

DNCA INVEST CONVERTIBLES

EUROPEAN CONVERTIBLE BONDS

Investment objective


The Sub-Fund seeks to provide capital appreciation with low volatility by investing in convertible bonds. Investors' attention is drawn to the fact that the management style is discretionary and integrates environmental, social / societal and governance (ESG) criteria. As part of a discretionary management approach, the portfolio composition will not attempt to replicate the composition of a benchmark index from a geographical or sectoral perspective. Even so, the Refinitiv Eurozone Focus Hedged - EUR - index may be used as ex-post benchmark indicator. To achieve its investment objective, the investment strategy is based on active discretionary management.

Financial characteristics

NAV (€)	193.72
Net assets (€M)	611
Delta	56%
Average yield	1.08%
Average premium	48.34%
Average modified duration	4.24
Average maturity (years)	4.40
Number of lines	49
Average rating	BBB

Performance (from 29/05/2015 to 30/05/2025)

Past performance is not a guarantee of future performance

DNCA INVEST CONVERTIBLES (I Share) Cumulative performance  Reference Index⁽¹⁾



The performances are calculated net of any fees.

Annualised performances and volatilities (%)

	1 year	3 years	5 years	10 years	Since inception
I Share	+8.68	+5.23	+3.52	+1.17	+4.10
Reference Index	+6.49	+4.55	+1.81	+1.39	+3.94
I Share - volatility	6.91	6.51	6.66	5.61	4.96
Reference Index - volatility	5.38	5.72	6.06	5.71	5.82

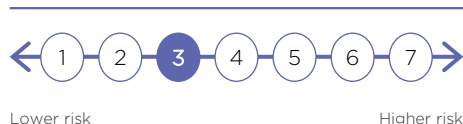
Cumulative performances (%)

	1 month	YTD	1 year	3 years	5 years	10 years
I Share	+3.30	+7.22	+8.68	+16.51	+18.88	+12.34
Reference Index	+2.28	+5.48	+6.49	+14.29	+9.41	+14.85

Calendar year performances (%)

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
I Share	+6.38	+7.33	-14.65	+1.87	+2.24	+7.98	-8.78	+6.88	+1.54	+5.22
Reference Index	+6.30	+4.23	-14.20	-0.25	+6.03	+7.60	-5.18	+6.99	-0.21	+6.08

Risk indicator



Synthetic risk indicator according to PRIIPS. 1 corresponds to the lowest level and 7 to the highest level.

	1 year	3 years	5 years	10 years
Sharpe Ratio	0.84	0.39	0.32	0.09
Tracking error	2.53%	2.72%	2.72%	2.68%
Correlation coefficient	0.95	0.91	0.91	0.89
Information Ratio	0.90	0.25	0.63	-0.08
Beta	1.22	1.03	1.00	0.87

Main risks: risk relating to discretionary management, interest-rate risk, credit risk, risk of capital loss, equity risk, risk related to exchange rate, specific risks associated with OTC derivative transactions, sustainability risk, ESG risk

Main positions⁺

	Weight
RAG-Stiftung 2.25% 2030 CV	4.67%
LEG Properties BV 1% 2030 CV	4.18%
Cellnex Telecom SA 0.5% 2028 CV	4.13%
Schneider Electric SE 1.97% 2030 CV	3.81%
Iberdrola Finanzas SA 1.5% 2030 CV	3.50%
Vinci SA 0.7% 2030 CV	3.24%
International Consolidated Airlines Group SA 1.13% 2028 CV	3.05%
TUI AG 1.95% 2031 CV	3.04%
QIAGEN NV 2.5% 2031 CV	2.95%
MTU Aero Engines AG 0.05% 2027 CV	2.78%
	35.37%

Maturity breakdown

	Weight (%)		Modified duration	
	Fund	Index	Fund	Index
< 1 year	1.5%	24.2%	0.0	0.1
1 - 2 years	4.5%	9.3%	0.1	0.1
2 - 3 years	16.3%	24.2%	0.4	0.6
3 - 4 years	9.0%	7.1%	0.3	0.2
4 - 5 years	23.0%	12.2%	1.1	0.6
> 5 years	35.3%	23.0%	2.0	1.2

Rating breakdown

	Fund	Index
A	13.7%	22.9%
BBB	31.9%	27.4%
BB	9.4%	10.3%
< BB	2.6%	2.5%
NR	42.3%	36.8%

Country breakdown

	Fund	Index
Germany	33.3%	30.5%
France	20.7%	20.4%
Spain	13.3%	13.6%
Italy	10.9%	10.3%
USA	9.4%	7.1%
Netherlands	6.4%	10.0%
Austria	1.8%	-
China	1.5%	-
Ireland	1.4%	-
Switzerland	1.2%	-
Other Countries	-	8.2%

Sector breakdown (ICB)

	Fund	Index
Industrial Goods and Services	15.5%	14.6%
Energy	11.8%	17.7%
Real Estate	9.9%	7.8%
Technology	8.6%	5.9%
Travel and Leisure	8.6%	12.9%
Construction and Materials	7.8%	5.4%
Financial Services	5.8%	11.2%
Banks	5.8%	4.0%
Telecommunications	5.7%	4.2%
Utilities	3.8%	4.5%
Consumer Products and Services	3.3%	-
Health Care	3.2%	7.1%
Food, Beverage and Tobacco	2.5%	2.3%
Basic Resources	1.7%	-
Automobiles and Parts	1.7%	2.5%
Retail	0.6%	-
Cash and equivalents	3.7%	N/A

Changes to portfolio holdings*

In: Akamai Technologies Inc 0.25% 2033 CV (4.2), Euronext NV 1.5% 2032 CV (6), Goldman Sachs Finance Corp International Ltd 0% 2030 CV (3.5), PRYIM 5 1/4 PERP (6.5), SPIE SA 3.75% 2030 (6) and Vonovia SE 0.88% 2032 CV (6.5)

Out: ams-OSRAM AG 10.5% 2029 (4.3), Aroundtown SA 3.63% 2031 (5), Globalwafers GmbH 1.5% 2029 CV, Lagfin SCA 3.5% 2028 CV (5.2), Prysmian SpA 3.88% 2031 (6.3), SK Hynix Inc 1.75% 2030 CV (5.5) and WH Smith PLC 1.63% 2026 CV (4.5)

*The figure between brackets represents the issuer's 'responsibility' score. Please refer to the Internal Extra-financial analysis page for the analysis methodology.

Delta

	Fund	Index
Delta	55.9%	44.9%
Effective delta	46.3%	37.5%
Input spread	110.3	83.3
Implicite spread	76.5	62.6

Main deltas

	%
SAFRAN SA	100.0%
Rheinmetall AG 2.25% 2030 CV	99.9%
Elis SA 2.25% 2029 CV	86.5%
SPIE SA 2% 2028 CV	85.6%
Simon Global Development BV 3.5% 2026 CV	85.4%
Salini SpA 4% 2028 CV	84.6%
Snam SpA 3.25% 2028 CV	77.2%
Alibaba Group Holding Ltd 0.5% 2031 CV	76.0%
Nordex SE 4.25% 2030 CV	75.7%
Saipem SpA 2.88% 2029 CV	73.1%

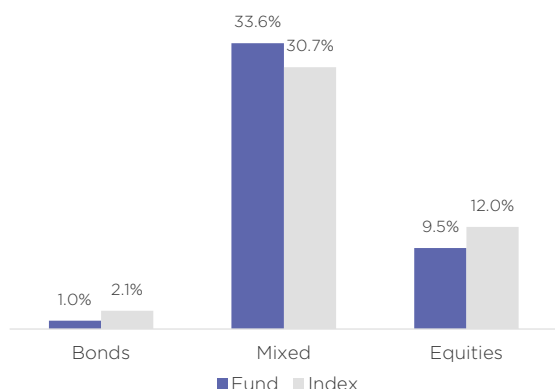
Delta contribution per country

	Delta		Effective delta	
	Fund	Index	Fund	Index
Germany	16.9%	12.2%	12.6%	9.5%
France	10.6%	11.0%	9.0%	9.3%
Spain	5.6%	7.5%	4.6%	6.5%
Italy	4.0%	4.8%	3.5%	4.3%
USA	4.0%	4.9%	3.0%	4.6%
Netherlands	2.8%	2.2%	1.9%	1.3%
UCITS	0.9%	-	0.9%	-
China	0.9%	-	0.7%	-
Ireland	0.4%	-	0.3%	-
Austria	0.2%	-	0.1%	-
Switzerland	0%	-	0%	-
Sweden	-	1.6%	-	1.2%
Luxembourg	-	0.5%	-	0.4%
Mexico	-	0.1%	-	0.1%
Belgium	-	0.1%	-	0.0%
Cash and equivalents	9.7%	-	9.7%	-

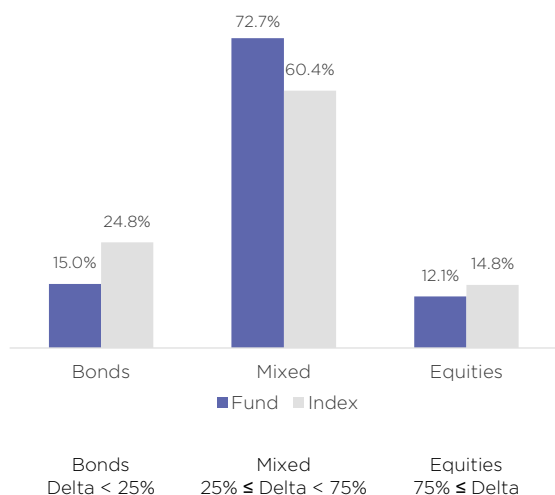
Delta contribution per sector

	Delta		Effective delta	
	Fund	Index	Fund	Index
Industrial Goods and Services	8.3%	5.3%	7.2%	4.0%
Energy	7.1%	9.4%	5.9%	7.9%
Travel and Leisure	5.2%	7.3%	4.1%	5.9%
Construction and Materials	4.3%	3.7%	4.0%	3.5%
Real Estate	4.2%	2.7%	2.8%	2.0%
Technology	3.6%	0.8%	2.7%	0.5%
Financial Services	2.7%	5.6%	2.1%	5.3%
Banks	2.2%	1.3%	1.7%	1.1%
Health Care	1.7%	3.0%	1.1%	2.2%
Telecommunications	1.6%	1.4%	1.0%	0.9%
Utilities	1.1%	2.6%	1.0%	2.6%
Consumer Products and Services	1.1%	-	0.4%	-
Automobiles and Parts	0.9%	1.5%	0.9%	1.5%
UCITS	0.9%	-	0.9%	-
Food, Beverage and Tobacco	0.6%	0.1%	0.4%	0.1%
Retail	0.4%	-	0.4%	-
Basic Resources	0.2%	-	0.1%	-
Cash and equivalents	9.7%	-	9.7%	-

Profile breakdown (delta contribution)



Profile breakdown (weight)



*The figure between brackets represents the issuer's 'responsibility' score. Please refer to the Internal Extra-financial analysis page for the analysis methodology.

Portfolio managers comments

The main European equity indices are continuing their rebound from the lows seen at the beginning of April. Investors remain sensitive to the twists and turns in tariff negotiations with the United States. The tariff peak now seems to have passed, but the extent of the de-escalation remains uncertain. As a result, appetite for safe-haven assets continues unabated, as they offer a less volatile alternative to the US dollar. Both the Fed and the ECB are adopting a wait-and-see attitude for the months ahead. They are relying in particular on macroeconomic aggregates that are proving resilient at this stage, benefiting in part from lower energy prices. On the microeconomic front, first-quarter earnings releases are proving reassuring. Against this backdrop, the primary convertible bond market has regained momentum, with five transactions totalling almost €2.5 billion.

Since the beginning of the year, the fund has posted a performance of 7.22% versus 5.48% for its benchmark, the Refinitiv Europe Focus Hedged CB (EUR). Among the investments made, the following issues were subscribed: Goldman Sachs/ASML 2030, Vonovia 2032 and Euronext 2030. The bankable exchangeable maturing in 2030 offers measured exposure to the Dutch group specializing in photolithography machines, currently valued at attractive multiples. The longest issue was selected as part of the double placement proposed by the German real estate group, for a total amount of 1.3 billion euros. The net asset value shows a significant discount, coupled with an attractive yield, enabling us to look forward to a more favorable environment in the residential market. Finally, exposure to one of the eurozone's leading stock markets ensures sector diversification through a company with solid credit quality and clear growth potential over the next few years. On the secondary market, a few tactical reinforcements were made on strains that had become more convex in relation to the options market (Voestalpine 2028; Iberdrola 2030). At the same time, profits were taken on stocks with double-digit performances: Saipem 2029, Nordex 2030, Simon Property/Klépierre, Spie 2028, Elis 2029, IAG 2028 and SK Hynix 2030. Reductions were also made in the bond portfolio, as well as in convertible bonds with low equity sensitivity (Nexi 2028, WH Smith 2026 and Nexity 2028).

Convertible bonds have regained a convexity in line with their historical average, thanks to a valuation that fully plays its role as a shock absorber in periods of high volatility. To preserve this characteristic, it is essential to rely on a constant renewal of the supply, a phenomenon we are currently observing. Indeed, since the beginning of the year, the primary market has offered more opportunities than in the whole of 2024. These securities, correctly valued, are performing well on the secondary market. However, it is worth noting the absence of the small- and mid-cap segment, which is now returning to attractive market levels for this type of investment. The fund adopts a selective approach in its investment choices, favoring a balanced portfolio construction and focusing on Investment Grade investment cases. Current credit spread levels reflect a certain complacency, calling for heightened vigilance. Thanks in particular to targeted weightings on high-delta securities, the fund maintains an equity sensitivity of close to 42%, compared with 37% for its benchmark index.

Text completed on 13/06/2025.



Félix
Haron, CFA



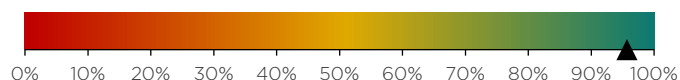
Denis
Passot



Jean-Paul
Ing, CFA

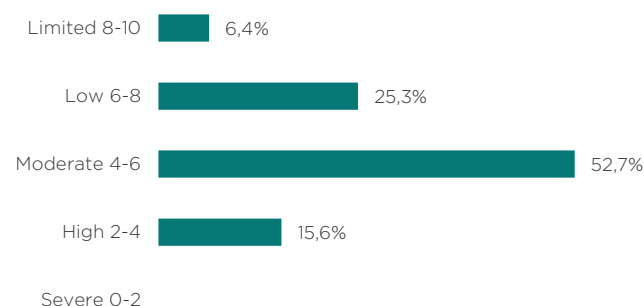
Internal extra-financial analysis

ABA coverage rate⁺ (95.6%)

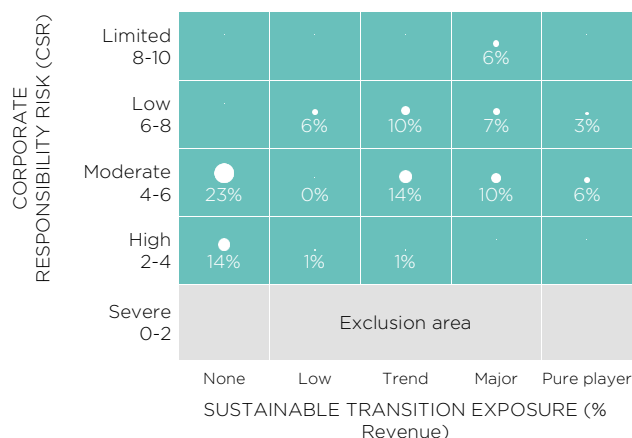


Average Responsibility Score: 5.3/10

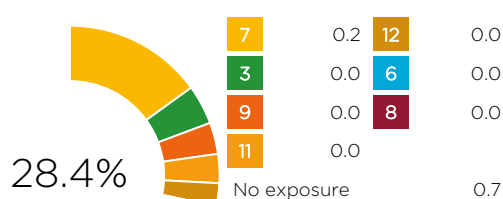
Responsibility risk breakdown⁽¹⁾



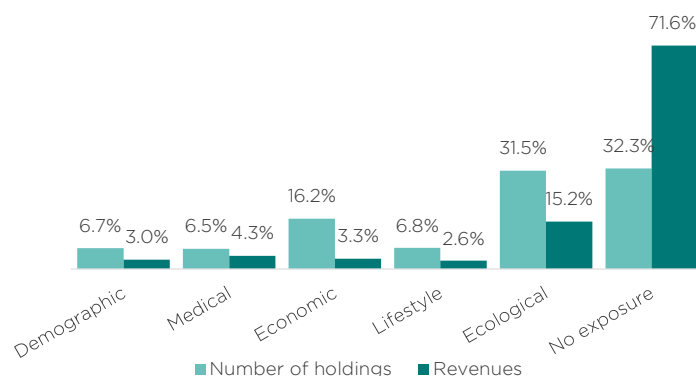
Transition/CSR exposure⁽²⁾



SDG's exposure⁽³⁾ (% of revenues)



Sustainable transitions exposure⁽⁴⁾



Analysis methodology

We develop proprietary models based on our expertise and conviction to add tangible value in the selection of portfolio securities. DNCA's ESG analysis model, Above & Beyond Analysis (ABA), respects this principle and offers a rating that we control the entire construction. Information from companies is the main input to our rating. The methodologies for calculating ESG indicators and our responsible investor and engagement policy are available on our website [by clicking here](#).

⁽¹⁾ The rating out of 10 integrates 4 risks of responsibility: shareholder, environmental, social and societal. Whatever their sector of activity, 24 indicators are evaluated, such as social climate, accounting risks, suppliers, business ethics, energy policy, quality of management.

⁽²⁾ The ABA Matrix combines the Responsibility Risk and the Sustainable Transition exposure of the portfolio. It allows us to map companies to be mapped using a risk/opportunity approach.

⁽³⁾ 1 No poverty. 2 Zero hunger. 3 Good health and well-being. 4 Quality education. 5 Gender equality. 6 Clean water and sanitation. 7 Clean and affordable energy. 8 Decent work and economic growth. 9 Industry, innovation and infrastructure. 10 Reduced inequalities. 11 Sustainable cities and communities. 12 Sustainable consumption and production. 13 Tackling climate change. 14 Aquatic life. 15 Terrestrial life. 16 Peace, justice and effective institutions. 17 Partnerships to achieve the goals.

⁽⁴⁾ 5 transitions based on a long-term perspective of the financing of the economy allow the identification of activities with a positive contribution to sustainable development and to measure the exposure of companies in terms of turnover as well as exposure to the UN Sustainable Development Goals.

*The coverage rate measures the proportion of issuers (equities and corporate bonds) taken into account in the calculation of the extra-financial indicators. This measure is calculated as a % of the net assets adjusted for cash, money market instruments, derivatives and any vehicle outside the scope of "listed equities and corporate bonds".

Principal Adverse Impacts

PAI	Unit	Fund		Ref. Index	
		Coverage	Value	Coverage	Value
PAI Corpo 1_1 - Tier 1 GHG emissions	T CO ₂	93%	50,549		
	31/12/2024	91%	55,099		
	29/12/2023	94%	30,934	89%	473
PAI Corpo 1_2 - Tier 2 GHG emissions	T CO ₂	93%	6,796		
	31/12/2024	91%	7,565		
	29/12/2023	94%	5,891	89%	106
PAI Corpo 1_3 - Tier 3 GHG emissions	T CO ₂	93%	194,028		
	31/12/2024	91%	243,587		
	29/12/2023	94%	121,020	89%	2,615
PAI Corpo 1T - Total GHG emissions	T CO ₂	93%	251,273		
	31/12/2024	91%	306,119		
	29/12/2023	94%	155,812	89%	3,190
PAI Corpo 1T_SC12 - Total GHG emissions (Scope 1+2)	T CO ₂	93%	57,345		
	31/12/2024	91%	62,663		
PAI Corpo 2 - Carbon footprint	T CO ₂ /EUR M invested	93%	421	92%	589
	31/12/2024	91%	536	94%	653
	29/12/2023	94%	471	89%	445
PAI Corpo 3 - GHG intensity	T CO ₂ /EUR M sales	93%	769	92%	880
	31/12/2024	91%	965	94%	962
	29/12/2023	94%	761	90%	792
PAI Corpo 4 - Share of investments in companies active in the fossil fuel sector		93%	0%	92%	0%
	31/12/2024	91%	0%	94%	0%
	29/12/2023	11%	0%	10%	0%
PAI Corpo 5_1 - Share of non-renewable energy consumption		76%	71.7%	73%	68.7%
	31/12/2024	84%	62.8%	78%	63.1%
PAI Corpo 5_2 - Share of non-renewable energy production		6%	92.2%	5%	83.9%
	31/12/2024	2%	89.8%	4%	89.3%
PAI Corpo 6 - Energy consumption intensity by sector with high climate impact	GWh/EUR M sales	93%	0.6	92%	0.8
	31/12/2024	91%	0.5	94%	0.6
PAI Corpo 7 - Activities with a negative impact on biodiversity-sensitive areas		93%	0.0%	92%	0.0%
	31/12/2024	91%	0.1%	94%	0.1%
	29/12/2023	3%	0.0%	0%	0.0%
PAI Corpo 8 - Water discharges	T Water Emissions	5%	0	9%	0
	31/12/2024	7%	0	5%	0
	29/12/2023	5%	29	0%	
PAI Corpo 9 - Hazardous or radioactive waste ratio	T Hazardous Waste/EUR M invested	93%	1.5	92%	1.9
	31/12/2024	91%	1.3	94%	37.8
	29/12/2023	55%	1.1	53%	1.1
PAI Corpo 10 - Violations of UNGC and OECD principles		93%	0.0%	92%	0.0%
	31/12/2024	91%	0.0%	94%	0.0%
	29/12/2023	94%	0.0%	90%	0.0%
PAI Corpo 11 - Lack of UNGC and OECD compliance processes and mechanisms		93%	0.0%	92%	0.0%
	31/12/2024	91%	0.0%	94%	0.0%
	29/12/2023	94%	0.3%	90%	0.2%
PAI Corpo 12 - Unadjusted gender pay gap		83%	10.4%	87%	9.6%
	31/12/2024	70%	11.6%	80%	12.2%
	29/12/2023	21%	16.9%	20%	6.0%
PAI Corpo 13 - Gender diversity in governance bodies		93%	42.4%	92%	42.7%
	31/12/2024	91%	43.8%	94%	42.2%
	29/12/2023	94%	42.2%	90%	40.9%
PAI Corpo 14 - Exposure to controversial weapons		93%	0.0%	92%	0.0%
	31/12/2024	91%	0.0%	94%	0.0%
	29/12/2023	94%	0.0%	90%	0.0%
PAI Corpo OPT_1 - Water use	m ³ /EUR M sales	58%	6,536	54%	7,045
	31/12/2024	53%	3,981	50%	5,551
	29/12/2023	7%	1	1%	0
PAI Corpo OPT_2 - Water recycling		4%	0.6%	6%	0.4%
	31/12/2024	10%	0.4%	5%	0.4%
	29/12/2023	6%	0.0%	1%	0.0%
PAI Corpo OPT_3 - Investments in companies with no policy for preventing accidents at work		93%	0.0%	92%	0.0%
	31/12/2024	91%	0.0%	94%	0.0%
	29/12/2023	38%	1.5%	23%	0.0%

Source : MSCI

It should be noted that DNCA Finance changed its non-financial data provider in October 2023 from monitoring negative externalities by the Scope Rating provider to monitoring performance indicators (PAI) by the MSCI provider.

This change of supplier and indicator typology prevents DNCA Finance from producing a 3-year ESG performance comparison. DNCA Finance Committed to produce this historical data from the data available in December 2023.

Administrative information

Name: DNCA INVEST Convertibles
ISIN code (Share I): LU0401808935
SFDR classification: Art.8
Inception date: 17/12/2008
Investment horizon: Minimum 5 years
Currency: Euro
Country of domicile: Luxembourg
Legal form: SICAV
Reference Index: Refinitiv Europe Focus hedged CB EUR Index
Valuation frequency: Daily
Management company: DNCA Finance

Portfolio Managers:

Félix HARON, CFA

Denis PASSOT

Jean-Paul ING, CFA

Minimum investment: 200,000 EUR
Subscription fees: 2% max
Redemption fees: -
Management fees: 0.85%
Ongoing charges as of 31/12/2023: 1%
Performance fees: 20% of the positive performance net of any fees above the index: Refinitiv Europe Focus hedged CB EUR Index with High Water Mark

Custodian: BNP Paribas - Luxembourg Branch

Settlement: T+2

Cut off: 12:00 Luxembourg time

Legal information

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Past performance is not a reliable indicator of future performance.

Sub-fund of DNCA INVEST Investment company with variable capital (SICAV) under Luxembourg law in the form of a Société Anonyme - domiciled at 60 Av. J.F. Kennedy - L-1855 Luxembourg. It is authorised by the Commission de Surveillance du Secteur Financier (CSSF) and subject to the provisions of Chapter 15 of the Law of 17 December 2010.

DNCA Finance is a limited partnership (Société en Commandite Simple) approved by the Autorité des Marchés Financiers (AMF) as a portfolio management company under number GP00-030 and governed by the AMF's General Regulations, its doctrine and the Monetary and Financial Code. DNCA Finance is also a Non-Independent Investment Advisor within the meaning of the MIFID II Directive. DNCA Finance - 19 Place Vendôme-75001 Paris - e-mail: dnca@dnca-investments.com - tel: +33 (0)1 58 62 55 00 - website: www.dnca-investments.com

Any complaint may be addressed, free of charge, either to your usual contact (within DNCA Finance or within a delegate of DNCA Finance), or directly to the Head of Compliance and Internal Control (RCCI) of DNCA Finance by writing to the company's head office (19 Place Vendôme, 75001 Paris, France). In the event of persistent disagreement, you may have access to mediation. The list of out-of-court dispute resolution bodies and their contact details according to your country and/or that of the service provider concerned can be freely consulted by following the link https://finance.ec.europa.eu/consumer-finance-and-payments/retail-financial-services/financial-dispute-resolution-network-fin-net/members-fin-net-country_fr.

A summary of investors' rights is available in English at the following link: <https://www.dnca-investments.com/en/regulatory-information>

This product promotes environmental or social characteristics, but does not have as its objective a sustainable investment. It might invest partially in assets that have a sustainable objective, for instance qualified as sustainable according to the EU classification.

This product is subject to sustainability risks as defined in the Regulation 2019/2088 (article 2(22)) by environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment.

If the portfolio investment process can incorporate ESG approach, the portfolio's investment objective is not primarily to mitigate this risk. The sustainability risk management policy is available on the website of the Management Company.

The reference benchmark as defined in the Regulation 2019/2088 (article 2(22)) does not intend to be consistent with the environmental or social characteristics promoted by the fund.

Glossary

Beta. Measures the average extent to which a fund moves relative to the broader market. The beta of a market is 1. A fund with a beta of more than 1 moves on average to a greater extent than the market. A fund with a beta of less than 1 moves on average to a lesser extent. If beta is a minus number, it is likely that the stock and the market move in opposite directions.

Correlation coefficient. The correlation coefficient is a measure of correlation. It is used to determine the relationship between two assets over a given period. A positive coefficient means that the two assets move in the same direction. Conversely, a negative coefficient means that the assets move in the opposite direction. The correlation or decorrelation can be more or less strong and varies between -1 and 1.

Dividend yield. Annual dividends per share / Price per share

EV (Enterprise Value). Market value of common stock + market value of preferred equity + market value of debt + minority interest - cash and investments.

ND/EBITDA (Net Debt / EBITDA). A measurement of leverage, calculated as a company's interest-bearing liabilities minus cash or cash equivalents, divided by its EBITDA. The net debt to EBITDA ratio is a debt ratio that shows how many years it would take for a company to pay back its debt if net debt and EBITDA are held constant.

P/B. The Price to Book Ratio is the ratio of the market value of equity (market capitalisation) to its book value. It is used to compare the market valuation of a company with its book value.

P/CF (Share price/Cash Flow per Share). The price-to-cash-flow ratio is an indicator of a stock's valuation.

PER (Price Earnings Ratio). A company's share price divided by the amount of profits it makes for each share in a 12-month period. PE ratios are normally calculated on the base of all the profit made in the period, whether or not the profit is paid out to shareholders in that period.

ROE (Return On Equity). The amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

Sharpe Ratio. A way of measuring the historical risk-adjusted return on an investment. It is the average previous return minus the risk-free return, divided by the standard deviation (a measure of risk that looks at the diversion of actual returns from expected returns).

Sharpe Ratio. The Sharpe ratio measures the excess return over the risk-free money rate of an asset portfolio divided by the standard deviation of that return. It is therefore a measure of the marginal return per unit of risk. It is used to measure the performance of managers with different risk policies.

Tracking error. Tracking Error is a measure of how closely an investment portfolio follows the index against which it is benchmarked. It is the difference in the return earned by a portfolio and the return earned by the benchmark against which the portfolio is constructed. For example, if a bond portfolio earns a return of 5.15% during a period when the portfolio's benchmark (say, for example, the Lehman Brothers Index) produces a return of 5.06%, the tracking error is .09%, or 9 basis points.

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