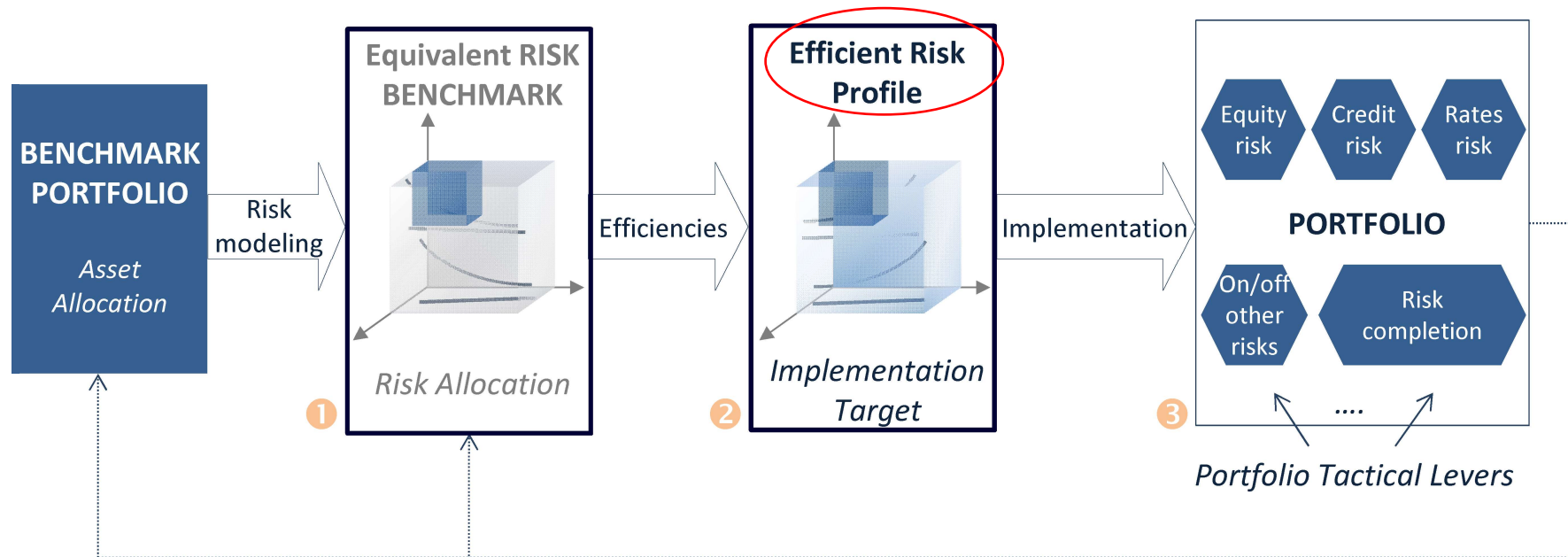




Risk-based portfolio construction: steps



The resulting, more efficient portfolio, is expected to:

- **Outperform the benchmark**
- **Exhibit low tracking error**
 - ◆ The tracking error should occur mainly on the downside due to reduced negative convexity
- **Inherently show better traditional (downside) risk measures:** downside deviation, Sortino ratio or Sharpe ratio