Liquidity Risk Monitoring

AXA Investment Managers Paris

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In brief

In accordance with the provisions of Article 313-53-7 of the Autorité des Marchés Financiers (« AMF ») General Regulations, AXA Investment Managers Paris (« AXA IM ») has drawn up and implemented a liquidity risk management framework to measure and manage at any time the risks its managed UCITS funds and AIF are effectively or potentially exposed to.
This framework is proportionate to the nature, scale and complexity of AXA IM activities. In particular, it aims at ensuring, that the liquidity profile of its managed portfolios complies with the redemption policy disclosed in the prospectus, statutes or rules of the funds.
In addition, AXA IM conducts stress tests under exceptional liquidity conditions in order to assess the liquidity risk of each managed fund in crisis situations.

1. Introduction

AXA IM has set up effective liquidity management systems and processes, taking into account the specific investment strategy, the asset liquidity profile, the investor liquidity profile and the redemption policy of each UCITS fund and AIF.

2. Liquidity risk management procedure

Approach and monitoring

AXA IM has set up an internal liquidity monitoring methodology that has been implemented via an in-house tool. The methodology aims at measuring, by the way of a "liquidity score", the ability of a fund to be converted into cash given:

- the investors' liquidity profile and
- the portfolio liquidity profile.

The investors' liquidity profile is assessed based on our knowledge of our clients (including historical scenario) and their portfolios' redemption mechanisms.

The portfolio liquidity profile is assessed via the Daily Tradable Amounts (DTA) of its different components, an indicator whose parameters' calibration assumptions are reviewed on a regular basis.

Each portfolio liquidity is monitored by AXA IM Global Risk Management team on a regular basis along two dimensions:

- under normal conditions on a monthly basis, and
- under stressed conditions on a regular basis (using predefined stressed market conditions scenarios)

This monitoring also allows the calculation of a liquidity score per portfolio (potential mismatch between assets and Liabilities), the time to liquidate a percentage of the portfolio and the percentage of cash generated for a specified horizon.

Analysis and escalation

Liquidity thresholds are defined for each portfolio. The monitoring results are analyzed in this respect by the AXA IM Global Risk Management team with the help of the Portfolio Managers if needed.

Based on the analysis outcome, and when deemed necessary, an action plan can be put in place and/or an alert escalated to the appropriate committee.

3. Monitoring

The effective control of the liquidity is also performed using internal limits appropriate to each portfolio, considering the nature, scale and complexity of the AIF or UCITS.

Following the assessment of a portfolio or a range of portfolios, appropriate guidelines are defined and implemented. These guidelines may be for example the minimum cash amount to be held, the exposure limit to certain assets, such as "illiquid" assets, etc.

The monitoring of internal liquidity limits follows the standard risk monitoring process of AXA IM.

Each breach is:

- notified to the portfolio manager for remediation in the best interest of the client and
- if needed escalated to the appropriate committee.