

DNCA EVOLUTIF

FLEXIBLE



Investment objective

The objective of the Fund is to seek to outperform the EURO STOXX 50 NR (40%), MSCI AC World (10%), FTSE MTS EMU GOV BOND 1-3 years (35%) and €STR (15%) composite indices, calculated with dividends and coupons reinvested, by preserving capital in unfavourable periods through opportunistic and flexible asset allocation, in particular by selecting stocks meeting socially responsible investment criteria. To achieve its investment objective, the investment strategy is based on active discretionary management.

Financial characteristics

NAV (€)	123.73
Net assets (€M)	266
Number of equities holdings	32
Price to Earning Ratio 2023 ^e	12.6x
Price to Book 2022	2.6x
EV/EBITDA 2023 ^e	8.1x
ND/EBITDA 2022	0.2x
Free Cash Flow yield 2023 ^e	5.34%
Dividend yield 2022 ^e	2.23%
Number of issuers	30
Average modified duration	2.93
Average maturity (years)	3.43
Average yield	5.16%
Average rating	BBB+

Performance (from 30/09/2013 to 29/09/2023)

Past performance is not a guarantee of future performance

▲ DNCA EVOLUTIF (C Share) Cumulative performance ▲ Reference Index⁽¹⁾



⁽¹⁾40% Eurostoxx 50 NR + 10% MSCI AC World + 35% Euro FTSE MTS EMU GOV BOND 1-3 years + 15% €STR

Annualised performances and volatilities (%)

	1 year	3 years	5 years	10 years	Since inception
C Share	+9.94	+1.75	+0.78	+1.81	+2.73
Reference Index	+12.32	+5.67	+3.48	+4.35	+3.26
C Share - volatility	9.40	9.60	10.20	9.82	11.47
Reference Index - volatility	7.13	10.47	12.25	11.41	13.02

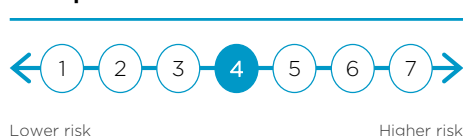
Cumulative performances (%)

	1 month	YTD	1 year	3 years	5 years	10 years
C Share	-2.44	+7.84	+9.94	+5.32	+3.98	+19.63
Reference Index	-1.34	+6.51	+12.32	+17.94	+18.68	+53.02

Calendar year performances (%)

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
C Share	-15.95	+13.50	+1.26	+11.76	-12.64	+2.89	+1.90	+4.58	+2.81	+18.10
Reference Index	-8.59	+13.41	-0.81	+16.29	-7.31	+5.37	+2.87	+6.33	+8.35	+15.44

Risk profile



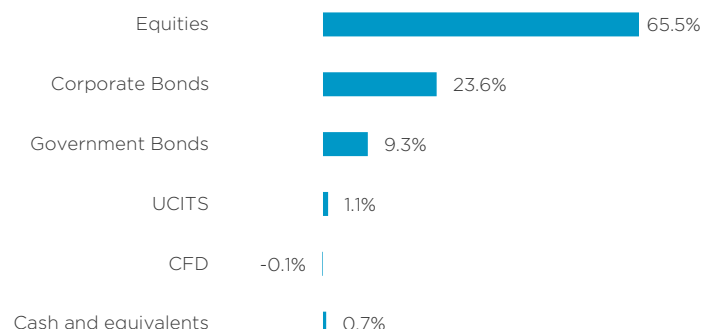
Lower risk Higher risk

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	1.01	0.20	0.10	0.21
Tracking error	4.05%	6.27%	6.83%	5.34%
Correlation coefficient	0.92	0.81	0.83	0.88
Information Ratio	-0.59	-0.62	-0.40	-0.48
Beta	1.21	0.74	0.69	0.76

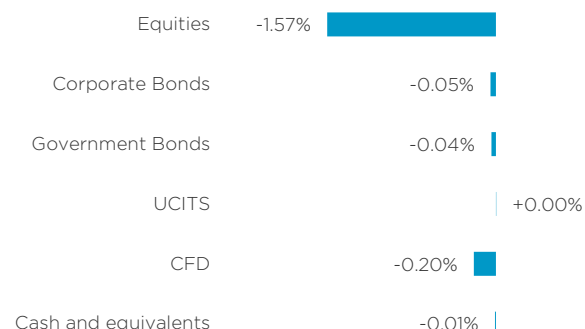
Main risks: risk relating to discretionary management, risk relating to investments in derivative products, risk of capital loss, risk relating to small-cap equity investments, equity risk, interest-rate risk, credit risk, risk related to exchange rate, risk related to investments in emerging markets, liquidity risk, risk related to investing in speculative securities, sustainability risk

Asset class breakdown



Monthly performance contributions

Past performance is not a guarantee of future performance



Sector breakdown (ICB)

	Fund	Index
Banks	15.6%	5.2%
Industrial Goods and Services	14.5%	6.2%
Technology	11.6%	8.3%
Automobiles and Parts	9.5%	2.7%
Govies	9.3%	35.0%
Construction and Materials	7.8%	1.4%
Consumer Products and Services	7.2%	5.7%
Health Care	7.2%	4.0%
Chemicals	3.9%	1.8%
Energy	2.8%	3.1%
Food, Beverage and Tobacco	2.5%	1.9%
Travel and Leisure	1.6%	0.6%
Insurance	1.3%	2.9%
Media	1.2%	0.1%
Telecommunications	0.9%	1.4%
Financial Services	0.7%	0.8%
Basic Resources	0.4%	0.2%
Retail	0.0%	1.0%
Utilities	-	1.7%
Personal Care, Drug and Grocery	-	0.6%
Real Estate	-	0.2%
UCITS	1.1%	N/A
Cash and equivalents	0.7%	N/A

Country breakdown

	Fund	Index
USA	26.3%	6.2%
France	24.1%	25.6%
Netherlands	14.9%	7.7%
Italy	12.0%	11.5%
Spain	4.1%	8.0%
Denmark	3.6%	0.1%
Germany	2.9%	17.0%
United Kingdom	2.8%	0.4%
Belgium	2.7%	2.1%
Switzerland	2.5%	0.3%
Sweden	1.4%	0.6%
Austria	0.5%	1.1%
Finland	0.4%	0.8%
Ireland	0.1%	0.4%
Japan	0.0%	0.6%
Other Countries	-	2.7%
UCITS	1.1%	N/A
Cash and equivalents	0.7%	N/A

Bonds portfolio composition and indicators

	Weight	Maturity (yrs)	Modified duration	Yield	Number of lines
Fixed rate bonds	26.65%	3.56	3.23	5.22%	34
Floating-rate bonds	6.21%	2.84	1.63	4.89%	5
Total	32.87%	3.43	2.93	5.16%	39

Changes to portfolio holdings*

In: ARM HOLDINGS PLC, Assa Abloy AB 3.88% 2030 (5.7), CATERPILLAR INC, Coty Inc 5.75% 2027 (4.5), RCI Banque SA 4.88% 2029 (4.3), Reckitt Benckiser Treasury Services PLC 3.63% 2028 (5.3), Sartorius Finance BV 4.38% 2029, SCHLUMBERGER LTD (4.1), Societe Generale SA 2029 FRN (3.8), TOTALENERGIES SE (4.5), Wienerberger AG 4.88% 2028 (4.9) and ZF Europe Finance BV 6.13% 2029 (4.9)

Out: ADVANTEST CORP (7), Arval Service Lease SA/France 4.63% 2024 (4.6), ASM INTERNATIONAL NV (6.4), AXA SA PERP (5.1), CAPGEMINI SE (5.4), Faurecia SE 2.63% 2025 (5.6), Fnac Darty SA 2.63% 2026 (5.2), French Republic Government Bond OAT 2.25% 2024, HERSHEY CO/THE, INDUSTRIA DE DISENO TEXTIL (4.3), Intesa Sanpaolo SpA 2024 FRN (7.2), KONINKLIJKE KPN NV (5.3), MERCEDES-BENZ GROUP AG (3.7), NISSAN MOTOR CO LTD (6.2), RCI Banque SA 4.13% 2025 (4.3), SHELL PLC (2.3) and SUMITOMO MITSUI FINANCIAL GR (4.6)

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

Equity portfolio (65.5%)

Main positions⁺

	Weight
COMPAGNIE DE SAINT GOBAIN (5.9)	4.27%
MICROSOFT CORP (5.2)	4.15%
STELLANTIS NV (3.3)	4.10%
AIR LIQUIDE SA (8.3)	3.90%
AIRBUS SE (5.5)	3.72%

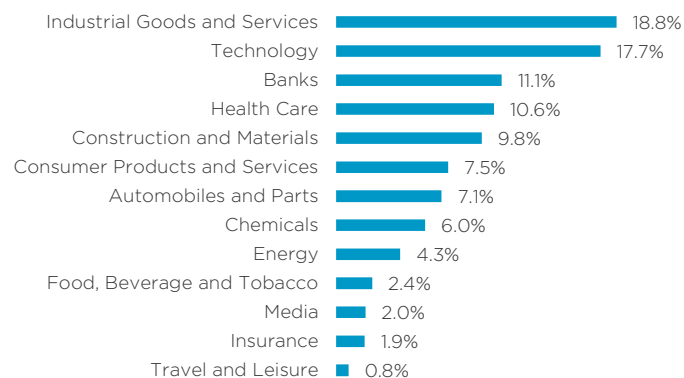
Monthly performance contributions

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Best	Weight	Contribution
STELLANTIS NV	4.10%	+0.21%
SUMITOMO MITSUI FINANCIAL GR	Out	+0.10%
NISSAN MOTOR CO LTD	Out	+0.05%
RELX PLC	Out	+0.05%
SHELL PLC	Out	+0.04%

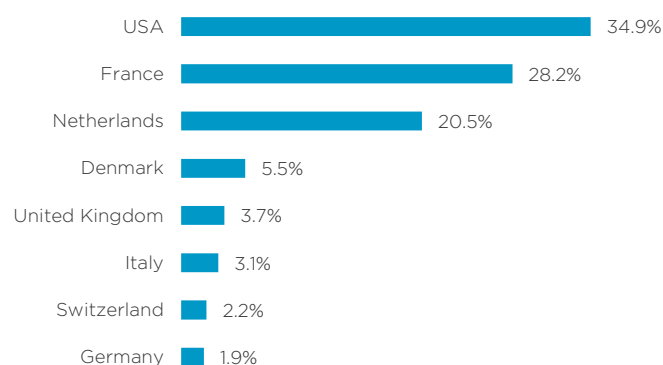
Worst	Weight	Contribution
LVMH MOET HENNESSY LOUIS VUI	2.96%	-0.31%
ASML HOLDING NV	2.84%	-0.25%
AIRBUS SE	3.72%	-0.20%
COMPAGNIE DE SAINT GOBAIN	4.27%	-0.20%
STMICROELECTRONICS NV	1.54%	-0.15%

Sector breakdown (ICB)



Equity portfolio (base 100)

Country breakdown



Equity portfolio (base 100)

Bond portfolio (32.9%)

Main positions⁺

	Weight
United States Treasury Note/Bond 1.38% 2025	1.69%
Italy Buoni Poliennali Del Tesoro 2.05% 2027	1.58%
KBC Group NV 2026 FRN (6.3)	1.45%
Intesa Sanpaolo SpA 0.63% 2026 (7.2)	1.43%
CaixaBank SA 2026 FRN (5.5)	1.37%

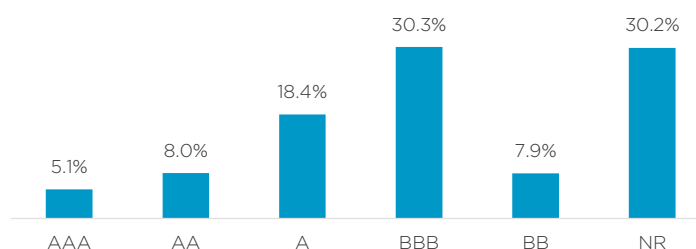
Monthly performance contributions

Past performance is not a guarantee of future performance

Best	Weight	Contribution
United States Treasury Note/Bond 1.38% 2025	1.69%	+0.06%
Wienerberger AG 4.88% 2028	0.49%	+0.00%
Intesa Sanpaolo SpA 2025 FRN	1.04%	+0.00%
Coty Inc 5.75% 2027	0.68%	+0.00%
UniCredit SpA 2025 FRN	1.27%	+0.00%

Worst	Weight	Contribution
Spain Government Inflation Linked Bond 0.7% 2033	0.84%	-0.03%
Italy Buoni Poliennali Del Tesoro 2.05% 2027	1.58%	-0.02%
Italy Buoni Poliennali Del Tesoro 4.75% 2028	1.05%	-0.02%
Spain Government Inflation Linked Bond 0.65% 2027	1.34%	-0.01%
Italy Buoni Poliennali Del Tesoro 1.6% 2029	0.86%	-0.01%

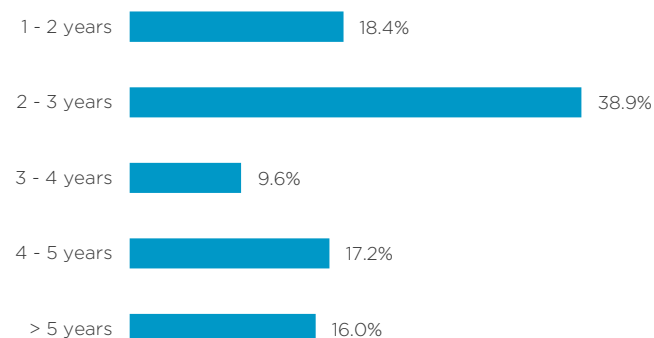
Rating breakdown



Bonds portfolio (base 100)

These data are provided for guidance purposes only. The management company does not systematically and automatically use ratings issued by credit rating agencies and carry out its own credit analysis.

Maturity breakdown



Bonds portfolio (base 100)

*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 markets continued their correction in September, with the Eurostoxx 50 NR down 2.8% and the S&P 500 down 4.9%. The macroeconomic environment is particularly difficult to read. The United States continues to land softly, while Europe is reporting deteriorating indicators. Inflation remains the most worrying factor for the markets, as it dictates central bank policies. While the ECB has opened the door to an end to rate hikes, the Fed has reopened its door, causing a wave of nervousness. At the same time, some European countries could start to worry about their financing conditions, given the deficits of most of the continent's countries. The next few weeks and their indicators will be key, with inflation figures under closer scrutiny than ever. The FED's next meeting (1er November) will live up the third-quarter publication season, and will probably take precedence over these among investors. In terms of positioning, investors will have to decide between value, which is positively correlated with high interest rates, and long duration, which is unfavourably correlated with interest rates but which generally offers protection against a slowdown in growth.

The messages delivered by companies in September were broadly in line with those of July. Nevertheless, we note a series of cautious notes from financial analysts on the luxury goods sector. Most of these were technical, pointing to the risk of a slowdown from a high starting point.

In September, EVOLUTIF fell by -2.44% compared with -1.34% for its benchmark. In Europe, value stocks made a positive contribution to portfolio performance. In the United States, the situation was more balanced between growth and value companies. The three main contributors to performance were Stellantis, Sumitomo and Nissan. These groups belong to the two most discounted sectors in the portfolio: automobiles and banks. Meta is a positive performer, up 4% on JPM Morgan (+1.6%). The top 5 detractors are monopolised by growth stocks and some cyclicals: LVMH, ASML, Saint Gobain and Airbus. Airbus probably paid for its resilience in August, while Saint-Gobain probably suffered from the rise in oil prices. The semiconductor industry is suffering from nervousness about the outlook for the industrial and consumer electronics sectors.

At the end of September, equity exposure stood at 68% and bond exposure at 32%. Corporate credit indices were logically impacted by the Fed's restrictive tone, with a monthly spread widening of 10bp for the Main index (IG) and 33.75bp for the Crossover index (HY). We took advantage of these market conditions and the buoyant primary market to extend the portfolio's average maturity to 3.30 years (compared with 2.68 the previous month) with a sensitivity of 2.85 (compared with 2.33).

We have remained consistent with our investment strategy, favouring mainly Investment Grade ratings such as Swedish company Assa Abloy (A-) 3.875% maturing 2030, Société Générale (BBB) 4.75% maturing 2029, RCI Banque (BBB-) 4.875% 2029 and Austrian building materials manufacturer Wienerberger 4.875% 2028.

In addition, we participated opportunistically in two high-yield issues: the manufacturer and distributor of beauty products Coty 5.75% (BB+) maturing 2028 and the German automotive supplier ZF Finance 6.125% (BB+) maturing 2029.

Our bond exposure (26% European credit and 8% government bonds - 3/4 Europe and 1/4 United States) offers a slightly higher yield to maturity of 4.80% with a rating of 80% IG and 20% HY.

Text completed on 09/10/2023.



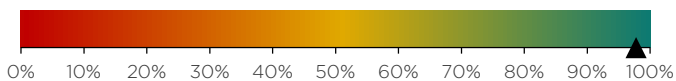
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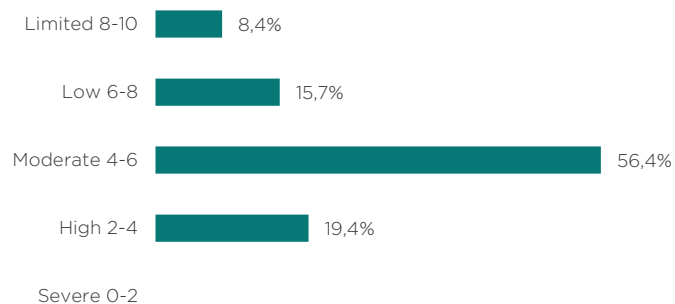
Internal extra-financial analysis

ABA coverage rate⁺ (97.7%)



Average Responsibility Score: 5.3/10

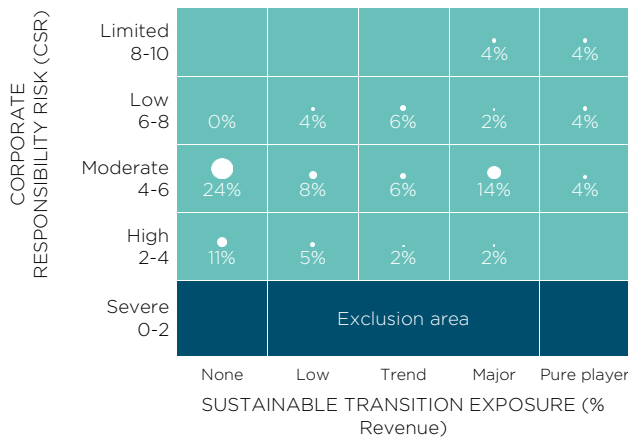
Responsibility risk breakdown⁽¹⁾



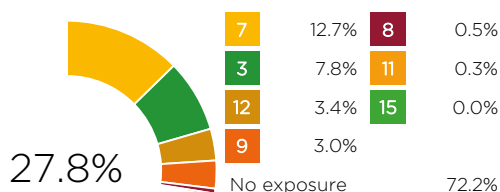
Selectivity universe exclusion rate



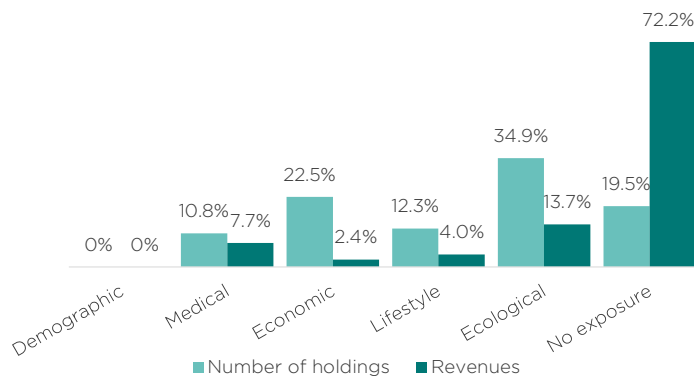
Transition/CSR exposure⁽²⁾



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.

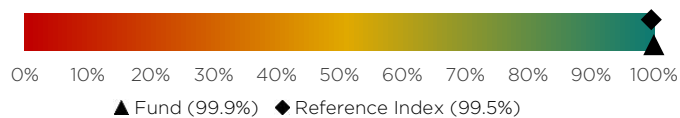
⁽³⁾ 1 No poverty. 2 Zero hunger. 3 Good health and well-being. 4 Quality education. 5 Gender equality. 6 Clean water and sanitation. 7 Clean and affordable energy. 8 Decent work and economic growth. 9 Industry, innovation and infrastructure. 10 Reduced inequalities. 11 Sustainable cities and communities. 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 fund's net assets adjusted for cash, money market instruments, derivatives and any vehicle outside the scope of "listed equities and corporate bonds". The coverage rate of the portfolio and the benchmark is identical for all indicators presented.

External extra-financial analysis

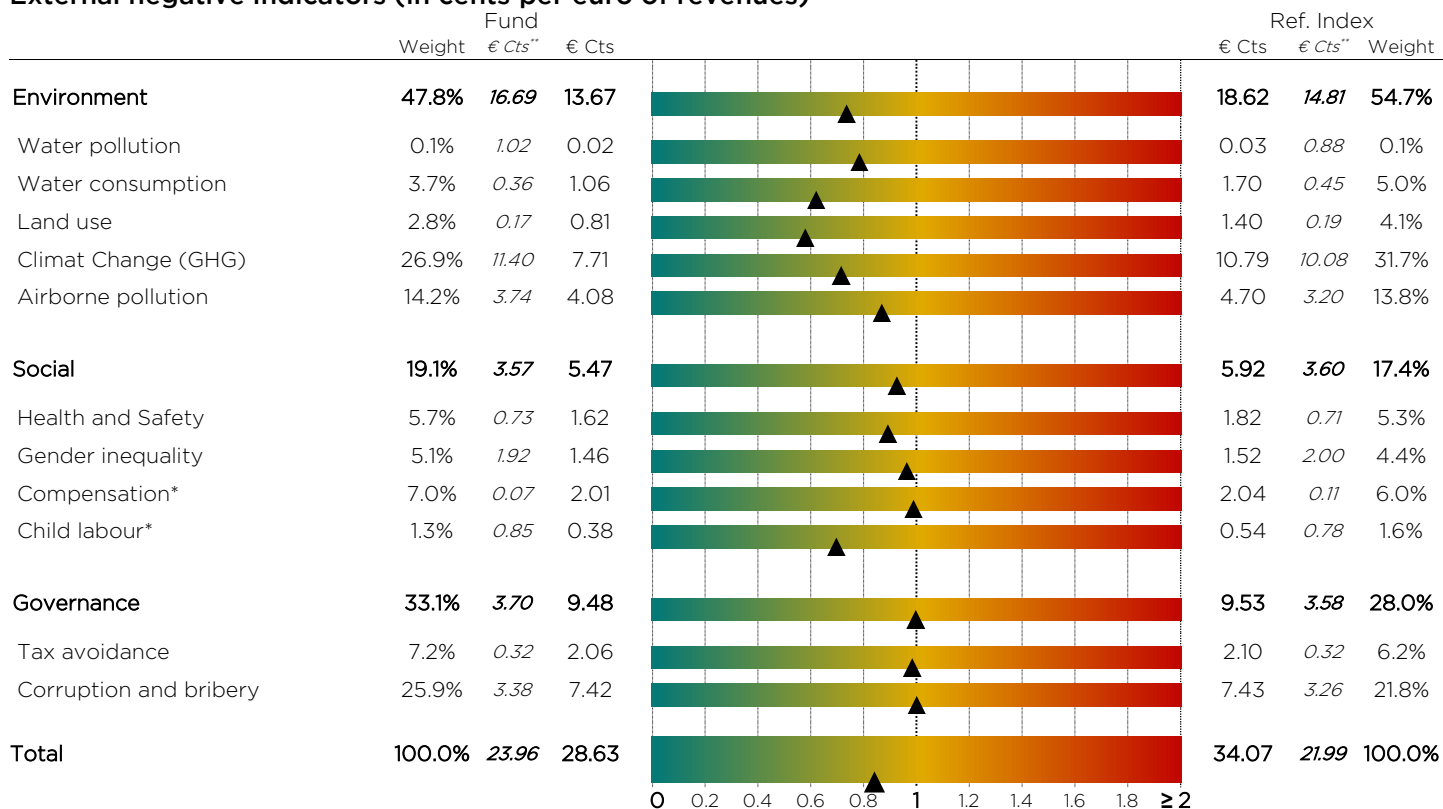
Coverage rate of external indicators⁺



ESG rating

	E	S	G	Total
Fund	6	5.6	4.6	5.9/10
Reference Index	5.5	5.1	4.6	5.5/10

External negative indicators (in cents per euro of revenues)



Source : Scope (Scoperating). ** Data as of 30/12/2022.

The gauges presented above represent the ratio between the fund and its benchmark of the impact of negative externalities. A value below 1 means that the fund has less negative impact than its benchmark, a value above 1 means that the fund has more negative impact than its benchmark.

Carbon data

Carbon footprint (t CO ₂ / \$M invested) (as of 30 June 2023) Source : MSCI	64	Carbon intensity (t CO ₂ / \$M sales) (as of 30 June 2023)	113
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* Respect for human rights

+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 fund's net assets adjusted for cash, money market instruments, derivatives and any vehicle outside the scope of "listed equities and corporate bonds". The coverage rate of the portfolio and the benchmark is identical for all indicators presented.

SCOPE indicator definitions*

Description	Intermediary data	Total cost	Source
<p>GHG emissions</p> <p>The carbon footprint adds up greenhouse gases like CO₂, CH₄ and N₂O as CO₂-equivalents – using weights reflecting the contribution to global warming of a tonne of emissions of a specific greenhouse gas relative to a tonne of emissions of CO₂.</p>	GHG emissions in t CO ₂ eq	7.5 Trillion USD	EXIOBASE
<p>Airborne and waterborne pollution</p> <p>Airborne and waterborne pollution comprises the pollution relative to i) Air : sulphur oxides, nitrogen oxide, particulate matter, toxic organic substances ii) Water: Nitrogenous and phosphatic emissions, toxic organic substances, heavy metals</p>	Sulphur Oxide in kg Nitrogen Oxide in kg Particulate matter in kg	4.8 Trillion USD	EXIOBASE
<p>Water Consumption</p> <p>Water consumption comprises : i) Surface water ii) Groundwater</p> <p>Scarcity of the water is included in the monetized version</p>	Water consumption in cubic metre	2.2 Trillion USD	EXIOBASE
<p>Land Use</p> <p>Land Use indicator comprises the use of: i) Arable land ii) Pasture and grassland iii) Unsustainable forest area</p>	Arable land Use in square kilometer Pastures and grassland in square kilometer	1.2 Trillion USD	EXIOBASE
<p>Compensation</p> <p>The indicator on compensation considers wages which are below the 60% national average as external costs. 60% of median income is a commonly accepted poverty line. The concept is applied to all countries globally, independent of country specific definition of poverty lines. The understanding is that if wages on a country and sector are below 60% of the national average people are deprived of fair compensation. Calculation: Based on ILO statistics on working hours and sector hourly income are estimated.</p>	Number of working hours in hours per week Mean monthly earnings of employees by sex and sector, in PPP\$.	0.5 Trillion USD	ILO https://ilostat.ilo.org/data UNICEF Echter Preis
<p>Gender Inequality</p> <p>The indicator on gender inequality considers the unadjusted wage differences between men and women, regardless of titles, position, education. It means that it integrates structural inequalities in addition to the differences in wages in the same position. Calculation: The wage gap includes : - Differences in hourly wages - Shares of men and women in a given sector – induced by the differences in working time between men and women)</p>	Gender pay gap in EUR per hour and working hours per women and men by country / sector.	2.8 Trillion USD	ILO https://ilostat.ilo.org/data United Nations Development Programme
<p>Child Labour</p> <p>The indicator on child labour comprises losses of future earnings for working children and also the costs for providing school education. The methodology is used by UNICEF and ILO. Calculation: Combination of ILO Social risk hours due to child labour and monetisation factor from true price.</p>	Children in employment , in % of children	3.2 Trillion USD	ILO https://ilostat.ilo.org/data UNICEF True Price
<p>Health and Safety</p> <p>The indicator on health and safety comprises the compensations costs of fatalities and injuries which are work related. It covers health expenditures, loss of future earnings and value of statistical life. Calculation: Combination of ILO Social risk hours due to health and safety</p>	Fatal occupational injuries per 100'000 workers by economic activity and year, in number.	2.8 Trillion USD	ILO https://ilostat.ilo.org/data EU-OSHA
<p>Corruption and Tax avoidance</p> <p>The indicator covers taxation and corruption related aspects. Two relevant aspects are: i) corruption and bribery between businesses and public administration; and ii) tax avoidance, e.g. tax revenue lost by governments due to profit-shifting.</p>	NA	1.0 Trillion USD - Tax avoidance 4.0 Trillion USD - Corruption total	IMF Transparency International Global Distribution of revenue loss from corporate tax avoidance: re-estimation and country results – Cobham / Jansky

Source : Scope (Scoperating)

* For each indicator, indicative total annual global cost of negative externalities by source. For example, the negative externalities of annual global water consumption represent a cost of USD 2.2 trillion.
 The transition between the intermediate data and the total cost is achieved by assigning a unit negative externality cost per euro of turnover achieved. For example, a portfolio that emits 1 kg of CO₂ per euro of turnover at a cost of 40 euros per tonne of CO₂ has a negative externality cost of 4 cents.

Administrative information

Name: DNCA Evolutif
ISIN code (Share C): FRO007050190
SFDR classification: Art.8
Inception date: 16/10/2000
Investment horizon: Minimum 5 years
Currency: Euro
Country of domicile: France
Legal form: FCP
Reference Index: 40% Eurostoxx 50 NR + 10% MSCI AC World + 35% Euro FTSE MTS EMU GOV BOND 1-3 years + 15% €STR
Valuation frequency: Daily
Management company: DNCA Finance
Portfolio Managers:
 Alexis ALBERT
 Augustin PICQUENDAR
Minimum investment: 1 share
Subscription fees: 2% max
Redemption fees: -
Management fees: 2.39%
Ongoing charges as of 31/12/2021: 3.53%
Performance fees: -
Custodian: CIC
Settlement: T+2
Cut off: 12:30 Paris time

Legal information

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Past performance is not a reliable indicator of future performance.

DNCA EVOLUTIF, a French mutual fund domiciled at 19 place Vendôme 75001 Paris, complies with Directive 2009/65/EC.

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).

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.

Convertible Bond. Hybrid securities that have both bond and equity characteristics. Convertible bonds make periodic interest payments like a bond, but bondholders also get an option to exchange their bonds for a specified number of shares of common stock. Convertible bonds typically carry lower coupon rates, thus reducing the corporation's cost of borrowing.

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.

Delta. The delta of a position expresses the change in the price of an option when its underlying asset price varies. It corresponds to the derivative of the theoretical value of the option relating to the price of the underlying asset.

Maturity. The time when a bond or other debt instrument is due to for redemption (is due to mature); or the length of time between the issue of such an instrument and the date it is due for redemption (the maturity date).

Sensitivity. The sensitivity of a bond measures the change in its percentage value induced by a given change in interest rates.

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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