

# Investment Process Rating

2005-10-17

**SEB Asset Management**



**RCP & Partners GmbH**

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

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## SEB Asset Management



2 -  
Very good

### Parameters

**Date** 2005-10-17  
**Units** SEB Asset Management (Denmark) A/S  
**Asset Classes** European Equities (Small Caps)

### Contact

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Rating Scale	
+ 1 -	Excellent
+ 2 -	<b>Very good</b>
+ 3 -	Good
+ 4 -	Satisfactory
+ 5 -	Inadequate
+ 6 -	Weak

### Results

#### Evaluation



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## SEB Asset Management



2 –  
Sehr gut

### Parameter

**Datum** 17.10.2005  
**Einheiten** SEB Asset Management (Denmark) A/S  
**Assetklassen** Aktien Europa (Small Caps)

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Ratingskala	
+ 1 –	Exzellent
+ 2 –	<b>Sehr gut</b>
+ 3 –	Gut
+ 4 –	Befriedigend
+ 5 –	Mangelhaft
+ 6 –	Ungenügend

### Ergebnisse

#### Bewertung



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## Rated Party

### Units

This rating concerns the independent legal entity:

✗ **SEB Asset Management (Denmark) A/S** (abbreviation: SEB AM (DK)), located in Copenhagen.

The entity is a Danish corporation which is wholly owned by *Skandinaviska Enskilda Banken AB (publ)* (abbreviation: SEB), a Northern European financial banking and insurance group. As a part of *SEB Asset Management Group*, SEB AM (DK) is responsible for EUR 15 billion in assets under management. The *SEB Asset Management Group* (abbreviation: SEB AM) with EUR 75 billion under management offers a broad spectrum of investment management expertise and services to institutions, life insurance companies and retail clients. The offerings include equity and fixed income management, private equity and hedge funds. SEB AM's sales efforts are focused on Scandinavia, the Baltic states and Germany, but SEB also has local presence in many other countries around the world.

Further information on SEB and its asset management group can be obtained from the website [www.sebgroup.com](http://www.sebgroup.com) and [www.sebam.se](http://www.sebam.se), respectively.

### Asset Classes

For the purposes of this rating, the asset class

✗ **European Equities (Small Caps)**

has been subject to analysis and evaluation.

### Effective Date

Unless stated otherwise, all data contained in the present report refer to **2005-09-30**.

#### Comment:

→ *SEB AM (DK) has undergone the RCP investment process rating for the first time. The overall rating is 2- (very good).*

Table 1: Companies

Company	SEB Asset Management (Denmark) A/S — SEB AM (DK)
Address	Landemaerket 10 DK-1119 København K. Denmark
Phone	+45-33-36-85-00
Internet	<a href="http://www.sebam.dk">www.sebam.dk</a>
Founded	1999
Employees	34
AUM (EUR m)	1759 in equities
Services	Asset Management, Sales (private, institutional)

## Production

### Process

#### European Equities (Small Caps)

##### Investment Process

**Tasks & Organisation** The investment in European small caps is managed by applying a small-team approach. The two portfolio managers are, however, integrated with the Equity team located in Copenhagen which has a total of 12 members.

**Philosophy** SEB AM seeks to maximize excess returns using fundamental stock selection based on a bottom-up approach combined with top-down research. The product seeks to benefit from structural internal and external changes that are being misunderstood by the equity market. The sector allocation is a result of the stock picking process. The portfolio managers can vary the style according to their market expectation. A performance target is set with respect to the information ratio, although the approach is not benchmark driven and tracking errors can be large (max. 10%).

**Modus Operandi** The investment process is outlined in detail in figure 1 on page 9.

**Strategic Decision-making** The investment strategy is discussed in weekly meetings with the *Strategy/Macro/TAA* and *Fixed Income* teams. Scenarios are used to evaluate future market reactions to macro-economic events, turning-points in the economy or changes in the levels of risk-aversion. The exposure to sectors, style, size and themes is taken into account.

**Tactical Decision-making** The portfolio managers take tactical decisions based on discussions with the investment team (see figure 3 on page 11). However, the CIO has the power of veto.

**Portfolio Construction** The portfolio of stocks from 40–50 firms is constructed based on a reduced investment universe of screened firms (800 companies for the small cap universe). The construction is based on macroeconomic input, the companies' valuation and risk impact.

**Asset Selection** The security selection process starts by limiting the investment universe to firms domiciled in Europe (including Eastern European countries) which have a market capitalisation of less than EUR 2 billion while trading in their stocks is sufficiently liquid. Further to that, each company is analysed with focus on management, competitive position, macroeconomic scenarios and DCF valuation. In addition to that, investment themes (such as demography, technology, structural changes, and emerging markets growth) are taken into account while looking for companies

whose competitive advantage and future cash flows may be affected by these themes and have a larger potential than the market is discounting.

Based on team discussions, the portfolio managers select the actual names for the portfolio. Again, the CIO has the power of veto.

SEB AM applies a strict sell discipline throughout the investment process. Sell transactions are triggered by increased risk or disappointing results as well as to optimise the portfolio with regard to its risk/return and other characteristics.

**Investment Guidelines** Investment restrictions are monitored *ex post* by the *Control & Compliance* department.

**Risk Management** Although the portfolio risk is monitored by an independent risk manager using a *Barra* system, the investment approach and the risk of the portfolio is mainly driven by stock-picking. However, the portfolio managers intent to diversify between countries, sectors and trends. They receive risk reports from the *Barra* system weekly or on demand.

Table 2: Research Methods (Small Caps)

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

*Significance: 1 = high importance, 5 = no importance*

**Research** A large number of companies are visited at least once a year or as necessary based on information about changes gathered from annual or semiannual company reports.

## Execution

Trading and order management is performed independently by two teams. Danish stocks are traded by an assistant portfolio manager in Copenhagen, whereas all other stocks and futures are traded by the execution desk in Stockholm which counts four members.

The trading teams have clear objectives with regard to execution price (best execution at lowest price) and failure rates (zero failure on settlement day).

SEB uses MOXY by *Advent* for its trading and order management. The software is tightly integrated with its portfolio management and administration system (AXYS) by the same provider.

### Comment:

- *The investment process originally followed a thematic approach which showed a strong growth bias. To avoid this, it was step by step reoriented towards a fundamental approach. The last significant change was carried out no more than 10 months ago. Now the adapted process parameters have to prove good over a longer period.*
- *Since its foundation, SEB Asset Management (Denmark) pursues a small team approach in its portfolio management process. Recently, this team was subject to several organisational changes.*
- *Considering that the portfolio managers derive their information to a large extent from personal company visits, the available resources seem to be comparably scarce.*
- *Investment decisions heavily rely on the portfolio managers' judgement. However, the investment strategy is discussed in regular meetings with the investment team*

*where the CIO can exercise his veto power.*

- *Research is provided by other teams within SEB Asset Management (Denmark) (e.g. Fixed Income or Strategy/Macro/TAA). The extent to which it is taken into account is based on the portfolio managers' individual experience and judgement, rather than by a systematic process.*
- *The portfolio managers' investment decisions first lead to the adjustment of a model portfolio. In the implementation phase, all other subordinated portfolios are proportionally adjusted with the support of the order system. This ensures unified implementation of the investment strategy in all portfolios.*
- *For each investment held in the portfolio there is a comprehensive documentation which is being updated after each company visit.*
- *For portfolio management as well as for trading and order management SEB Asset Management (Denmark) uses different modules of a single software vendor. So far, the possibility of pre-trade checks is not integrated. This is supposed to be enabled through the implementation of another module.*
- *The portfolio managers can influence the choice of broker which executes a trade. However, they are restricted by group-wide criteria for broker selection.*
- *Quantitative portfolio risk is monitored independently by a risk manager specialising in equities. He prepares a weekly risk report containing several risk measures. However, only few limits are defined regarding risk.*
- *The calculation of risk measures is mainly performed manually in Barra.*

<b>Investment Profile</b>	<i>European Equities (Small Caps)</i>
investment focus	European Small Caps
unit(s) involved	Research, Management, Implementation

<b>Responsibility</b>	<i>Name</i>	<i>In charge since</i>	<i>With RP since</i>
CIO	Carsten Dehn	04/2005	12/2003
process/team responsibility	Åsa Annerstedt	11/2003	06/1999
	Mette Østerbye	03/2004	03/2004
	Kalle Huhdanmäki	09/2005	09/2005

<b>Investment Process</b>	
implemented since	09/1999
last significant change	12/2004
benchmark	yes *

<b>Investment horizon</b>	
strategic	long term
tactical	no
portfolio rebalancing	no

<b>Hedging/derivatives</b>	<i>Use</i>
<i>Field</i>	
... currency hedging	no
... synthesising	no
... covered call writing	no
... leveraging	no
... others	no
<i>Instruments</i>	
... currency forwards	no
... swaps	no
... options	no
... futures	no
... short selling	no

<b>Investment professionals</b>	<i>Number/years</i>
Total (RP)	12
... portfolio managers	2
... analysts	1
... academic degree	3
... CEFA/CFA etc.	0
<i>Team</i>	
... age (average)	34
... investment experience (average)	7
... with RP since (average)	5
other resources	0

<b>Assets under Management</b>	<i># Portfolios</i>	<i>AUM (EUR m)</i>
Overall	4	286
... dedicated	1	49
... pooled	3	237
... managed	0	0
... managed for third parties	0	0
... represented in PPS composites	4	286

<b>Objectives</b>	
<i>Performance</i>	
... absolute	no
... vs. benchmark	no
... vs. peer group	no
... others	no
<i>Risk</i>	
... volatility	no
... tracking error	≤ 10%
... beta	no
... drawdown	no
... Value at Risk	no
... others	no
<i>Risk-adjusted performance</i>	
... Sharpe ratio	no
... Information ratio	> 0.5
... others	no
<i>Characteristics</i>	
... invested to (degree)	90%–100%
... cash	0%–10%
... number of individual names	30–50
... weighting of individual names	≤ 10%
... others	no

<b>Documentation</b>	
marketing presentation	yes
directives	yes
others	yes

<b>Characteristics</b>	
portfolio turnover p.a. **	50%
total share top ten names **	30%

**Effective date:** 2005–09–30

\* cf. also details in body

\*\* five-years average

Figure 1: Process (European Equities (Small Caps))

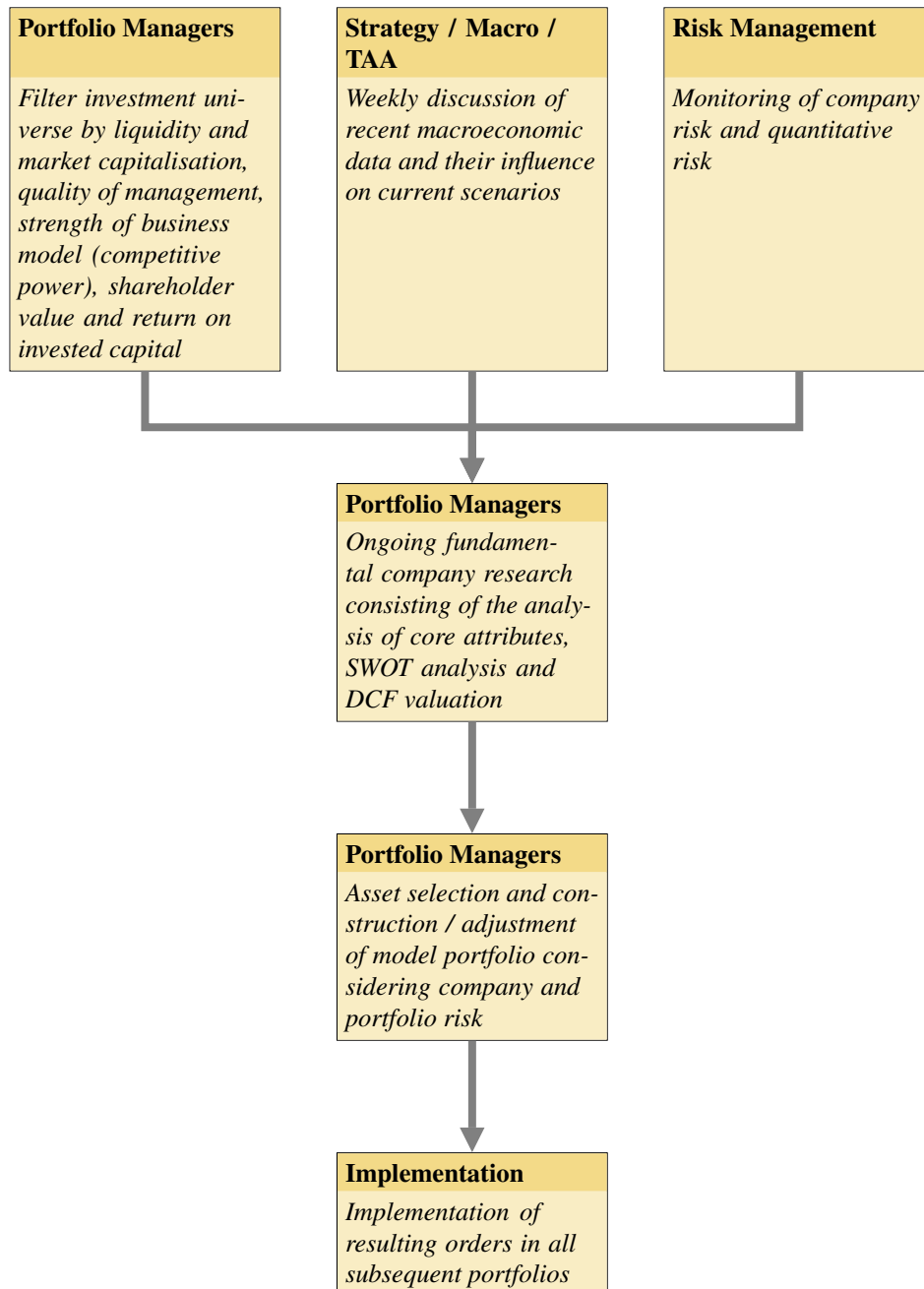


Figure 2: Shareholders (SEB AM (DK))

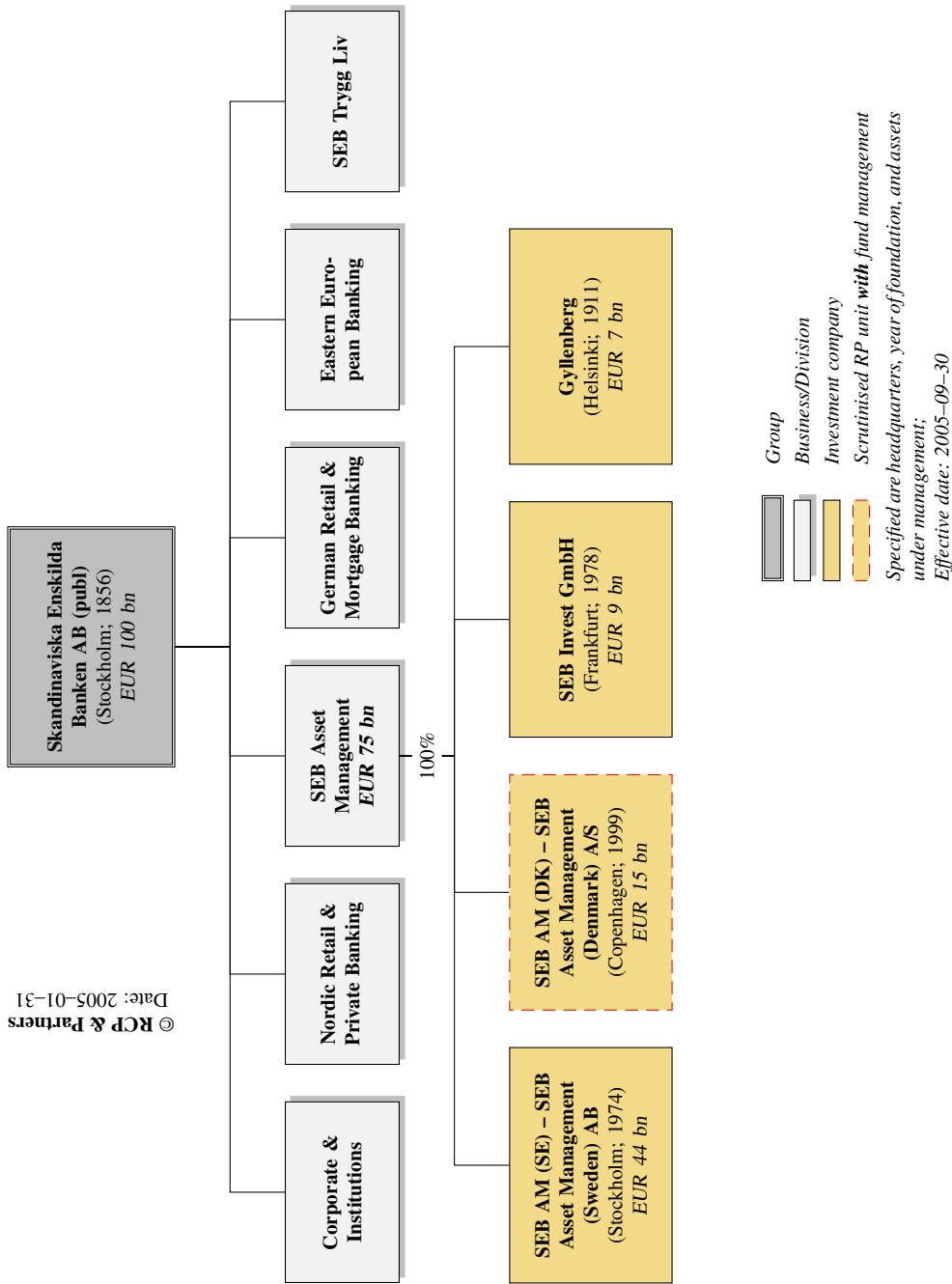
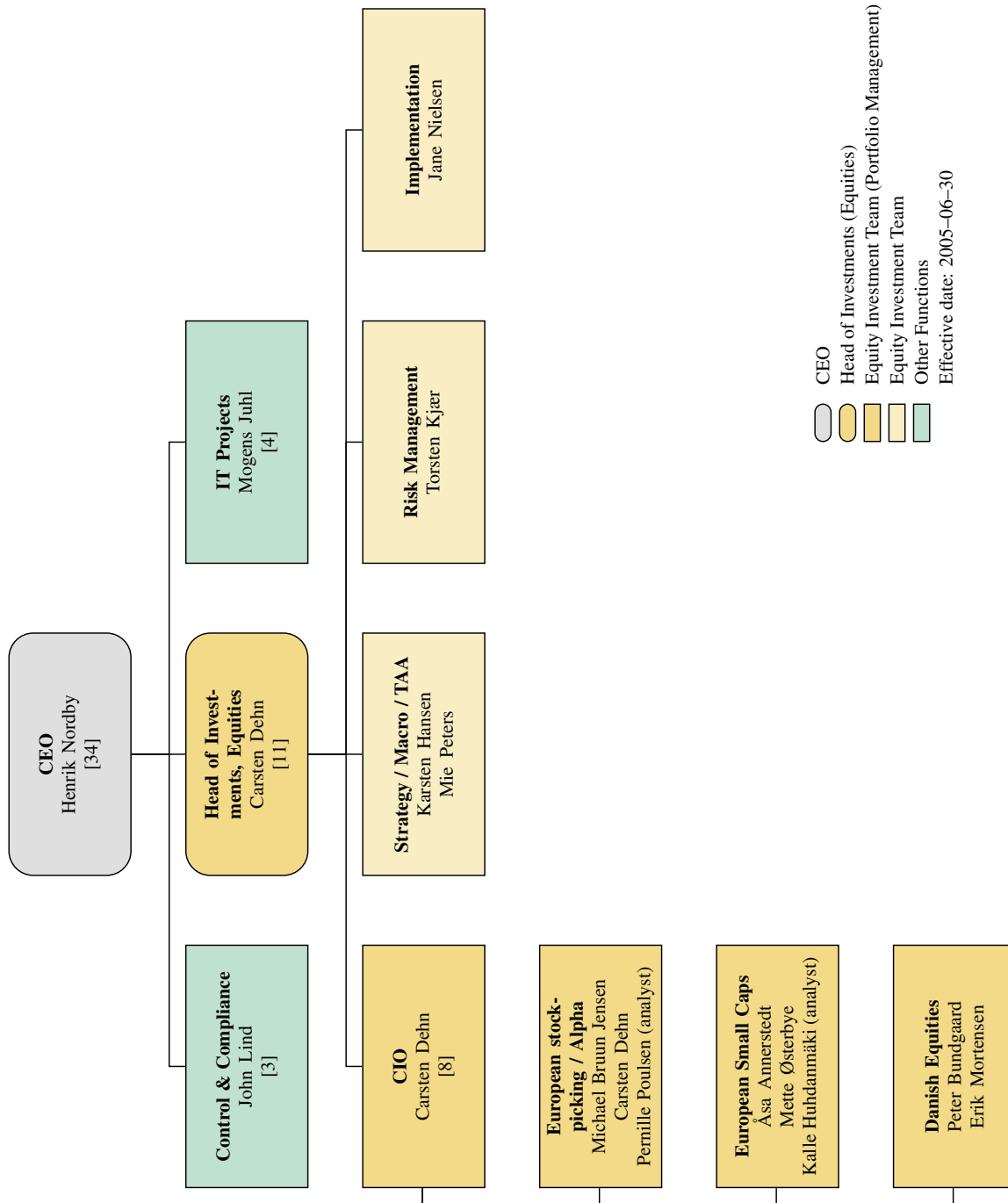


Figure 3: Organisation (Equities)



## Team

### European Equities (Small Caps)

Of new employees, SEB expects significant asset management experience and a good track record rather than specific academic qualifications. Further investment-specific training is arranged for as necessary.

There have been two departures of personnel in the last couple of years. Succession and substitution is arranged for by always assigning at least two employees to the same task.

SEB offers their employees base salaries at the industry median but with high bonus potential. The size of bonus payments depends on the company's profits, investment performance and sales.

#### **Comment:**

- *All three employees in the small cap team have university degrees.*
- *The team is small and relatively young, the average relevant professional experience is less than 10 years for the asset class under consideration.*
- *Investment performance is an important factor in assessing bonus or incentive payments. The parameters used thereby are clearly defined.*

## Quality Management

### Quality Assurance

Quality assurance is to a large extent conducted by the *Control & Compliance* department which also covers the areas *Investment Controlling* and *Performance Measurement*. It consists of three employees.

Performance is monitored on a daily basis and compared to a peer group. Quantitative portfolio risk is calculated and monitored regularly each week – and additionally on demand – by *Risk Management*.

Objective for trading is *Best Execution*. To provide quality assurance in this area, SEB AM uses a system called *Plexus*.

### Investment Controlling

Investment restrictions are checked automatically but *ex post* by the AXYS system and monitored by the *Control &*

*Compliance* department. Daily reports are sent to the relevant employees. The possibility of pre-trade checks is currently being evaluated.

### Performance Measurement

A total of six staff are involved in performance measurement, mainly from the IT and the *Control & Compliance* department. Performance measurement is performed automatically but subject to a further manual check. The data originates from the *Advent* system which is loaded into a data warehouse for the performance calculations. This also allows for an attribution analysis on the security level which is performed for small caps on a daily basis.

The performance measurement process of SEB AM (DK) for all of the asset classes managed in Copenhagen is certified according to GIPS. The composites are defined by an internal committee. There is a performance history since 1999 available.

#### **Comment:**

- *Quality management is part of the investment process and is conducted in the form of discussions during weekly investment committee meetings. However, an independent department for quality management does not exist.*
- *Compliance with investment restrictions is monitored independently on an ex-post basis by the Compliance Officer.*
- *As the monitoring of investment restrictions is not performed ex-ante, singular passive and active limit breaches occur.*
- *The performance measurement process of SEB Asset Management (Denmark) follows GIPS for all asset classes managed in Copenhagen. It is verified by external auditors on an annual basis.*
- *SEB Asset Management (Denmark) performs a daily measurement of performance attribution at the security level.*

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