



EDHEC Investment Research

Corporate presentation

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Presentation of the EDHEC Group

An international footprint

EDHEC is one of the top five French business schools owing to the quality of its professorship (98 permanent French and foreign, and 37 visiting professors) and the privileged relationship it has been developing with leading international universities.

EDHEC is one of the few European institutions with the triple accreditation EQUIS, delivered by EFMD (European Foundation for Management Development), AMBA, delivered by the association of MBAs and more recently AACSB (Association to Advance Collegiate Schools of Business).

Presentation of the EDHEC Group

EDHEC Risk and Asset Management Research Centre

EDHEC pursues an ambitious strategy in the field of finance, more specifically with the development of its “Risk and Asset Management” research centre, which has gained recognition as the leading independent European research centre in the asset management field.

The EDHEC Risk and Asset Management Research Centre was founded in 2001 as part of EDHEC Business School. It brings together a team of 36 professors, research engineers and research associates in order to run six research programs related to “multistyle-multiclass” asset allocation; performance measurement in the traditional and alternative universes; indices; the use of derivatives in asset management; ALM and institutional or private asset management; best execution and operations performance.

EDHEC Investment Research

A joint venture between EDHEC and Investment Research

In 2004, EDHEC designed an advisory offering dedicated to asset management techniques based on the research output and expertise of the EDHEC Risk and Asset Management Research Centre.

EDHEC Investment Research

Service offerings

EDHEC Investment Research operates with three value propositions for asset management firms:

1. Product Designer: EDHEC Investment Research provides professional money managers with its understanding of the market and of investors' expectations in order to design innovative multistyle / multiclass product and service offerings;
2. Allocation Specialist: EDHEC Investment Research supports clients in the optimization of asset allocation and portfolio construction phases in the context of a multistyle, multiclass allocation;
3. Global Product Manager: EDHEC Investment Research contributes to the design and the implementation of multistyle, multiclass funds.

Allocation Specialist

Asset allocation techniques

The asset allocation approaches proposed by EDHEC Investment Research are based on three pillars:

1. A clear separation between the optimization of the allocation (beta management) and the generation of over performance (alpha management). The asset allocation must enable the optimal risk/return profile to be obtained with regards to the client's objectives;
2. A core-satellite approach of the management that translates the first pillar into practice and optimizes the benefits of such an approach;
3. The implementation of dynamic allocation techniques that allow one to benefit from an optimal allocation over long periods, taking into consideration the possible changes in the risk profiles of the various asset classes, sectors or styles.

Allocation Specialist

Favoring the Core-Satellite approach

EDHEC designs solutions based on the core-satellite approach where a (passively managed) core portfolio is clearly separated from one or more (very actively managed) satellites.

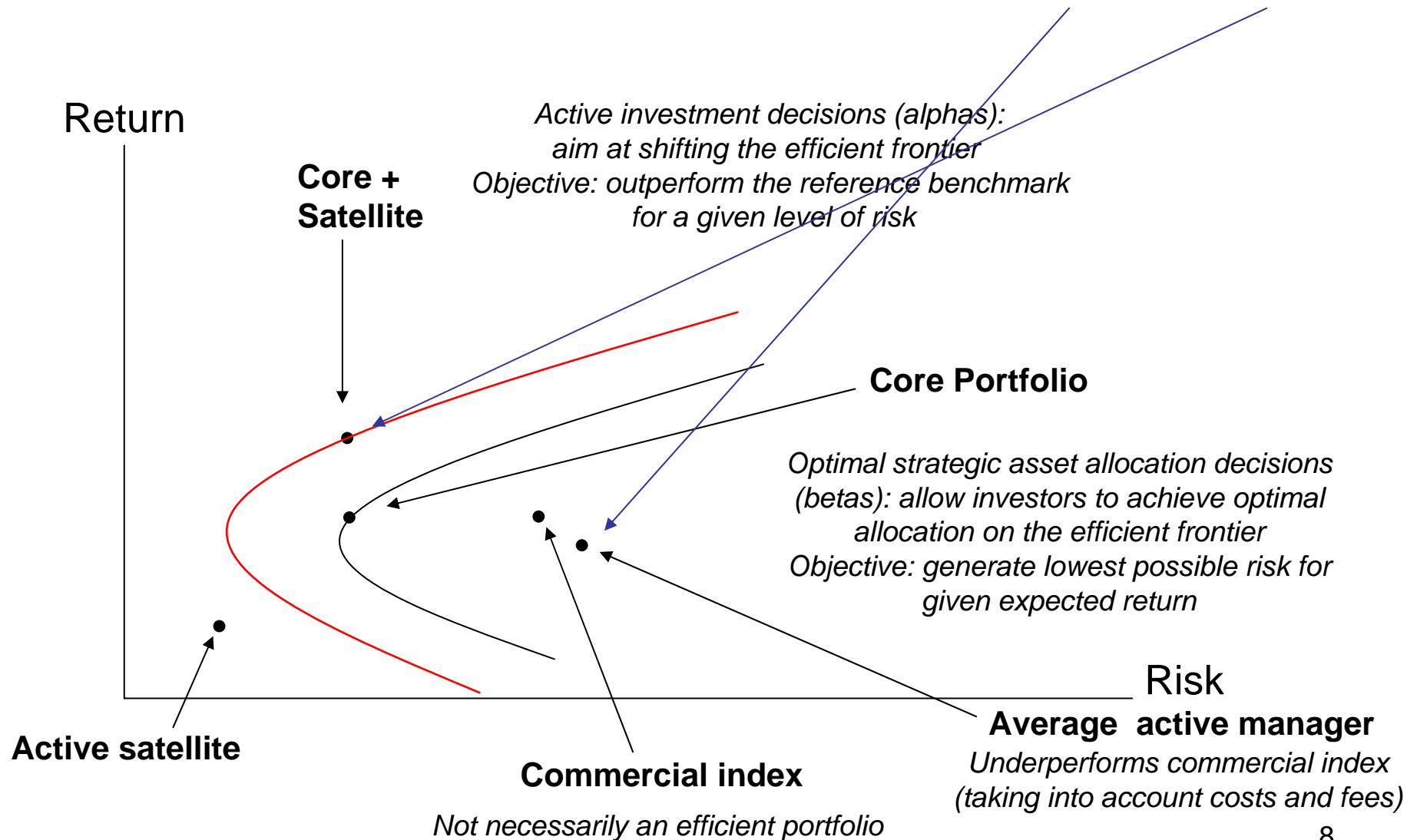
Such an approach allows for:

- a clear distinction between beta and alpha management
- a better distinction between good and poor performers in the satellite as lighter tracking error constraints allow for more distinct levels of performance across managers
- better manager diversification within the satellite portfolio
- greater transparency and cost-efficiency for the entire portfolio

Allocation Specialist

Favoring the Core-Satellite approach

From here to here



Allocation Specialist

Favoring the Core-Satellite approach

The EDHEC approach to designing solutions also ensures that beta and alpha management decisions are brought together without losing their individual benefits.

It is important to ensure that the selection of managers in the satellite does not conflict with the choice of betas for the core which was designed to be optimal, given the investor's preferences and constraints.

Two possible approaches can be followed to align the betas of the satellite with the betas of the core portfolio:

- Manager optimization
- Completeness portfolio

Allocation Specialist

Towards better expenditure of the tracking error budget

EDHEC can also distinguish between different types of tracking error risk management:

- Focus on *average relative risk*: how much one can deviate from the benchmark on average (measured by standard *tracking error*)
- Focus on *downside relative risk*: how much can one underperform the benchmark on average when one underperforms the benchmark (measured by *downside tracking error*)
- Focus on *extreme downside risk*: how much can one underperform the benchmark (maximum) when one underperforms the benchmark (measured by *value at tracking error risk*)

Product Designer

Methodology

EDHEC Investment Research assignments are conducted according to a dedicated project management methodology: the “EDHEC Investment Research Design Process”.

The EDHEC Investment Research Design Process

Market expectations	Analysis of existing offers	Proposals	Conditions of implementation	Synthesis
<ul style="list-style-type: none"> • Segmentation of expectations • Perception of existing offers • Unattended or poorly addressed issues 	<ul style="list-style-type: none"> • Evaluation of discriminating characters • Fit with clientele's expectations • Perception and performance • Profitability 	<ul style="list-style-type: none"> • Evaluation of the potential for differentiation • Fit with clientele's expectations • Clarity of value proposal • Complementarity or substitutability vis-à-vis existing offers 	<ul style="list-style-type: none"> • Methods and techniques of financial management • Industrialisation or modularisation of proposals • Organisational impact study • Profitability study • Marketing and communications plan 	<ul style="list-style-type: none"> • Technical, marketing, and economic feasibility of proposals • Implementation plans

This methodology brings together all the analysis and design tasks provided by consultants with client input. The methodology also ensures a high level of transparency in the results and conclusions of the assignment.

Product Designer

A proven track record in product design

EDHEC Investment Research has contributed to the design of financial products both for private clients and institutional investors.

Recent assignments include:

- Design of equity and fixed income funds with positive tracking error insurance (structured alpha)
- Design of funds of hedge funds which optimize alternative diversification properties (optimal alternative betas)
- Design of investable hedge fund indices (alternative betas)
- Improving equity returns in low volatility and low visibility environments (portable betas)
- Feasibility study for the implementation of equity-linked structured products targeted at the allocation needs of institutional investors (structured betas)
- Design of liability-driven products
- Design of a multistyle/multiclass fund of funds with portable alphas
- Opportunity study for the implementation of ALM dedicated to a Family Office
- Design of a European rating service for mutual funds (Equity, Fixed Income and diversified)
- Design of a full range of Private Wealth Management products and services.