=Finreon
St.Gallen Asset Management Solutions

Equity returns straight from the «sources»

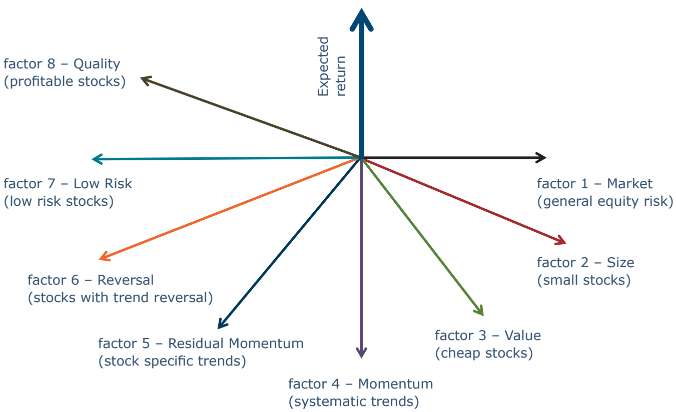
Investing where it pays off with Finreon Equity Multi Premia®.
Diversification across multiple sources of return.

Where do returns come from?

Factors explain stock returns The traditional passive investor invests statically in a single source of return: the market. However, a number of drivers of return, so-called factors, exist. For example, the Nobel Prize winner Eugene Fama has shown in one of his most important papers that the shares of small companies (size factor) or low priced stocks (value factor) systematically beat the market and thereby help to better explain return differences between stocks with different characteristics. However, in the traditional passive approach these sources of return are not considered – the investor benefits only unconsciously and unsystematically of a fraction of the available drivers of stock returns.

Factors exhibit a positive premium In the past 30 years, academic research has identified additional factors that can achieve significant excess returns over the long-term. While some of these sources of return could be explained by risk exposures (so-called risk premia), they are often rooted in irrational behavior of investors (so-called anomalies). Nowadays, the generally accepted sources of return, besides the classic market-factor (1), include the factors size (2), value (3), momentum (4), residual momentum (5), reversal (6), low risk (7) and quality (8).

Sources of return

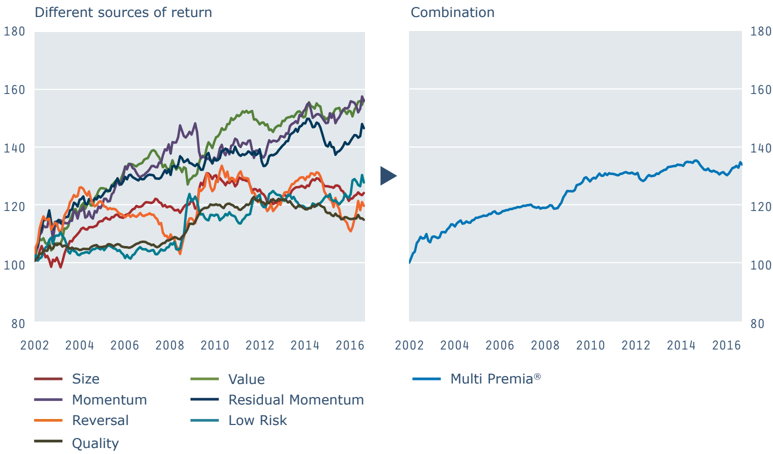


The sources of return reach their full potential only in combination

Cyclical fluctuations Each of these sources of return drives the portfolio return in the long-term. However, the factor premia vary over time, and might suffer from long-lasting and distinct phases of underperformance. Investing in a single factor premium thus requires a long-term investment horizon and is therefore not a suitable option for most investors.

High diversification potential Thanks to the low mutual correlations among the single factor premia this problem can largely be resolved: Through a combination of the different sources of return, the prolonged underperformance periods of the single factors can be avoided. By diversifying across all factor premia the outperformance becomes robust and thus better investable.

Combination of additional sources of return in the global equity market (accumulated excess return compared to the Global Equities Index, illustrative)



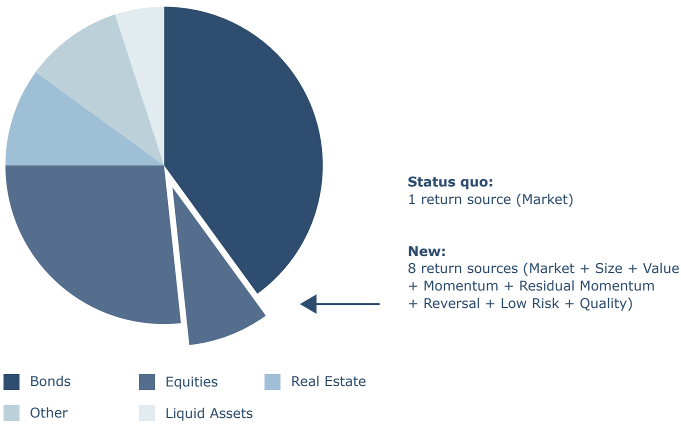
Indexed cumulative outperformance of the seven long-only factors (left graph) and the combined Multi Premia® Strategy (right graph) compared to the Global Equities Index.
Time frame January 2002 — July 2016 (backtesting)

The solution:
Finreon Equity Multi Premia®

Optimal combination of factor premia Finreon Equity Multi Premia® combines all major sources of stock market returns in a systematic approach to achieve a robust solution. In addition to the stock market premium, seven factor premia can be harvested systematically. The Finreon Equity Multi Premia® solution thus extends the traditional passive investment approach in an ideal manner.

Intelligent substitute for a core investment The optimal diversification within the Finreon Equity Multi Premia® solution ensures a robust outperformance and a low tracking error. The solution is implemented long-only using physical equity investments. The passive investor receives a smart substitute for a core investment.

Embedding the Finreon Equity Multi Premia® in the strategic asset allocation (illustrative)



The Equity Multi Premia® investment solutions

The Finreon Equity Multi Premia® approach is available in a market capitalization weighted version (classic) characterized by a low tracking error and an optimized return potential, in an alternatively weighted version (extra) which exhibits a medium tracking error and maximizes return potential, and as a minimum variance weighted version with a reduced risk (defensive).

Equities Switzerland (in cooperation with the Swiss stock exchange SIX)

- **SPI Multi Premia®**
  Investment universe contains 60 of the largest Swiss stocks.
- **SPI Single Premia: 7 factor indices**
  Investment universe contains 30 of the largest Swiss stocks.

Equities World

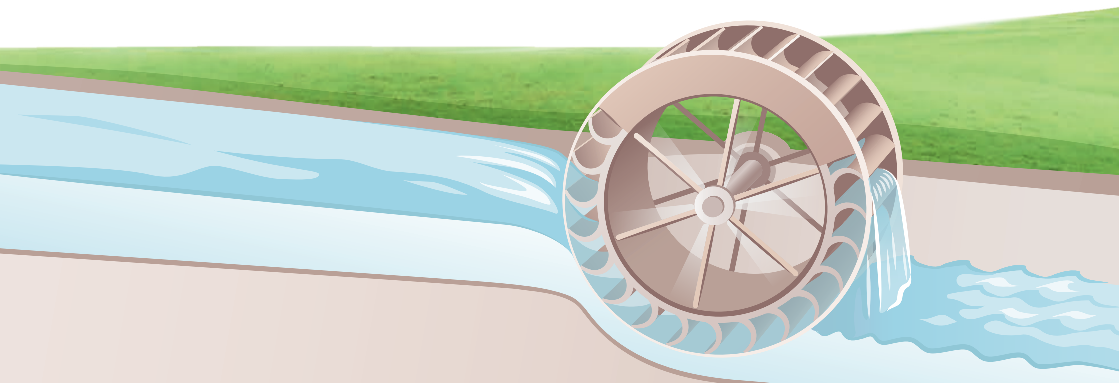
- **World Equity Multi Premia®**
  Investment universe contains 1000 of the largest stocks worldwide.
- **World Equity Multi Premia® Defensive**
  Investment universe contains 1000 of the largest stocks worldwide.

Equities Europe

- **European Equity Multi Premia®**
  Investment universe contains 350 of the largest European stocks.

Equities US

- **US Equity Multi Premia®**
  Investment universe contains 500 of the largest US stocks.



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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