

Press Release

Nice, February 4th, 2009

New EDHEC research highlights long-term inflation-hedging attributes of real assets

A new research publication from the EDHEC Risk and Asset Management Research Centre finds that novel liability-hedging investment solutions can decrease the cost of inflation insurance and the probability of severe deficits for long-horizon investors versus a solution solely based on Treasury Inflation Protected Securities (TIPS) or inflation swaps. Liability-hedging investment solutions include commodities and real estate in addition to inflation-linked securities.

The research, entitled *Alternative Investments for Institutional Investors: Risk Budgeting Techniques in Asset Management and Asset-Liability Management*, was drawn from the EDHEC/Morgan Stanley Investment Management 'Financial Engineering and Global Alternative Portfolios for Institutional Investors' research chair.

In the case of a 20-year investment horizon adding:

- ❖ 5% of alternatives (real estate and commodities) to a liability-hedging portfolio led to a 19% reduction in shortfall probability, and a 42% drop in severe shortfall probability
- ❖ 10% of alternatives led to a 39% reduction in shortfall probability, and 78% in severe shortfall probability

While investing in real estate leads to higher shortfall probabilities in the short and medium term, the figures show that significantly lower probabilities are obtained in the very long run (greater than 30 years). The increased expected return generated through the introduction of commodities and real estate in addition to TIPS in a liability-hedging portfolio allows a reduced global allocation to a performance-seeking portfolio while meeting overall performance expectations, which in turn allows better risk management.

Overall, EDHEC's results suggest that alternative asset classes are very useful ingredients for institutional investors facing inflation-related liability constraints.

A copy of the survey can be downloaded here:

http://docs.edhec-risk.com/mrk/000000/Press/EDHEC_MSIM_Alt_Investments_Inst_Investors.pdf



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About EDHEC

EDHEC Business School, founded in 1906 and among the select few institutions to have garnered international recognition through the triple crown of EQUIS, AACSB and Association of MBA accreditations, offers management education designed to meet the needs of companies. Its large range of international graduate programmes draws students from the world over. With its three campuses in Lille, Nice, and Paris, its 4,700 students, more than 25% of whom are from abroad, and its 100 full-time faculty, EDHEC has been ranked among the top European business schools for several years.

For the last four years, as part of its strategy for international excellence, EDHEC Business School has espoused an innovative research policy that takes into account the needs of companies and the market. Research at EDHEC is organised into four centres built on the expertise of the faculty.

EDHEC Business School is recognized as a centre of excellence for asset management and alternative investment research and several of its professors are regarded as international experts in the fields of asset management, fixed income securities, alternative investments and risk management. The aim of the EDHEC Risk and Asset Management Research Centre is to produce research that meets the most stringent academic standards and to facilitate corporate use of this research. In partnership with large financial institutions, the research centre brings together 46 researchers and implements six industry-sponsored programmes focusing on asset allocation and risk management in the traditional and alternative investment universes.

About Morgan Stanley Investment Management

Morgan Stanley Investment Management, together with its investment advisory affiliates, has nearly 1000 investment professionals around the world and approximately \$399 billion in assets under management or supervision as of November 30, 2008. MSIM strives to provide outstanding long-term investment performance, service and solutions to a diverse client base, which includes governments, institutions, corporations and individuals from all over the world. Through its global 'community of boutiques' structure and the strength of Morgan Stanley, MSIM is uniquely qualified to achieve these goals.

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