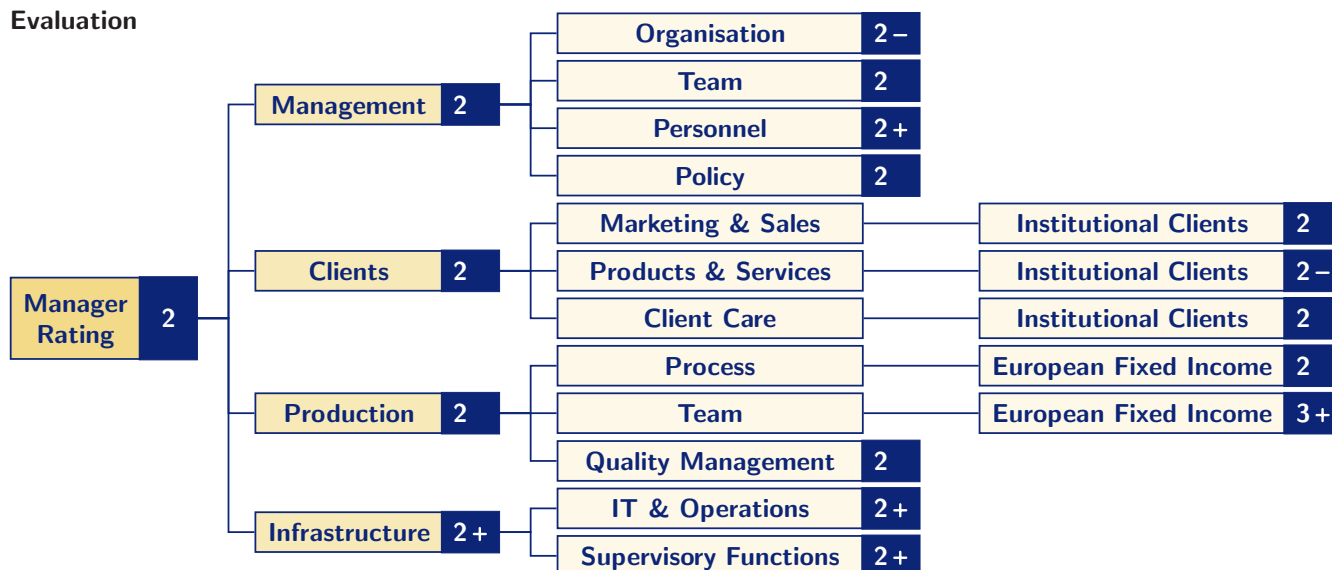
### Contact

<b>Rated Party</b>	Barbara Diaz (Head Product Management Institutional) ☎ +49–69–7538–1033, barbara.diaz@csam.com
<b>Analysts</b>	Dr. Uwe Kern (responsible), ☎ +49–611–9742–120, uwe.kern@rcp-partners.de Dr. Eckhard Weidner, ☎ +49–611–9742–116, eckhard.weidner@rcp-partners.de

Manager Rating	
+1	Excellent
+2	<b>Very good</b>
+3	Good
+4	Satisfactory
+5	Inadequate
+6	Insufficient

### Manager Rating – Results

#### Evaluation



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## Introduction

The present rating evaluates the entities CSAM-DE and CSAM KAG, both located in Frankfurt am Main. The activities of CSAM Immobilien KAG, a subsidiary of CSAM-DE, are not part of the evaluation.

## Management

CSAM in Germany is fully integrated in the international and European organisation of *Credit Suisse Asset Management* (CSAM) which itself belongs to *Credit Suisse Group* (CSG). The European CSAM has a clearly defined business strategy with quantified objectives, which are pursued consistently. This also applies to CSAM in Germany. CSAM KAG has a share of ca. 1% of the German *spezialfonds* market, taking the lead position of foreign KAGs. In the German mutual funds market CSAM is one of the strongest foreign firms.

Both (in fact all three) legal entities are related by a clear, cross-entity functional structure and joint committees. Compensation for losses and consolidation of profits among the three entities is governed by formal arrangements. There are no financial commitments or guarantees by its parent company, although this would be desirable. CSAM's operation in Germany is highly profitable while being soundly capitalised. CSAM Immobilien KAG contributes to a larger, CSAM KAG to a lesser extent to its profits.

Integration with the European CSAM-organisation is also reflected in the boards of directors. They are composed of regional and functional heads of the European CSAM, but do not include independent members. The latter would further improve management control, even though the arguments for the current construction are understandable.

The BVI code of conduct was formally implemented in October 2003. Since then all staff of CSAM in Germany have to commit themselves to adhering to these rules. An internal *Code of Conduct* describes the basic values of CSAM and, among others, places the interest of clients before those of CSAM and its employees.

## Clients

For the current rating the **institutional business** of CSAM in Germany was considered. In this client group sales and client care are provided by the same personnel. Here, CSAM stands out for its disciplined sales process. Due to the organisation by sector or client segment, relationship managers can draw on good knowledge of the respective client requirements.

In Germany, CSAM can offer a broad range of investment products, partly drawn from international CSAM units. For clients, this international co-operation is transparent, because in every case implementation is conducted by a local portfolio manager. Apart from traditional active and passive products on the equities and fixed income side, CSAM also offers products which are not benchmark-driven. These include mandates which are oriented towards achieving a *Positive Absolute Return* (PAR). Here, even in an assumed

worst case, a risk cushion should remain or a positive return be achieved. Apart from *spezialfonds*, CSAM offers for smaller mandates a wide range of institutional classes of mutual funds (I- and D-Shares). The extent of the services on offer is, in contrast, significantly smaller.

The product development process, co-ordinated on a European level, is highly structured and is implemented with due controls. The consistency encountered is rare in the industry.

Reporting can be adopted or extended reasonably flexibly according to client requirements (e.g. statistical ratios, IAS). From the end of 2003 all reports should be available to clients on-line. The production of reports is very efficient. However, with regard to content and design, we still see room for improvement.

As a whole, client service is provided on a very high level.

## Production

The investment process for the asset class **European Fixed Income** has been embedded in CSAM's global and European platform since 2000. In a combination of top-down and bottom-up approaches, strategic decisions are mainly taken on a global level, but then are regionally interpreted and locally implemented. The teams involved utilise adequate tools from scorecards to optimisation models.

The construction of model portfolios is decentralised and takes place in different production locations, one of them being Frankfurt. The implementation of these models in client portfolios is conducted in every case by a local portfolio manager. The portfolio manager has certain degrees of freedom to select individual securities and to allocate between different rating segments, which is only partly justified by the large extent of customisation among client portfolios. This holds even more for PAR-Accounts, which depend more strongly on the client's risk profile for their management.

An important base for the investment process is the analysis of global and European research teams, co-ordinated from London with participants from all production locations. Apart from a specialised team for single macroeconomic themes there is also research on credits, *pfandbriefe* and ABS. Most portfolio managers are at the same time analysts. All research results and meeting minutes as well as external research are available from a common research database. Considering the variety of themes to be covered, the available European resources seem to be comparably undersized.

Trading is completely out-sourced to *Credit Suisse (Deutschland)*, resulting in a clear separation of functions avoiding conflicts of interest: clear orders, pre-checked for investment restriction by the portfolio manager and for order execution by the trading desk, exclusively on best execution principles. The document flow is almost completely electronic, the settlement highly automated.

The investment process is managed predominantly according to functional responsibilities. However, the local CIO is responsible for the correct implementation of the investment decisions, resulting in comprehensive controls. Addi-

tionally, an independent quality control takes place within the separately organised risk management function. Here, for all portfolios – sometimes individually – criteria are defined and regularly monitored by a committee. In case of deviations the respective portfolios are put on a watch-list and corrective measures are taken.

The performance data were certified according to AIMR- and DVFA-PPS as well as GIPS. However, at the end of 2003 the current composites will only offer a history of three years.

### **Infrastructure**

The internal IT department already covers the most tasks. Furthermore, the group provides support for specific topics and there is co-operation with external partners. The latter have been selected after competitive comparison.

The IT infrastructure consists of products of well-known manufacturers and conforms with CSG standards. This holds in particular for the additional technical safety features of the software.

Data which is important for business continuity is replicated in short cycles to back-up systems. Emergency desks are available exclusively for CSAM, but their distance is not sufficient for some scenarios. The business continuity plans were tested successfully.

The administration of investment accounts will be given up at the end of the year due to low volume, slimming this area even further. Existing accounts will be transferred to *European Bank for Fund Services GmbH* (ebase), offering a similar service with a CSAM co-branding.

The fund accounting tasks are to a large extent automated and efficiently carried out. This has become possible in particular by working in the majority of cases with a “house custodian”. This custodian was selected in an objective contest and does not belong to CSG. The clear separation increases cost transparency and avoids conflicts of interest.

The risks outside of the investment process are recorded in both a quantitative and qualitative way and regularly monitored by comparing with threshold values. In comparison with other financial services providers, there is a clear best-practice gap here which needs to be closed. This concerns in particular the monitoring of the more qualitative operational risks.

Compliance leans on the international guidelines of CSAM, supplemented by local requirements and specific rules as the BVI code of conduct. The compliance rules exceed international standards in some points. Compliance with the rules has to be confirmed by employees annually. Consciousness of the topic of compliance among employees is especially highlighted.



# RCP & Partners GmbH

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## CSAM – Credit Suisse Asset Management Deutschland



# 2 Sehr gut

### Manager Rating – Parameter

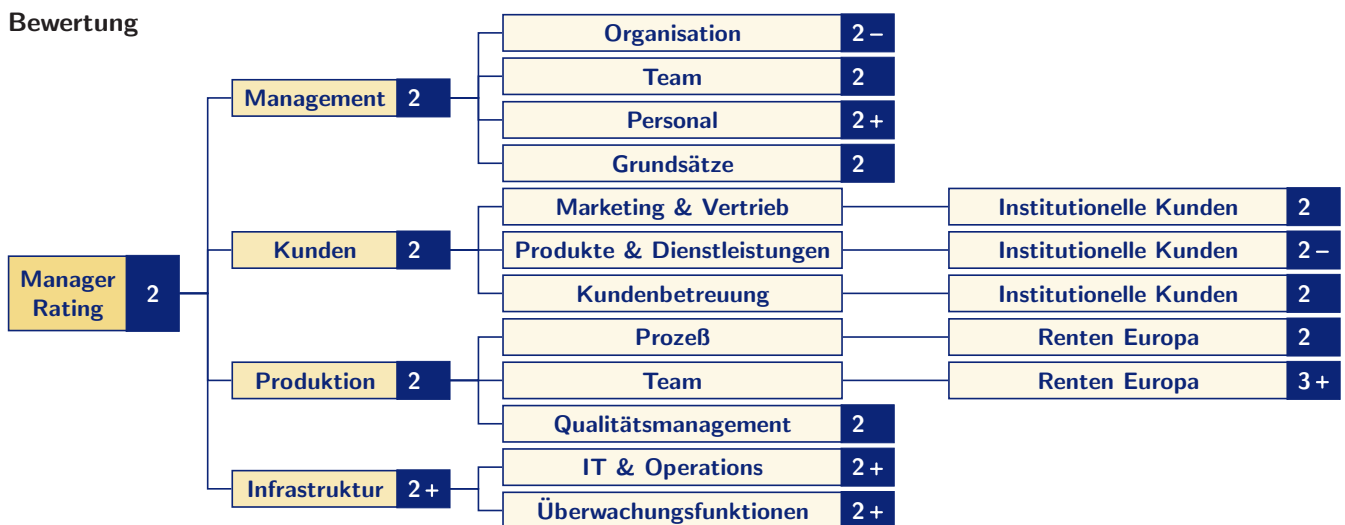
<b>Datum</b>	08.12.2003
<b>Einheiten</b>	Credit Suisse Asset Management (Deutschland) GmbH (CSAM-DE), Credit Suisse Asset Management Kapitalanlagegesellschaft mbH (CSAM KAG)
<b>Kundengruppen</b>	Institutionelle Kunden
<b>Assetklassen</b>	Renten Europa

### Kontakt

<b>Rated Party</b>	Barbara Diaz (Head Product Management Institutional) ☎ +49-69-7538-1033, barbara.diaz@csam.com
<b>Analysten</b>	Dr. Uwe Kern (verantwortlich), ☎ +49-611-9742-120, uwe.kern@rcp-partners.de Dr. Eckhard Weidner, ☎ +49-611-9742-116, eckhard.weidner@rcp-partners.de

Manager Rating	
+1	Exzellent
-1	
+2	<b>Sehr gut</b>
-2	
+3	Gut
-3	
+4	Befriedigend
-4	
+5	Mangelhaft
-5	
+6	Ungenügend
-6	

### Manager Rating – Ergebnisse



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## Einleitung

Das vorliegende Rating bewertet erstmals die Einheiten CSAM-DE und CSAM KAG, beide mit Sitz in Frankfurt am Main. Die Aktivitäten der CSAM Immobilien KAG, einer Tochter der CSAM-DE, wurden nicht in die Bewertung einbezogen.

## Management

CSAM in Deutschland ist voll in die internationale und europäische Organisation der zur *Credit Suisse Group* (CSG) gehörigen *Credit Suisse Asset Management* (CSAM) integriert. Die europäische CSAM hat eine klar definierte Strategie mit quantifizierten Zielen, die konsequent verfolgt werden, was auch für CSAM in Deutschland gilt. Die CSAM KAG erreicht einen Anteil von ca. 1% am deutschen Spezialfondsmarkt und nimmt damit die Spitzenposition unter den ausländischen KAGs ein. Im deutschen Publikumsfondsmarkt zählt CSAM zu den stärksten ausländischen Gesellschaften.

Die beiden (bzw. drei) rechtlichen Einheiten sind durch eine übergreifende, klare funktionale Struktur und gemeinsame Gremien miteinander verbunden. Der finanzielle Ausgleich ist über Ergebnisabführungsverträge zwischen den Gesellschaften geregelt, es gibt jedoch keine finanziellen Zusagen oder Garantien von der Muttergesellschaft, obwohl dies wünschenswert wäre. CSAM operiert in Deutschland bei solider Eigenkapitalausstattung sehr profitabel. Dazu leistet die CSAM Immobilien KAG einen erheblichen, die CSAM KAG einen geringeren Beitrag.

Die Integration in die europäische CSAM-Organisation spiegelt sich auch in den Aufsichtsgremien wider. Hier trifft man auf regional und funktional Verantwortliche der europäischen CSAM, jedoch nicht auf unabhängige Mitglieder. Letzteres würde die Kontrolle des Managements – trotz der nachvollziehbaren Argumente für die aktuelle Konstruktion – weiter verbessern.

Die BVI-Wohlverhaltensregeln wurden im Oktober 2003 formal umgesetzt. Die Mitarbeiter der CSAM in Deutschland müssen sich seitdem zur Einhaltung dieser Regeln verpflichten. Ein *Code of Conduct* beschreibt die Grundwerte der CSAM und stellt darin u.a. die Interessen der Kunden vor die der CSAM und ihrer Mitarbeiter.

## Kunden

Für das vorliegende Rating wurde das Geschäft der CSAM in Deutschland mit **institutionellen Kunden** betrachtet. In dieser Kundengruppe erfolgt der Vertrieb und die spätere Kundenbetreuung aus einer Hand. Dabei zeichnet sich CSAM durch einen disziplinierten Vertriebsprozeß aus. Durch die organisatorische Aufstellung nach Sektoren bzw. Kundensegmenten verfügen die *Relationship Manager* über gute Kenntnis der jeweiligen Kundenbedürfnisse.

CSAM kann in Deutschland eine breite Palette von Investmentprodukten anbieten und nimmt dabei teilweise Rückgriff auf andere internationale CSAM-Einheiten. Für den Kunden ist diese internationale Kooperation transparent, da

die Umsetzung in jedem Fall durch einen lokalen Portfoliomanager erfolgt. Neben traditionelleren aktiven und passiven Produkten auf der Aktien- und Rentenseite bietet CSAM auch Produkte an, die nicht benchmark-orientiert sind. Dazu gehören Mandate, die auf die Erzielung eines *Positive Absolute Return* (PAR) ausgerichtet sind. Dabei soll auch im angenommenen *worst case* ein Risikopuffer erhalten bleiben bzw. eine positive Rendite erzielt werden. Neben Spezialfonds bietet CSAM für kleinere Mandate auch eine breite Palette von institutionellen Klassen von Publikumsfonds (I- und D-Shares) an. Der Umfang der angebotenen Dienstleistungen ist dagegen deutlich geringer.

Der auf europäischer Ebene koordinierte Produktentwicklungsprozeß ist sehr strukturiert und wird kontrolliert umgesetzt. Dies ist in der vorgefundenen Konsequenz in dieser Branche selten.

Das Reporting kann sehr flexibel an Kundenwünsche angepaßt oder um solche erweitert werden (z. B. statistische Kennzahlen, IAS). Ab dem Ende des Jahres 2003 sollen den Kunden sämtliche Reports online zur Verfügung stehen. Die Erstellung der Reports ist sehr effizient, hinsichtlich der Aussagekraft und Gestaltung sehen wir jedoch noch Verbesserungspotential.

Insgesamt kann dem Kundenservice eine sehr hohes Niveau bescheinigt werden.

## Produktion

Der Investmentprozeß in der Assetklasse **Renten Europa** ist seit 2000 in eine globale bzw. europäische Plattform der CSAM eingebettet. In einer Kombination aus Top-down- und Bottom-up-Ansatz werden vor allem Strategieentscheidungen auf globaler Ebene gefällt, die aber regional interpretiert und lokal implementiert werden. Dabei bedienen sich die beteiligten Teams adäquater Hilfsmittel von Scorecards bis hin zu Optimierungsmodellen.

Die Konstruktion der Modellportfolios erfolgt dezentral an verschiedenen Produktionsstandorten, zu denen auch Frankfurt gehört. Die Umsetzung in die Kundenportfolios erfolgt dabei in jedem Fall durch lokale Portfoliomanager. Dabei bestehen gewissen Freiheiten bei der Einzeltitelauswahl und der Allokation zwischen verschiedenen Ratingsegmenten, die nur teilweise durch die starke Individualität der Kundenportfolios gerechtfertigt sind. Dies gilt naturgemäß noch mehr für PAR-Accounts, deren Steuerung stärker vom Risikoprofil des Kunden abhängt.

Wesentliche Grundlage für den Investmentprozeß sind die Analysen der globalen und europäischen Research-Teams, die aus London heraus koordiniert werden und mit Vertretern aus allen Produktionsstandorten besetzt sind. Dazu zählt neben spezialisierten Teams für einzelne makroökonomische Themen auch ein eigenes Credit-, Pfandbrief- und ABS-Research. Dabei sind die meisten Portfoliomanager gleichzeitig als Analysten tätig. Sämtliche Researchergebnisse und Protokolle von Meetings sowie externes Research sind in einer gemeinsamen Researchdatenbank abrufbar. Angesichts der Vielfalt der abzudeckenden Themen erscheinen die europaweit zur Verfügung stehenden Ressourcen vergleichsweise unterdimensioniert.

Der Handel ist vollständig an die *Credit Suisse (Deutschland)* ausgelagert. Daraus resultiert eine saubere Funktionstrennung und die Vermeidung von Interessenkonflikten: Erteilung klarer, vorab auf die Verletzung von Anlagegrenzen geprüfter Aufträge durch die Portfoliomanager sowie Ordervergabe durch den Handel ausschließlich nach *Best-Execution*-Prinzip. Der Dokumentenfluß ist dabei fast vollständig elektronisch, die Abwicklung weitestgehend automatisiert.

Der Investmentprozeß wird maßgeblich von den funktional Verantwortlichen gesteuert. Der lokale CIO ist jedoch für die korrekte Umsetzung der Investmententscheidungen verantwortlich und nimmt deshalb eine umfangreiche Kontrolle wahr. Zusätzlich findet eine unabhängige Qualitätskontrolle im organisatorisch getrennten Risikomanagement statt. Hier werden für jedes Portfolio – teils individuelle – Kriterien festgelegt und regelmäßig von einem Komitee überwacht. Bei Abweichungen werden die jeweiligen Portfolios auf eine Beobachtungsliste genommen und korrigierende Maßnahmen eingeleitet.

Die Performance-Daten wurden nach AIMR- und DVFA-PPS sowie GIPS zertifiziert. Die aktuellen Composites weisen Ende 2003 jedoch erst eine Historie von drei Jahren auf.

## Infrastruktur

Der eigene IT-Bereich deckt bereits den größten Teil der Aufgaben ab. Darüber hinaus leistet der Konzern zu spezifischen Themen Unterstützung bzw. es wird mit externen Partnern zusammengearbeitet. Letztere wurden in einem *Beauty Contest* ausgewählt.

Die IT-Infrastruktur besteht aus Produkten namhafter Hersteller und entspricht den Standards der CSG. Dies gilt insbesondere auch für die zusätzlichen technischen Sicher-

heitsmerkmale von Software.

Für die Fortführung des Geschäfts wichtige Daten werden in kurzen Abständen auf Back-up-Systeme repliziert. Notfallarbeitsplätze stehen exklusiv – aber für manche Szenarien in nicht ausreichender Entfernung – für die CSAM zur Verfügung. Die *Business-Continuity*-Pläne wurden erfolgreich getestet.

Die Verwaltung der Investmentdepots wird aufgrund des geringen Volumens zum Jahresende aufgegeben, was den Bereich weiter verschlankt. Bestehende Depots werden auf die *European Bank for Fund Services GmbH* (ebase) übertragen, die einen entsprechenden Service mit dem Co-Branding der CSAM anbietet.

Die Aufgaben der Fondsbuchhaltung sind weitestgehend automatisiert und werden effizient erfüllt. Dies wird insbesondere dadurch möglich, daß in der überwiegenden Zahl der Fälle mit einer „Hausdepotbank“ zusammengearbeitet wird. Diese wurde in einem objektiven Auswahlverfahren selektiert und gehört nicht zur CSG. Die klare Trennung erhöht die Kostentransparenz und meidet Interessenkonflikte.

Die Risiken außerhalb des Investmentprozesses werden sowohl qualitativ als auch quantitativ erfaßt und regelmäßig anhand von Schwellenwerten überwacht. Im Vergleich zu anderen Finanzdienstleistern besteht hier allerdings erkennbarer Nachholbedarf. Dies betrifft insbesondere die Überwachung eher qualitativer operativer Risiken.

Compliance stützt sich auf die internationalen Vorgaben der CSAM, ergänzt um lokale Anforderungen und Spezialitäten wie z. B. die BVI-Wohlverhaltensregeln. Die Compliance-Regeln gehen in einzelnen Punkten über internationale Standards hinaus, und ihre Einhaltung muß jährlich von den Mitarbeitern bestätigt werden. Herauszustellen ist die Präsenz des Themas Compliance im Bewußtsein der CSAM-Mitarbeiter.



## Rated Party

### Units

This rating concerns the independent legal entities:

- ✗ **Credit Suisse Asset Management (Deutschland) GmbH** (abbreviation: CSAM-DE), headquartered in Frankfurt, as well as its subsidiary
- ✗ **Credit Suisse Asset Management Kapitalanlagegesellschaft mbH** (abbreviation: CSAM KAG), also headquartered in Frankfurt.

For the purposes of this rating, both entities together will be referred to as *Credit Suisse Asset Management Deutschland* (abbreviation: CSAM). Both entities are part of the following organisation: *Credit Suisse First Boston, Aktiengesellschaft* (abbreviations: *Credit Suisse First Boston* or CSFB), headquartered in Zurich, which, in turn, is part of the *Credit Suisse Group* (abbreviations: CSG).

### Client Groups

This rating concerns the **institutional business** of CSAM.

### Asset Classes

For the purposes of this rating, the asset class

- ✗ **European Fixed Income** (Renten Europa) has been subject to analysis and evaluation.

### Effective Date

Unless stated otherwise, all data contained in the present report refer to **2003-06-30**.

Table 1: Companies (current data)

Company	CSAM-DE — Credit Suisse Asset Management (Deutschland) GmbH	CSAM KAG — Credit Suisse Asset Management Kapitalanlagegesellschaft mbH
Address	P. O. Box 10 20 58 D-60308 Frankfurt am Main	P. O. Box 10 20 58 D-60308 Frankfurt am Main
Phone	+49-69-7538-1111	+49-69-7538-1111
Internet	www.csam.de	www.csam.de
Founded	1987	1987
Employees	60	52
AUM (EUR m)	7479	4995
Services	Marketing and sales of domestic and foreign mutual funds (Publikumsfonds) and domestic dedicated special funds (Spezialfonds), investment advice, asset management advice	Issue and management of mutual and special funds, asset management

## A Management

### A.1 Organisation

#### A.1.a Group Structure

Die *Credit Suisse Group* (CSG) is headquartered in Zurich. The Group was founded in 1856 under the name of *Schweizerische Kreditanstalt* (SKA). Today, it has approximately 80'000 employees and ranks among the leading global providers of financial services. The Group has branches in all the world's major financial centres. CSG shares are listed on the Zurich, Frankfurt and New York stock exchanges. No shareholder currently holds over 5% of CSG stock.

Historically, the Group has grown out of a cooperation with (1978) and subsequent stake in *First Boston Corporation* (FBC)) in 1988, which was merged with SKA to become the future CSG in 1989. In 1997, a merger with *Winterthur Group* (WG) took place; in 2000 *Donaldson, Lufkin & Jenrette* (DLJ) was acquired by the Group.

Since 2002, CSG has been organisationally divided into units: *Credit Suisse Financial Services* (CSFS), consisting of the independent legal entities *Credit Suisse* and *Winterthur*, and *Credit Suisse First Boston, Aktiengesellschaft* (CSFB), which is also an independent legal entity. CSFS comprises the *Private Banking, Life & Pensions, Corporate & Retail Banking Schweiz* and *Insurance* units. Also since 2002, CSFB is subdivided into the *Investment Banking, Asset Management* and *Securities* units.

Further information on CSG is available at [www.credit-suisse.com](http://www.credit-suisse.com).

Milestones in the history of CSAM:

- ✗ In 1983, the asset management unit was founded in London under the name of *Credit Suisse First Boston Investment Management*. In 1995, it was merged with *Credit Suisse's* (CS) asset management business.
- ✗ Since 1997, asset management has been conducted under the name of *Credit Suisse Asset Management*.
- ✗ The acquisition of *Warburg Pincus Asset Management* took place in 1999, in 2000 *Donaldson, Lufkin & Jenrette Asset Management* was integrated into the asset management business and in 2001 *Sun Life of Canada Asset Management* in the U.K. was acquired.
- ✗ Since 2002, *Credit Suisse Asset Management* has been part of CSFB.

#### A.1.b Organisational Structure

Die *Credit Suisse Asset Management (Deutschland) GmbH* (CSAM-DE) was founded in 1987 under the name of *Schweizerische Kreditanstalt Trust Vermögensverwaltungsgesellschaft mbH* in Frankfurt, Germany. The same year also saw the foundation of *Credit Suisse Asset Management Kapitalanlagegesellschaft mbH* (CSAM KAG), which became operative in 1988. CSAM KAG is a 100% subsidiary of CSAM-DE. Moreover, CSAM-DE holds a 100% stake in *Credit Suisse Asset Management Immobilien KAG mbH*.

CSFB's stake in CSAM-DE is held via a holding company in conjunction with *Credit Suisse Asset Management Europe (Luxembourg) S.A.* gehalten. Cf. also figure 1 on page 13.

For the functional structure of CSAM see figure 2 on page 14. Portfolio management and infrastructural units are assigned to the relevant legal entities though in- and outsourcing contracts. The functional structure represents the matrix organisation of CSAM in Europe, which is of special relevance to the investment activities.

In the past, there have been no significant changes to this structure, nor are there any plans for such changes. However, the bookkeeping for custody accounts will be abandoned at the end of 2003 by outsourcing to an external provider.

Within Senior Management, the responsibilities and deputy functions have been allocated by means of a corresponding plan. The allocation of responsibilities within CSAM in general is clear and well documented, and this important process is defined and documented by directives.

The compliance unit is responsible for the effective separation of functions. Effectiveness is monitored on a semi-annual basis.

#### A.1.c Co-operations

The maintenance and management of investment accounts will no longer be part of CSAM's activities in Germany. Starting in January 2004, existing deposits will be transferred to the *European Bank for Fund Services GmbH* (ebase), where they will be maintained under the CSAM label. In July 2003, ebase started to open new investment accounts within this framework.

CSAM-DE has some 600 cooperation agreements with sales partners for mutual funds. It has a cooperation agreement with *Credit Suisse (Deutschland) AG* to market and sell dedicated special funds.

#### A.1.d Financials

CSAM-DE has no stakeholder guarantee nor commitment concerning financial support nor joint liability. CSAM-DE has signed a profit-pooling contract with two subsidiaries CSAM KAG and CSAM Immobilien KAG, which also involves the pooling of losses. No such contract has been concluded between CSAM-DE and its stakeholders.

As a company, CSAM-DE is highly profitable while being solidly endowed with equity capital. The profitability of individual products and/or customers has been made transparent. A significant part of the revenues stems from the profit-pooling contract with CSAM Immobilien KAG.

#### A.1.e Competitive Position

With regard to institutional clients, CSAM is currently the largest foreign investment company (KAG) in Germany with a market share of approximately 1%. Its market share

in mutual funds is also close to 1%. In this segment, CSAM ranks third among foreign investment companies in Germany.

### A.1.f Strategy

CSAM follows a clearly defined global and European strategy. Its targets are quantified. In Europe, the company focuses on the following elements:

- ✗ Expansion through in-house expertise and geographical presence
- ✗ Concentration on selected markets, identifying trends in those markets and providing tailor-made products and services
- ✗ Concentration on significant customers and comprehensive relationships
- ✗ *Solution Management* as the business model

The company's management principles and its *Mission Statement* are as clear-cut as the strategy. Mission Statement:

“Our mission is to be the industry leader in investment performance and client service under the highest professional standards.”

## A.2 Team

### A.2.a Education & Experience

New members of management have to bring specific knowledge and hands-on experience to their chosen field. However, executive skills take precedence.

### A.2.b Stability

In recent years, three members of Senior Management have left the company. CSAM-DE's present Senior Management team has been operating since 2001, the present Senior Management of CSAM KAG has been in office since 2002.

## A.3 Personnel

### A.3.a Remuneration

Within CSAM, salaries are determined according to a framework valid for all of Europe. Within this framework, actual salaries are set through a bottom-up process. Proposals by the division heads are based on industry comparisons, performance and functions and subject to approval by Senior Management. Section heads have a special say about salaries, mainly in portfolio management.

Senior Management's decisions are based on proposals in their entirety as well as on the framework. The salary review is carried out on an annual basis.

The same process applies to variable salary components. The objectives of each employee are set through a structured

process with semi-annual reviews. In portfolio management, objectives are set regarding performance, risk, compliance with restrictions, relationship management and acquisition of new customers.

The actual pay-out is determined by the individual performance of each employee as well as by the Group's results and the results of CSAM on a global, regional and local level. The share in the overall compensation depends on the respective role.

According to CSAM, overall compensation per unit is at slightly over or slightly under the industry median.

### A.3.b Training

Training is chosen individually according to technical needs, employee potential and motivation. CSAM uses external providers, p. ex. to carry out intensive training for members of the sales team. Further education, such as *Chartered Financial Analyst* (CFA) programmes, benefits from financial and organisational support (such as exemption from normal duties).

The training budgets are set by Senior Management on a yearly basis.

### A.3.c Corporate Culture

Various media and platforms serve to further in-house communications. The use of the intranet and newsletters is complemented by regular meetings of all employees and *ad hoc* information by Senior Management.

In 2001, the turnover rate was higher than the industry median. Before that date, it lay below the median and ever since, it has been markedly lower. Cf. also table 2.

Table 2: Employee turnover

Year	CSAM-DE	in	out	CSAM KAG	in	out
2002	65 (-1.5%)	6	7	52 (-3.7%)	6	8
2001	66 (17.9%)	17	7	54 (22.7%)	22	12
2000	56 (43.6%)	19	2	44 (15.8%)	9	3
1999	39 (0.0%)			38 (0.0%)		

All data as of year-end

## A.4 Policy

### A.4.a Corporate Governance

CSAM-DE's Advisory Committee and the Board of Directors of CSAM KAG consist of Senior Managers from CSAM's European entities, who represent both regional and functional responsibilities within CSAM. Both bodies meet twice yearly in the presence of the corresponding Senior Management. There are no other committees or working parties within the Board of Directors or the Advisory Committee.

Dr. Hansjörg Herzog acts as Managing Director and CEO of both companies. Twice a month, a *Business Committee Meeting* is held to coordinate the activities of CSAM-DE and its two subsidiaries. The meeting's agenda mainly covers strategic, financial and staff-related issues. Weekly management meetings serve mainly to discuss the implementation of measures. Here, division heads also attend.

#### A.4.b Rules of Conduct

As of 2003–10–31, the BVI code of good conduct (BVI-Wohlverhaltensregeln) have been implemented. Employees

have to commit to observe the code and the corresponding directive was implemented by Senior Management at the end of October 2003. Employees can access this directive as well as the code itself over the intranet.

The CSAM *Code of Conduct* is part of the compliance manual. It describes the founding principles of CSAM and clearly focuses on clients' best interests. Further information on compliance can be found in section D.2.c on page 25.

Table 3: Curricula

Name	Current Position	Year of birth	Nation.	Qualification	Professional experience	of which with RP	Joined in	Company joined
<b>Claudia Blumenthal</b>	Managing Director (08/2001)	1962	DE	Diplom-Volkswirt (Graduate Economist)	16	2	2001	CSAM-DE
<b>Renate Bokelberg</b>	Head HR (01/1996)	1951	DE	Bankkauffrau (qualified banker)	37	29	1974	Effectenbank Warburg AG
<b>Siegfried Cordes</b>	Head Fixed Income (2001)	1954	DE	Diplom-Ökonom (Graduate Economist)	18	13	1990	SKA KAG
<b>Sonja Demann</b>	Senior Portfoliomanager (2002)	1971	DE	BSc. Mathematics; MBA	6	1.5	2002	CSAM KAG
<b>Barbara Diaz</b>	Head Product Management Institutional (09/2001)	1967	DE	Diplom-Volkswirtin (Graduate Economist)	15	15	1988	SKA KAG
<b>Matthias Feld</b>	CFO (01/1998)	1961	DE		17	14	1989	SKA KAG
<b>Michael Golitsch</b>	Head Audit (05/2000)	1968	DE	Diplom-Kaufmann (Graduate in Business)	6	6	1997	CSFB
<b>Dr. Hansjörg Herzog</b>	Managing Director, CEO (CEO since 02/2001; MD CSAM (Deutschland) GmbH since 03/2001; MD CSAM KAG since 07/2001)	1958	CH	Dr.oec., lic.oec.	13	2	2001	CSAM-DE
<b>Gert Hofmann</b>	Head of Operations Team (01/2000)	1949	DE	Bankkaufmann (qualified banker)	32	5	1998	CSAM-DE
<b>Kai D. Leifert</b>	Head Risk Management (07/2001)	1976	DE	Diplom-Kaufmann (Graduate in Business); Series 3 & Series 3a exam USA, FRM-Programm der GARP, currently Regional Director GARP Germany	3	1.75	2001	CSAM KAG
<b>Raimund Nierop</b>	Senior Portfoliomanager (2002)	1966	DE/NL	Diplom-Volkswirt (Graduate Economist); CFA	9	2	2002	CSAM KAG
<b>Birgit Ott</b>	Head Corporate Communications (10/2003)	1970	DE	Diplom-Betriebswirtin (Graduate in Business Administration)	8.5	3.5	2000	CSAM-DE
<b>Jürgen Pohl</b>	Head IT (11/2002)	1966	DE	Diplom-Ingenieur Elektrotechnik (FH) (Graduate Engineer Electrotechnics)	8	4	1999	CSAM-DE
<b>Claudia Reuter-Wenzel</b>	Managing Director (09/1999)	1963	DE	Attorney	10	6.5	1996	Credis (Deutschland) GmbH
<b>Richard Rochat</b>	Compliance Officer (1995)	1960	CH	Bankkaufmann (qualified banker)	24	10.5	1993	SKA KAG
<b>Oliver Russmann</b>	Head Financial Controlling (07/2000)	1967	DE	Diplom-Ökonom (Graduate Economist)	11	3	2000	CSAM-DE
<b>Silvia Schaak</b>	Senior Portfoliomanager (1998)	1972	DE	Diplom-Betriebswirtin (Graduate in Business Administration); Level III candidate for CFA programme	15	5	1998	CSAM KAG
<b>Guy Stern</b>	Managing Director, CIO (01/2002)	1960	US	BA; CFA	20	1.5	2002	CSAM KAG

Figure 1: Organisation (CSAM Europa)

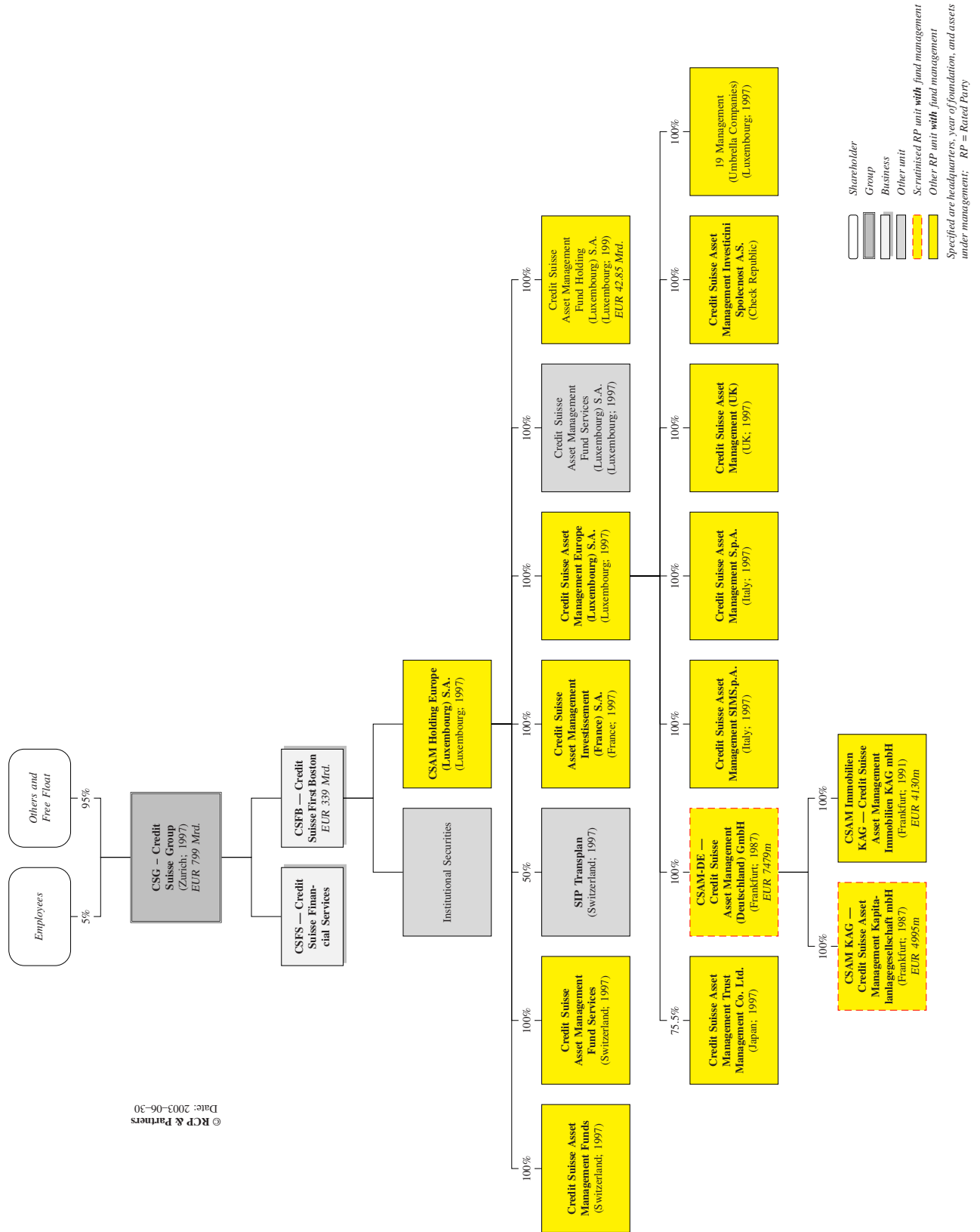
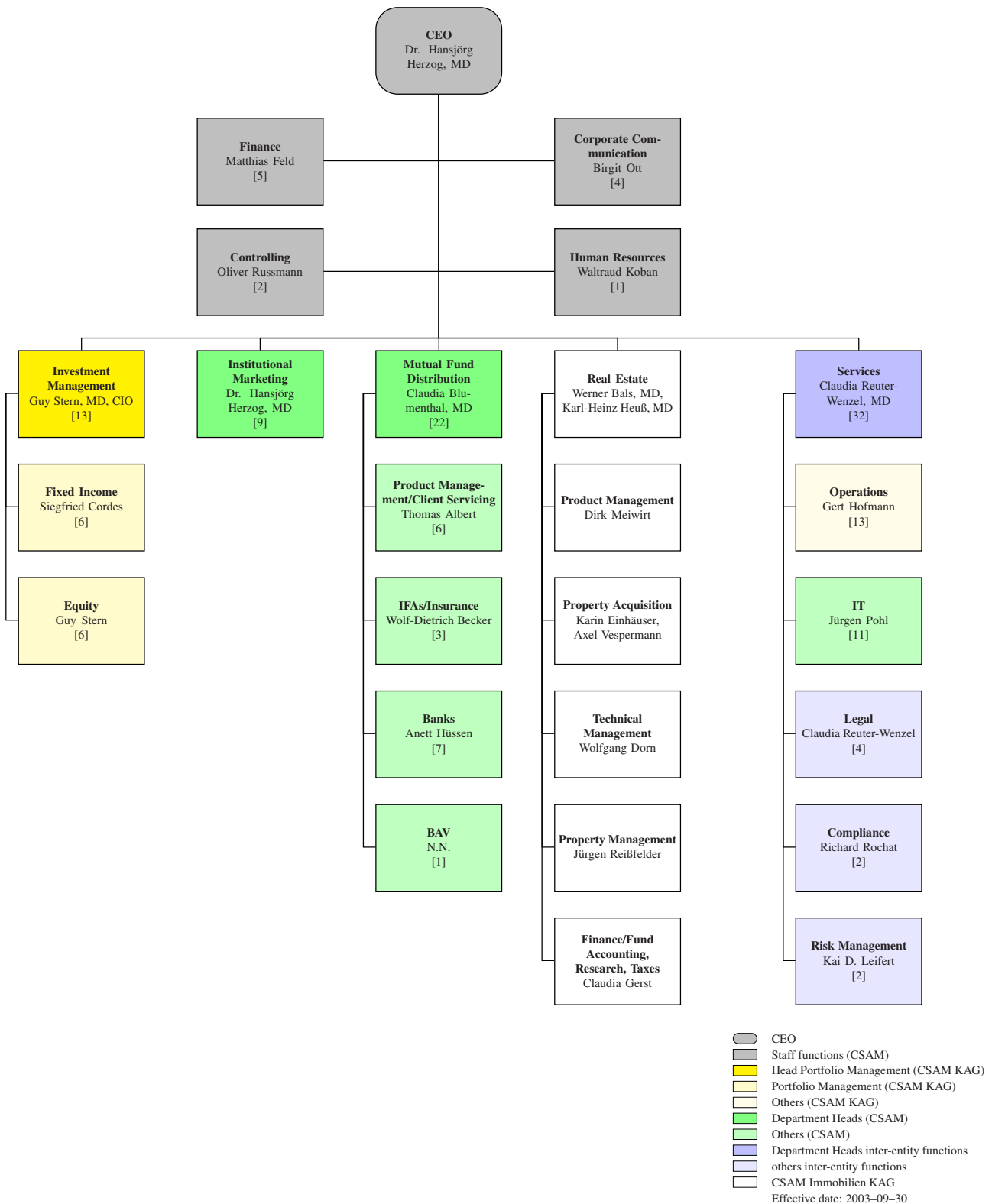


Figure 2: Internal structure (CSAM)



## B Clients

As of 2003–06–30, CSAM in Germany managed a total of EUR 14.4 billion in assets, EUR 3.6 billion (23.6%) of which, was for institutional clients. These institutional assets are invested in 34 dedicated special funds and asset management mandates, while EUR 1.8 billion are managed for Group companies.

The major part of assets managed for external customers – 49% of total volume – is placed in money market funds. Fixed income mandates have a share of 27% of total, clearly outdistancing equity mandates with 14%. The remainder (10%) is managed under Balanced Mandates. Figure 3 on the following page on the next page shows the asset classes for mutual funds, dedicated special funds and further institutional mandates.

Within the European Fixed Income asset class, some 50% of the volume stems from institutional clients, 70% of which are banking institutions.

### B.1 Marketing & Sales

#### B.1.a Marketing

Since early 2001, the *Corporate Communications* unit and *Institutional Marketing* have cooperated in marketing CSAM's products and services to institutional clients.

The marketing strategy's aims consist in supporting sales activities and, especially, differentiating CSAM from its competitors and elaborating sales arguments. To do so, all marketing instruments are coordinated and a broad range of media is being used systematically and accurately.

In this context, the brand name *Credit Suisse Asset Management* has a major role. Values that should be associated with the brand:

- ✗ global expertise
- ✗ local orientation on service
- ✗ transparency
- ✗ predictability

CSAM represents a risk-controlled and transparent investment philosophy. The essential traits of CSAM's corporate image are coordinated globally. Local marketing campaigns are carried out on the basis of international guidelines – such as a single corporate logo and slogan (“Strapline”) – while taking local conditions into account.

#### B.1.b Sales

There is no organisational divide between sales and relationship management. Since early 2001, these activities have been bundled into the Institutional Marketing unit headed by Dr. Hansjörg Herzog. In CSAM's opinion, all relationships originated in sales should be managed by the originator him/herself. Cf. also section B.3.b on the next page.

Organisationally, the unit has been divided by sectors and/or customer segments. Apart from four Senior and two Junior

*Relationship Managers*, a general function has been set up which consists of *Product Management*, steering sales activities and consultant relationship management. The unit benefits from support by the *Employee Benefits* function, which belongs to the Mutual Funds unit.

In the past, mandates were lost either through changes on the customers' side (transfer of assets to an in-house investment company, risk minimising, portfolio restructuring, other investments) or through unsatisfactory performance. Continuous control of product quality has therefore been expanded, as shown in section C.3.a on page 23. Moreover, the range of products has been enlarged and the coordination between the portfolio management unit and the relationship management unit has been optimised in order to better comply with individual customer requirements.

### B.2 Products & Services

#### B.2.a Product Range

**Investment Products** CSAM offers a broad range of investment products without slavishly following every single trend. Its range consists of traditional actively managed equity and fixed income products and is completed by index-tracking products, balanced products, real estate and alternative investments (hedge funds).

The products are originated by CSAM units all over the world. Germany is originating products for European/Euro fixed income, equity and balanced products. Investment decisions for products originated outside Germany are made by the corresponding unit, their implementation, however, is carried out locally.

In addition to its dedicated special funds, CSAM offers also advisory services for institutional clients in cooperation with an external (master) investment company. Moreover, institutional investors with smaller amounts to invest (minimum EUR 3 million) have access to most of CSAM's mutual funds in the form of a special institutional asset class called *I-Shares*. Mutual fund units for institutional investors are also on offer under asset management mandates. They are called *D-Shares* and are available for investments from EUR 10 million upwards. Life cycle products based on mutual funds are on offer for those investors who need to manage employee benefits.

The minimum size for dedicated special funds is set on the basis of an annual revenue minimum for such mandates. Management fees are charged in accordance with a fund's size and its portfolio structure. Performance-related fee schemes in various guises are also on offer.

**Services** CSAM structures employee benefits solutions for individual customers in cooperation with partners within or outside of the Group, such as

- ✗ balance sheet restructuring to eliminate pension liabilities from a group's balance sheet,

- ✗ harmonising of different benefit schemes and systems,
- ✗ Life cycle models.

In this context, CSAM focuses on its core competences in asset management.

**B.2.b Product Development**

Recently, CSAM has launched both new equity products and new fixed income products. Fixed income saw the launch of a total return product, which is mainly based on managing different asset classes, as well as the launch of so called PAR-accounts (*Positive Absolute Return*), in which duration management aims to maintain a risk cushion for worst cases. The latest equity product is intended to generate additional income and manage volatility by writing call options on securities within the portfolio. This strategy can be used as an overlay for in-house and external products.

Product ideas are addressed at the bi-monthly Sales Meetings, which also offer an opportunity to discuss current market trends and competitor analyses. Potential new products will first be evaluated, in general terms, by Sales and Production, with all other relevant units contributing as soon as the product enters a more tangible form. Product Development periodically also takes the initiative for introducing new products.

The results of those analyses will be presented in a CSAM European product group. This body meets once a month to carry out further analysis to allow for a more exact choice. Final decisions lie with the *European Management Board*, consisting of the Heads of Portfolio Management and Sales. The actual introduction of new products is carried out according to a structured and disciplined process. All relevant

CSAM units – domestic and foreign – have to confirm that all necessary measures for successful production have been taken. Introduction is subject to the approval of Risk Management, Legal & Compliance and the CEO. Risk Management is in charge of monitoring product introductions. The success of such introductions will be subject to continuous monitoring and control.

**B.3 Client Care**

**B.3.a Reporting**

CSAM’s reports are generated in the Fund Accounting unit. The usual risk ratios can be supplemented by client-specific ratios (such as solvency ratios, *Value at Risk*, IAS reporting), in which a broad range of statistical data can be included. Such additional requirements may be subject to a supplementary fee.

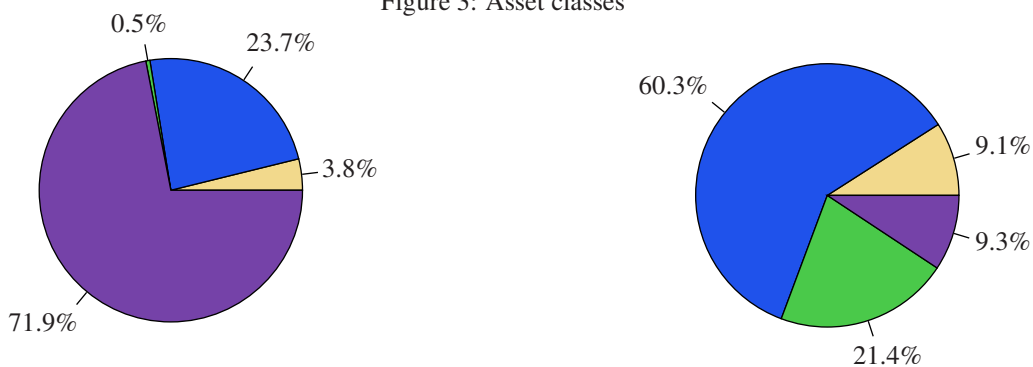
By year-end 2003, all reported data should be available to customers on-line.

**B.3.b Client Relationship Management**

As stated above, CSAM has integrated Customer Relationship Management with Sales. Therefore, relationship managers are fully responsible for their customer segment and act as primary contacts to their customers. Moreover, both Senior Management and Portfolio Management cultivate customer relationships on various levels.

Relationship managers keep their customers up-to-date about strategic changes in the portfolios and communicate market forecasts in one-on-one discussions.

Figure 3: Asset classes



(a) mutual funds: EUR 7 623 m

(b) spezialfonds and other institutional mandates: EUR 5 477 m

Equities
  Fixed Income
  Balanced
  Money Market
 (by AUM as of 2003–06–30)



## C Production

### C.1 Process

#### C.1(i) European Fixed Income

The German arm of CSAM is integrated into CSAM's global and European investment organisation. The German arm is responsible for a range of model portfolios among which various European fixed income portfolios are to be found. In addition to benchmark-orientated products, there are also products which aim to generate a *Positive Absolute Return* (PAR). They mainly differ from benchmark products in their duration management.

##### C.1(i).a Investment Process

**Tasks & Objectives** Concrete interest rate forecasts as well as the allocation grid for government and corporate bonds are generated monthly within the *European Fixed Income Team* (EFI-Team), which consists of all European fixed income managers of CSAM. Model portfolios for various benchmarks are built locally in the individual product centres. The implementation into customer portfolios is carried out by local portfolio managers.

**Organisation** Figure 4 on the next page shows the main organisational structure of Fixed Income across Europe as implemented in 2000. CSAM's portfolio managers in Germany are represented in the EFI-Team, the European credit research team and some global research teams.

In cases of personnel shortage, employees from other locations can step in.

**Functions & Responsibilities** Dilip Rasgotra in London has overall responsibility for strategy and organisation concerning the European Fixed Income asset class. John de Garis, also based in London, is responsible for the actual investment decisions. Frankfurt's local CIO, Guy Stern, is responsible for the correct implementation of the investment process by the portfolio managers. As Head of Fixed Income, Siegfried Cordes is responsible for the portfolio management staff as well as the building of actual model portfolios.

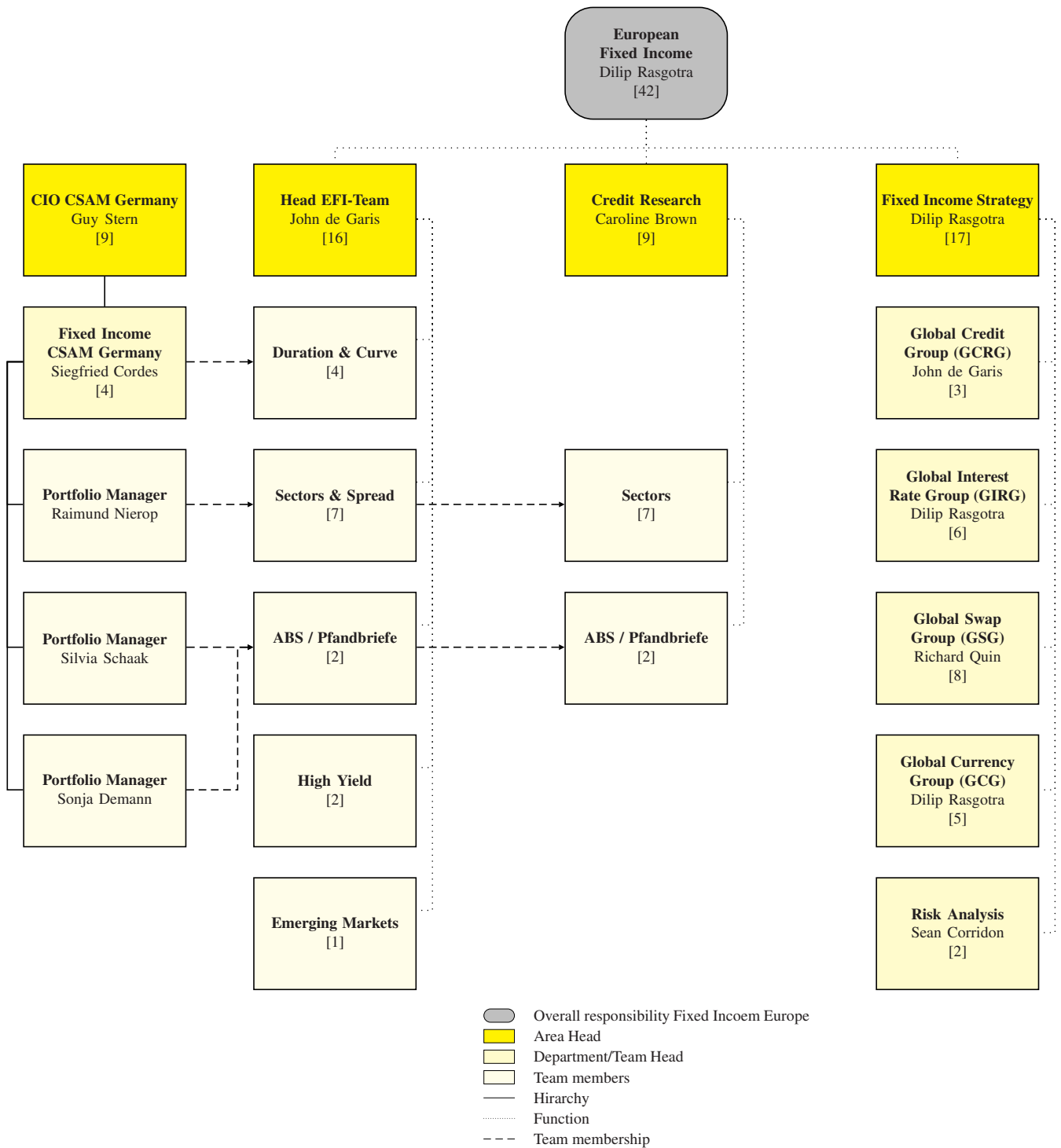
**Philosophy** CSAM's investment philosophy in European Fixed Income consists of actively managing diversified portfolios. Fundamental analysis of macro- and micro-economic factors leads to the discovery and systematic use of inefficiencies in all fixed income markets and segments. The addition of securities which are not part of the benchmark is intended to boost the risk/return profile still further.

Table 4: Profile (European Fixed Income)

CIO	Guy Stern (since 2002)
Team Leader	Siegfried Cordes (since 2001)
Portfolio Manager	4
Portfolios	32 (thereof 18 Balanced)
AUM (EUR m)	5910.5
Philosophy	active management of interest rate, duration and credit risks : <ul style="list-style-type: none"> <li>✗ fundamental analysis to discover and exploit inefficiencies</li> <li>✗ active risk management, avoiding surprises ("fallen angels")</li> <li>✗ off-benchmark investments to boost the risk/return profile</li> </ul>
Investment horizon	3 months
Objectives (benchmark-orientated)	Outperformance: <ul style="list-style-type: none"> <li>✗ Duration/yield curve: 50 bp</li> <li>✗ Allocation : 20 bp</li> <li>✗ Security selection: 10 bp</li> </ul> Relative performance: <ul style="list-style-type: none"> <li>✗ 1 month: ±50 bp</li> <li>✗ 3 month: ±80 bp</li> <li>✗ 6 month: ±125 bp</li> </ul> Risk: <ul style="list-style-type: none"> <li>✗ RAPP<sup>1</sup>-Index: &lt; -1.5</li> <li>✗ Tracking error: 0.5%</li> </ul> Portfolio turnover (frequency): <ul style="list-style-type: none"> <li>✗ -</li> </ul>
Objectives (PAR)	Outperformance: <ul style="list-style-type: none"> <li>✗ stable and positive performance in accordance with the customer's risk appetite</li> </ul> Relative performance: <ul style="list-style-type: none"> <li>✗ -</li> </ul> Risk: <ul style="list-style-type: none"> <li>✗ Avoiding absolute losses</li> </ul> Portfolio turnover (frequency): <ul style="list-style-type: none"> <li>✗ -</li> </ul>
Hedging/derivatives	<ul style="list-style-type: none"> <li>✗ Interest rate futures in tactical hedging strategies</li> <li>✗ Currency forwards to hedge currency positions</li> <li>✗ Plans for the use of interest rate swaps</li> </ul>
Leveraging	no
Timing	no
Documentation	Marketing presentation, directives

<sup>1</sup> Risk Adjusted Relative Performance and Position  
(proprietary CSAM risk measure)

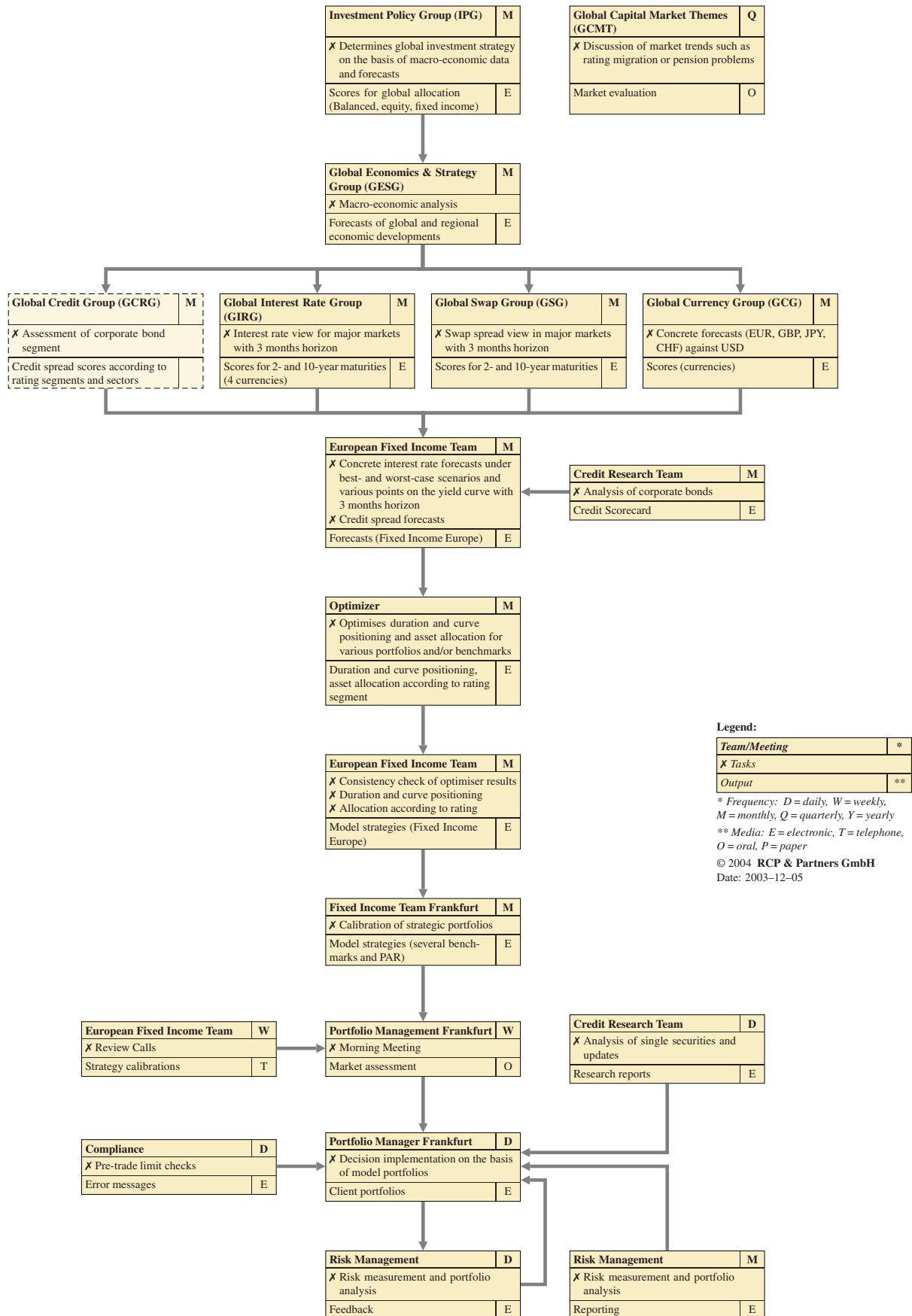
Figure 4: Organisation (European Fixed Income)



**Modus Operandi** The investment philosophy is implemented according to a global investment process with regional interpretation of the strategy and local implementation of investment decisions. The EFI-Team starts with macro-economic top-down analysis from various global research units, bottom-up analysis from credit research and its

own qualitative assessment of the corporate bonds segment. When building a portfolio, technical factors also play a role in investment decisions. All corporate bond investments are assessed qualitatively and quantitatively by in-house research. Individual know-how is bundled into teams, which form a network throughout the investment process.

Figure 5: Process (European Fixed Income)



**Strategic Decision-making** CSAM's investment process for the asset class European Fixed Income is a combination of a top-down and a bottom-up approach.

The following are top-down decisions:

- ✗ Duration and positioning on the yield curve
- ✗ Forecast of credit spreads
- ✗ Allocation into government and corporate bonds

The choice of individual securities within the corporate bond universe is a bottom-up process.

**Duration and Yield Curve** The *Global Interest Rate Group's* (GIRG) analyses form the basis for any positioning on the curve. Macro- and micro-economic factors will be taken into consideration as will equity and bond market perspectives.

The *European Fixed Income Team* (EFI-Team) assesses the results of such analysis in a European context. Interest rate scenarios and best-and-worst-case forecasts are based on an evaluation of interest rate parameters and technical factors for various points on the yield curve. They then are fed into an optimiser as discussed below.

**Credit Spreads** The EFI-Team team writes a monthly forecast of credit spreads in European bonds, classified by rating segments. The *Global Credit Group* (GCRG), which globally carries out the same task, is currently inactive.

The "AAA" and "AA" rating segments are mainly assessed by an analysis of the – highly correlated – factors which influence swap spreads (e.g. shape of the yield curve, supply and demand). A 3-month spread-to-government-bonds forecast for several maturity ranges is then derived from these analyses.

The rating segments "A" to "BBB" are assessed through spread movements and numerous other factors (e.g. monetary policy, fiscal policy, rating trends). These factors are grouped into four areas (see next section) and combined in a scorecard, which has a major role in allocating funds to government or corporate bonds.

On the basis of this scorecard, a 3-months spread forecast is made for various maturity ranges. All forecasts serve as input for the optimiser discussed below.

**Allocation of Government and Corporate Bonds** Decisions on allocations are based on the spread forecasts and the scorecard for the assessment of corporate bonds as an asset class. The scorecard is subdivided into the segments *macro-economic* (growth, monetary and fiscal policy), *credit* (profit growth, rating trends and refinancing risk), *technical factors* (liquidity, swaps, stock volatility and yield etc.) and *valuation* (break-even subject, spread Z-scores). Each factor of each segment is subject to a qualitative assessment (positive, neutral, negative).

Previous interest rate and spread forecasts will be fed into a proprietary optimiser. This tool has been developed by CSAM London, which also runs it. The optimiser's results furnish an allocation for the various rating segments. In this

context, only the main model strategies will be considered (government bonds only, corporate bonds only, mixed), as the aim is to generate a mere top-down allocation. The consistency of these results will be monitored in an Allocation Meeting of the EFI-Team, before a final allocation decision is made for each model strategy.

**Tactical Decision-making** Tactical positionings in maturities and on the curve is determined by the EFI-Team ateam on the basis of strategic scenarios. Tactical duration management for PAR portfolios is carried out with the aid of pre-set trigger points, which relate to the price of Bund futures and 10-year bond yields.

Tactical decisions on credit are not very frequent, however, review calls are made weekly. Here, portfolio managers can opportunistically add single securities to their portfolios, as long as restrictions and limits are respected.

**Portfolio Construction** The monthly EFI-Team strategy serves as the basis for model portfolios which are generated in the individual European locations in accordance with general legal requirements and clients profiles (benchmark or absolute return). Frankfurt builds model portfolios locally for the benchmarks REX-P, Lehman EURO-Aggregate, JPM EMU, JPM Europe and ML EMU Corporates as well as for PAR accounts on the basis of Rex-P and JPM EMU.

Client portfolios are built by local portfolio managers who take local legal requirements as well as individual customer requirements and risk profiles into account. The same portfolio managers also pick the actual securities and adapt the allocation to the rating segments.

**Security Selection** Portfolio managers may freely choose among government bonds, as long as the targets for duration and yield curve positioning are met.

For all other securities, they can use analysts' recommendations. Portfolio managers are not allowed to buy securities falling into the lowest internal assessment category (potentially dramatic fall in quality down to non-investment grade within the next 12 months). The relative assessment of each security will be carried out by the analysts and the portfolio managers.

**Currencies** The findings of the *Global Currency Group* (GCG) will be taken into account during the investment process. They are reflected in the corresponding allocations in the model portfolios; customer portfolios contain currency forwards. Customers who wish to exclude or limit currency risks will be hedged accordingly.

**Risk Management** Risk management is integrated into the investment process. This is especially true for the analysis of various scenarios (stress testing) and the calculation of risk attributions (ex-ante tracking error) for individual asset classes and securities while building portfolios. Absolute risks are measured through *Value at Risk* (VaR).

The duration risk in PAR accounts will be managed by the portfolio manager in such a way, that even under worst-case scenarios, there will always be a customer-defined risk cushion or a positive return. All other risks remain the same.

In addition to the integrated risk management, the risk management unit carries out a thorough monthly quality control as discussed in section C.3.a on page 23.

**Communication** Most communications within the EFI-Team and the credit units are carried out by e-mail and/or through the research database RADAR. Weekly review calls complement the monthly telephone conferences for determining strategies.

The weekly morning meeting is mandatory for all team members of the equity and fixed income units. Here, they report on changes in strategy and/or portfolios. Moreover, relationship managers and the Performance Measurement unit, the Product Development unit and Compliance report on current activities and affairs.

### C.1(i).b Research

**Tasks & Objectives** Research for the European Fixed Income asset class is carried out on a top-down and a bottom-up basis.

- ✗ Top-down: The global research infrastructure, consisting of the *Investment Policy Group* (IPG), the *Global Interest Rate Group* (GIRG), the *Global Swap Group* (GSG) and the *Global Currency Group* (GCG), analyses macro-economic data, interest rates, spreads and currencies. The EFI-Team derives concrete interest rate forecasts and allocations from their findings.
- ✗ Bottom-up: Corporate bonds are analysed by the Credit Research team. The team also carries out research on Pfandbrief and *Asset-Backed Security*.

All CSAM portfolio managers in fixed income in Germany also work as analysts. They are represented in the EFI-Team and in the Credit Research team.

**Organisation** Dilip Rasgotra in London is responsible for global macro research. He coordinates analysts' activities in several regions, where global teams work on economic, interest-rate-related, currency-related and swap-related issues.

The European Credit Research team is managed by Caroline Brown in London. It counts nine analysts in four locations. All of CSAM's German portfolio managers with credit responsibility are represented here in their capacity as analysts. Five more analysts in the US and Asia/Pacific are part of the global Credit Research team. Set up in the years 1999 to 2000, Credit Research has been continuously enlarged. Here, every team member is responsible for the analysis of securities within a given sector or else for the analysis of Pfandbrief and/or ABS (*Asset-Backed Security*). The team covers approximately 70% of all European bonds outstanding.

**Resources & Tools** The Credit Research team uses both Moody's and Standard & Poor's rating agencies as well as secondary research by brokers, including CSFB. It also uses the RADAR database on the global internet-based CSAM platform. RADAR is an administration tool for both internal and external research.

Analysts and portfolio managers have the use of the CSFB tool *Credit Underlying Securities Pricing* (CUSP) for evaluating credits. Among other input, this tool uses share prices as well as their volatilities to calculate expected returns and risks of spreads widening.

**Philosophy** CSAM is of the opinion that independent in-house security analysis is a sine qua non for investment decisions. A streamlined and structured analytic approach which uses comparable methods and ratios around the world, forms the basis for creating value in the investment process.

**Modus Operandi** While doing macro research, the individual global teams take five factors into consideration, assigning scores to each factor. All teams use a quantitative model as one factor. This model also furnishes a score. The forecasts of the *European Fixed Income Teams* are built upon these scores. GCRG is currently not operative; European issues are covered by the *European Fixed Income Team*.

Contact with an enterprise's management is mandatory for analysing individual corporate bonds in Credit Research. CSAM focuses less on the frequency of such contacts, but rather on the quality of the information provided. Subsequent evaluation takes the industry, the enterprise, its management, its financial track record and the rating agencies' assessments into account, leading to a SWOT analysis.

The monthly credit scorecard assesses all securities by sector on an absolute (Credit Scores) and a relative (intra-sector ranking and qualitative evaluation relative to the market) level. Moreover, the sector itself will be assessed (neutral, over- or underweight).

Pfandbrief research focuses on the differences in credit quality between various issuers. ABS are subject to an individual qualitative analysis per issue and per issuer. Currently, only the tranche with the highest quality will be considered.

Table 5 on the next page shows the significance of various analytical approaches.

Table 5: Analytical approaches (European Fixed Income)

Method	Significance
Qualitative analysis	1
Quantitative analysis	3
Macro-economics	1
Micro-economics	1
Cycle analysis	4
Analysis of financial statements	1
Visits of issuers	4
Discussions with issuers	2
Rating	1
Factors, ratios	2
Price forecasts	1
Relative value	2
Regression analysis	4
Non-linear models	5
Portfolio optimisation	3
Artificial intelligence	5
Scenario playing	2
Chart analysis	3
Technical indicators	3
Others	3

Significance: 1 = high importance, 5 = no importance

### C.1(i).c Implementation

**Tasks & Organisation** CSAM KAG trades through the trading desk of *Credit Suisse (Deutschland)*. This means only the execution of concrete orders – no recommendations are made. Cooperation is based on a *Service-Level Agreement*. A directive regulates the implementation of investment decisions.

Four members of the trading desk trade bonds; however, they also have other responsibilities. An independent benchmark study confirms that orders are consistently executed according to best-execution principles.

**Resources & Tools** CSAM KAG uses V3.Portfolio by Forbatec in its trading and settlement processes as well as for pre-trade checks. Document flow is fully electronic. The interface with the trading desk is covered by the proprietary CSAM tool *Direct Order System (DOS)*.

**Modus Operandi** Individual or collective orders are entered by the portfolio manager into V3.Portfolio. If the pre-trade check is successful, orders then go to the trading desk via DOS. The trading desk passes these orders to brokers on the basis of best execution. Brokers have to be listed in a broker list which is regularly reviewed. There is no preferential treatment for CSFB.

No budgets are set in advance for trading with individual brokers. Trading is mainly electronic. Table 6 lists the brokers who currently have the largest share of trading volumes.

However, those shares are highly volatile due to the order allocation process.

Execution data are transferred into the order system by the trading desk. These data are then compared to the broker confirmation by the Fund Accounting department. Portfolio managers can view the status of the order and the execution data in V3.Portfolio.

### C.1(i).d Settlement

The order confirmation reaches Fund Accounting via fax from SWIFT, whereupon the execution data is checked. Fund Accounting transfers settlement instructions to the custodian and books the trade. Settlement is carried out by the custodian.

Table 6: Brokers (European Fixed Income)

Fixed Income brokers	Location	Share <sup>1</sup>
JP Morgan Chase	New York	21%
Deutsche Bank AG	Frankfurt	21%
Credit Suisse First Boston	Zurich	14%
Dresdner Bank	Frankfurt	9%
Commerzbank AG	Frankfurt	8%

<sup>1</sup> share of volume traded and settled

## C.2 Team

### C.2(i) European Fixed Income

#### C.2(i).a Education & Experience

All CSAM employees in fixed income have relevant university degrees, most of them also have additional qualifications such as CFA or MBA. The average age of the team members is low, however, the average professional experience can be quite long.

#### C.2(i).b Stability

The European organisational structure was implemented during 1999 and 2000. The Credit Research team was set up during the same period and has been recently been enlarged. Employee turnover was close to the industry median during implementation and set up. For the last two years, there have been no changes to the team.

## C.3 Quality Management

### C.3.a Quality Assurance

**Tasks & Organisation** Within CSAM, the *Risk Management* unit has an independent function in control and quality assurance. Quality assurance criteria are set and monitored here. Product quality is monitored on a monthly basis by the *Performance Evaluation Committee*, which consists of Senior Management, the CIO, Portfolio Management, Risk Management and Relationship Managers. Kai D. Leifert is head of the committee and the unit.

**Resources & Tools** Performance criteria are monitored by software from *Statpro* and *Wilshire*. Risk factors and ratios are determined with the aid of the proprietary tool *Riskview*.

**Investment Process** The objectives listed in table 4 on page 17 serve as quality criteria for relative performance and risk. CSAM's in-house risk indicator RAPP (*Risk Adjusted Relative Performance and Position*) is based on a linear model, which takes account of out-performance and variations from the benchmark volatility, and also the square deviation of the tracking error from the target value.

For benchmark-orientated mandates, an additional control concerns the ratio between the tracking error and the benchmark volatility as well as a comparison of the tracking error with the target value. Deviations from the quality criteria cause the products' inclusion in a watch list and trigger corrective measures in cooperation with Portfolio Management. Quality criteria for PAR mandates are currently being defined. They will probably be measured by *Reward to VaR* – compensation for risks taken. Currently, control is limited to achieving positive returns and respecting stop-loss limits. Correct implementation of strategies is monitored by Guy Stern through real-time checks of both duration and allocation to rating segments. Every portfolio profile will be analysed in-depth on a quarterly basis by the portfolio manager and the relationship manager.

**Implementation** Compliance carries out random tests to check whether the investment process is in line with the market and reports its findings to Senior Management.

### C.3.b Investment Controlling

The Compliance Officer is in charge of monitoring and maintenance of investment limits – be they legal, contractual or internal. Most limits are set up in the V3.Portfolio

order system. They will be checked before order transmission to the trading desk and blocked as required. The few remaining limits are controlled manually *ex post* by Compliance.

In addition, a weekly list is provided to all portfolio managers, so they can check all limits used to over 50%. The Compliance Officer attends the weekly Morning Meetings of Portfolio Management and reports on limits that have been violated. He/she also reports to the weekly Manager Meeting, which unites all units and legal entities of CSAM in Germany.

Actively violated limits have to be remedied within five trading days, notice to Compliance and Senior Management must be given. Passively violated limits must be remedied within 10 trading days, sales will be carried out according to investors' best interests.

### C.3.c Performance Measurement

**Tasks & Organisation** Performance is analysed by *Risk Management* (2 members). Operations is in charge of performance measurement and performance reports.

In Germany, CSAM is audited annually by an external Auditor in accordance with AIMR- and DVFA-PPS as well as GIPS. Although historic data go back to 1994, the investment process is no longer represented by the original composites. The current composite structure was introduced in 2001.

Attribution analyses for fixed income portfolios are either done on a monthly basis or on demand.

**Resources & Tools** Performance is measured with the aid of the *Composites* and *Reports* packages from *Statpro*. *Wilshire* is used for attribution analysis in equity and fixed income. Cooperation with DPG (*Deutsche Performance-messungs-Gesellschaft*) is carried out in response to client request.

## D Infrastructure

Claudia Reuter-Wenzel is in charge of infrastructure. Figure 2 on page 14 shows management and staff.

### D.1 IT & Operations

#### D.1.a IT Organisation

IT has a headcount of 11. Two employees are in charge of first- and second-level support, while third-level support is undertaken by the *Infrastructure* team. The *Application* team contributes to scripts for process automation, but does not develop proprietary applications. Two teams are additionally in charge of projects.

The most recent adaptation of the IT organisational structure took place three years ago. Last year, two business analysts joined the team.

IT gets support from CSAM London. Network maintenance is fully done by the Group, hardware and some elements of the software are maintained by external partners, who were appointed via a so-called beauty contest

#### D.1.b IT Infrastructure

Hardware consists of components from renowned manufacturers, chosen from a Group catalogue. IT and local Senior Management jointly decide on acquisitions.

Basic software consists of standard packages, sometimes with additional security features. In addition to the products listed above, the following special applications are being used:

- ✗ AUM (proprietary CSAM tool) for defining CSAM's institutional management and sales performances
- ✗ VISS (Kocher GmbH) for defining sales performance in mutual funds
- ✗ MIS P/L and Legal P/L (both by Sun Systems) for Management and Financial Accounting
- ✗ SIEBEL for Relationship Management
- ✗ People-Soft for Human Resources

CSAM develops no software in Germany. Development of tools and applications is outsourced to external providers, who also furnish technical documentation and user manuals. Software maintenance is regulated by contracts.

#### D.1.c Back-up Procedures & Disaster Recovery

Daily backups on tapes are complemented by nightly replication of all data specified in the *Business Continuity Plan* (BCP) via backup systems in a different location. BCP-relevant databases are replicated at 30 minute intervals. Data recovery is tested on a regular basis.

Emergency offices are available, exclusively to CSAM in case of the normal offices being inaccessible. Emergency locations have access to the data on backup systems. Working in the emergency location has been tested successfully.

#### D.1.d Security

CSAM has the same safety regulations as CSG. Only a restricted number of persons have access to the data centre; data is protected by passwords, which must be changed on a regular basis.

CSAM's networks are protected by firewalls against external attacks, data flows are encrypted. Workstations and servers have virus scanners. These are updated on a weekly basis (or more often, as required).

#### D.1.e Fund Accounting

Fund Accounting, which is part of *Operations*, is in charge of the largely automatic booking of securities transactions, dividends and changes in capital as well as of reporting. The latter is also largely automatic. Fund Accounting also carries out settlement and order controls as discussed in section C.1(i).d on page 22 and produces performance reports and attribution analyses as discussed in section C.3.c on the preceding page. The team consists of 10 members.

### D.2 Supervisory Functions

#### D.2.a Risk Management

Risk management inside and outside the investment process is carried out by the *Risk Management* unit, which was last reorganised in early 2002. The head of the unit, Kai D. Leifert, attends the Management Meeting and reports to the *Performance Evaluation Committee* on a monthly basis as discussed in section C.3.b on the page before. He also reports to Senior Management.

**Operational Risk** Within CSAM, sources for operational risks are defined as employee, process and system risks plus external sources of risk. Operational risks are quantified on a monthly basis through risk indicators and thresholds. There are monitored and reported with technical aids.

**Custodians/Administrators** CSAM has appointed a preferred custodian on the basis of a detailed list of services. Investors in dedicated special funds are referred to this custodian as a matter of course. Other custodians may be appointed on request but are subject to examination. Contracts, *Service-Level Agreements*, and price lists as well as regular quality reviews create the framework for such arrangements. There are no soft-dollar agreements with brokers.

Table 7 on the following page shows all current custodians.



Table 7: Custodians

<i>Custodians</i>	<i>Share</i> <sup>1</sup>
Deutsche Bank AG	91.1%
WestLB AG	4.4%
J.P. Morgan AG	3.3%
DZ Bank AG	1.1%

<sup>1</sup> of trades settled

### D.2.b Compliance

Within CSFB, Compliance is structured globally according to regions. The German Compliance Officer of CSAM, Richard Rochat, reports directly to the Global Director of Compliance, Stephane Tourette.

Compliance's objectives are clear (e.g. trading in accordance with applicable laws, customers' best interests take precedence over the interests of CSAM and its employees, ensuring best execution).

The Compliance manual consists mainly of the Group compliance guidelines. In addition to a *Code of Conduct*, which describes the fundamental values of CSG, it also contains the BVI code of good conduct (BVI-Wohlverhaltensregeln). All information can also be accessed via the intranet.

The compliance manual is updated as required - generally several times a year. All employees affected by such changes are briefed via e-mail, intranet or training. Employees have to confirm the receipt of the compliance manual and attendance at relevant training sessions. This confirmation of compliance procedures must be renewed yearly.

Employee trades (and/or Senior Management's own accounts) are subject to guidelines set by CSAM in Germany. These guidelines correspond to international standards and even exceed those standards in certain respects. The following rules apply (non-exhaustive list):

- ✗ no intra-day trading
- ✗ no more than 20 trades a month
- ✗ no short sales, only if balance is positive

- ✗ earliest sales following allocation from IPOs one day after valuation date

Trades are monitored via double entries n.a.. All employees have to sign a confirmation, stating that they have declared all their trades, on a yearly basis.

Compliance also monitors whether investment guidelines have been respected as discussed in section C.3.b on page 23.

### D.2.c Audits

In Germany, CSAM is audited by the Group Audit Unit, which belongs to the CSFB organisation. Group Audit is organised by region; it reports to the Chairman of the CSG Board of Directors and follows international and domestic standards as well as CSG guidelines.

As there is no CSFB unit with a full banking license in Germany, CSAM's audit is outsourced under contract to *Credit Suisse (Deutschland)*. CSAM's contact for audit is Richard Rochat, Head Compliance.

Group audit works along guidelines recognised and approved by international bank regulators. A detailed audit plan is established on the basis of risk assessment in the individual units to be audited.

In Germany, CSAM is audited according to the following criteria:

- ✗ internal controls
- ✗ Corporate Governance
- ✗ client guidelines and restrictions
- ✗ custodians and administrators
- ✗ IT (support from CSFB's IT audit)

Both CSG management and the Audited Unit receive an audit report. Punctuality and effectiveness of remedies are tracked by the auditors through specific audit tracking systems and are monitored by random checks as well as in the next audit.

## Index

- ABS, *see* Asset-Backed Security
- AIMR, *see* Association for Investment Management and Research
- Albert, Thomas, 14
- Asset-Backed Security (ABS), 4, 7, 21
- Assets under Management (AUM), 9, 16, 17
- Association for Investment Management and Research (AIMR), 5, 8, 23
- Bals, Werner, 14
- BCP, *see* Business Continuity Plan
- Becker, Wolf-Dietrich, 14
- Blumenthal, Claudia, 12, 14
- Bokelberg, Renate, 12
- Brown, Caroline, 18, 21
- Bundesverband Investment und Asset Management (BVI), 4, 5, 7, 8, 12, 25
- Business Continuity Plan (BCP), 24
- BVI, *see* Bundesverband Investment und Asset Management
- CEO, *see* Chief Executive Officer
- CFA, *see* Chartered Financial Analyst
- Chartered Financial Analyst (CFA), 11, 12
- Chief Executive Officer (CEO), 12
- Chief Investment Officer (CIO), 4, 8, 14, 17, 22
- CIO, *see* Chief Investment Officer
- Code of Conduct, 12, 25
- Cordes, Siegfried, 12, 14, 17, 18
- Corridon, Sean, 18
- Credit Suisse (CS), 10
- Credit Suisse (Deutschland) (CSDE), 4, 8, 10, 22, 25
- Credit Suisse Asset Management (CSAM), 1, 3–12, 15–17, 20–25
- Credit Suisse Asset Management (Deutschland) (CSAM-DE), 3, 4, 6, 7, 9–13
- Credit Suisse Asset Management Europe (CSAM-EU), 10
- Credit Suisse Asset Management Immobilien KAG (CSAM Immobilien KAG), 4, 7, 10, 13
- Credit Suisse Asset Management KAG (CSAM KAG), 3, 4, 6, 7, 9–13, 22
- Credit Suisse Financial Services (CSFS), 10, 13
- Credit Suisse First Boston (CSFB), 9, 10, 12, 13, 21, 22, 25
- Credit Suisse First Boston Investment Management (CSF-BIM), 10
- Credit Suisse Group (CSG), 4, 5, 7–10, 13, 24, 25
- CS, *see* Credit Suisse
- CSAM, *see* Credit Suisse Asset Management
- CSAM Immobilien KAG, *see* Credit Suisse Asset Management Immobilien KAG
- CSAM KAG, *see* Credit Suisse Asset Management KAG
- CSAM-DE, *see* Credit Suisse Asset Management (Deutschland)
- CSFB, *see* Credit Suisse First Boston
- CSFS, *see* Credit Suisse Financial Services
- CSG, *see* Credit Suisse Group
- D-Shares, 15
- Demann, Sonja, 12, 18
- Deutsche Performancemessungs-Gesellschaft (DPG), 23
- Deutsche Vereinigung für Finanzanalyse und Asset Management (DVFA), 5, 8, 23
- Diaz, Barbara, 12
- Direct Order System, 22
- DLJ, *see* Donaldson, Lufkin & Jenrette
- Donaldson, Lufkin & Jenrette (DLJ), 10
- Donaldson, Lufkin & Jenrette Asset Management (DLJAM), 10
- Dorn, Wolfgang, 14
- DPG, *see* Deutsche Performancemessungs-Gesellschaft
- DVFA, *see* Deutsche Vereinigung für Finanzanalyse und Asset Management
- ebase, 10
- EFI-Team, *see* European Fixed Income Team
- Einhäuser, Karin, 14
- European Fixed Income Team (EFI-Team), 17–21
- FBC, *see* First Boston Corporation
- Feld, Matthias, 12, 14
- Financial Risk Manager (FRM), 12
- First Boston Corporation (FBC), 10
- FRM, *see* Financial Risk Manager
- Garis, John de, 17, 18
- GARP, *see* Global Association of Risk Professionals
- GCG, *see* Global Currency Group
- GCMT, *see* Global Capital Market Themes
- GCRG, *see* Global Credit Group
- Gerst, Claudia, 14
- GESG, *see* Global Economics & Strategy Group
- GIPS, *see* Global Investment Performance Standards
- GIRG, *see* Global Interest Rate Group
- Global Association of Risk Professionals (GARP), 12
- Global Capital Market Themes (GCMT), 19
- Global Credit Group (GCRG), 18–21
- Global Currency Group (GCG), 18–21
- Global Economics & Strategy Group (GESG), 19
- Global Interest Rate Group (GIRG), 18–21
- Global Investment Performance Standards (GIPS), 5, 8, 23
- Global Swap Group (GSG), 18, 19, 21
- Golitsch, Michael, 12
- GSG, *see* Global Swap Group
- Herzog, Dr. Hansjörg, 12, 14, 15
- Heuß, Karl-Heinz, 14
- Hofmann, Gert, 12, 14
- Hüssen, Anett, 14
- I-Shares, 15
- Investment Policy Group (IPG), 19, 21
- IPG, *see* Investment Policy Group

- 
- KAG, *see* Kapitalanlagegesellschaft  
Kapitalanlagegesellschaft (KAG), 4, 7, 10  
Koban, Waltraud, 14
- Leifert, Kai D., 12, 14, 22, 24
- Meiwirt, Dirk, 14
- Nierop, Raimund, 12, 18
- Ott, Birgit, 12, 14
- PAR, *see* Positive Absolute Return  
Performance Presentation Standards (PPS), 5, 8, 23  
Pohl, Jürgen, 12, 14  
Positive Absolute Return (PAR), 4, 7, 16, 17, 20, 21, 23  
PPS, *see* Performance Presentation Standards
- Quin, Richard, 18
- RADAR, 21  
RAPP, *see* Risk Adjusted Relative Performance and Position  
Rasgotra, Dilip, 17, 18, 21  
Reißfelder, Jürgen, 14  
Reuter-Wenzel, Claudia, 12, 14, 24  
Risk Adjusted Relative Performance and Position (RAPP),  
17, 23
- Riskview, 23  
Rochat, Richard, 12, 14, 25  
Russmann, Oliver, 12, 14
- Schaak, Silvia, 12, 18  
Schweizerische Kreditanstalt (SKA), 10  
Schweizerische Kreditanstalt Trust Vermögensverwaltungs-  
gesellschaft mbH (SKATV), 10  
Service-Level Agreement (SLA), 22, 24  
SKA, *see* Schweizerische Kreditanstalt  
Statpro, 23  
Stern, Guy, 12, 14, 17, 18, 23  
Sun Life of Canada Asset Management (SLCAM), 10
- Tourette, Stephane, 25
- Value at Risk (VaR), 16, 20, 23  
VaR, *see* Value at Risk  
Vespermann, Axel, 14
- Warburg Pincus Asset Management (WPAM), 10  
WG, *see* Winterthur Group  
Wilshire, 23  
Winterthur Group (WG), 10