

## MetWest Risk Management

Our approach to risk management is rooted in our belief that a thorough understanding of the fundamental risk characteristics of each individual security is critical to ensuring that fixed income portfolios meet their objectives of above index return and low levels of absolute volatility. MetWest eschews backward looking measures of risk such as VAR and budgeted tracking error, and instead focuses on quantifying prospective downside volatility at the security and portfolio levels through stress testing and scenario analysis. We employ a wide variety of quantitative tools, both third party and proprietary systems, to assist us in this evaluation.

Some of the parameters we follow in controlling risk within portfolios are:

- > Portfolio durations are ordinarily kept within 1 year of the benchmark duration.
- > For Traditional Strategies, average portfolio quality is typically AA, and A-rated at a minimum.
- > Issuer concentration for non-government issuers is generally limited to a maximum of 2.5%.
- > Corporate credits, where appropriate, are subject to a liquidation analysis to quantify worst-case downside volatility.
- > Structured products (mortgage-backed and asset-backed securities) are evaluated across multiple dimensions: underwriter/servicer evaluation, collateral analysis, and stress testing through extreme default/prepayment scenario analysis.
- > Positions are typically sized according to our worst-case expectations for downside volatility (smaller sizes for more volatile positions), and generally kept below 2.5% of portfolio market value.
- > Portfolios are stress tested through scenario analysis involving severe movements in interest rates, the shape of the yield curve and sector spreads.