Press Release **Nice, September 28, 2009**

EDHEC research suggests that the traditional approach to private wealth management is misguided

The results of a new study by EDHEC-Risk entitled "Asset-Liability Management in Private Wealth Management," by Noël Amenc, Lionel Martellini, Vincent Milhau and Volker Ziemann, suggest that suitable extensions of portfolio optimisation techniques used by institutional investors can be transposed to private wealth management, precisely because these techniques have been engineered to incorporate in the portfolio construction process an investor's specific context, objectives, and horizon.

The EDHEC-Risk analysis has great potential implications for the wealth management industry. Most private bankers actually implicitly promote an ALM approach to wealth management. In particular, they claim to account for the investor's goals and constraints. The technical tools involved, however, are often inappropriate and do not give the clients any insight on the risk related to reaching their objectives.

According to EDHEC-Risk, while the private client is routinely asked all kinds of questions about his current situation, goals, preferences, constraints, etc., the resulting service and product offering mostly boil down to a rather basic classification in terms of risk profiles with no link to the recommendation. In this new paper, EDHEC provide a formal framework suggesting that asset-liability management can ensure that private wealth managers are able to offer their clients investment programmes and asset allocation advice that improve the probability of meeting their individual objectives.

Broadly speaking, the EDHEC analysis shows that taking an ALM approach to private wealth management generates two main benefits:

1. First, it has a direct impact on the selection of asset classes. In particular, it leads to a focus on the liability-hedging and goal-specific properties of various asset classes, a focus that would, by definition, be absent from an asset-only perspective.

2. Second, it leads to defining risk and return in relative rather than absolute terms, with the liability portfolio used as a benchmark or numeraire. This is a critical improvement on asset-only asset allocation models, which fail to recognise that changes to asset values must be analysed in comparison to changes in liability values. In other words, private investors are not seeking terminal wealth *per se* so much as they are seeking terminal wealth whose purchasing power enables them to achieve such goals as preparing for retirement or buying property.

This study was produced by EDHEC-Risk as part of the ORTEC Finance 'Private ALM' research chair.

The publication "Asset-Liability Management in Private Wealth Management" can be downloaded by clicking on the following link:

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

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About EDHEC-Risk Institute

EDHEC-Risk was set up in 2001 to conduct world-class academic research in risk and asset management and highlight its applications to the industry. The centre's team of 46 researchers carries out six industry-sponsored programmes focusing on asset allocation and risk management in the traditional and alternative investment universes.

The EDHEC Risk research chairs involve a close partnership with a sponsor and a commitment from EDHEC over three years leading to international academic publications and position papers aimed at professionals, institutional investors and regulators. The research chairs include three types of actions: carrying out the research; organising the dissemination of the research and presentation at conferences. The research topics and associated plans are drawn up by EDHEC and validated by the sponsor.

To optimise exchanges between the academic and business worlds, EDHEC-Risk maintains a website devoted to asset management research for the industry (www.edhec-risk.com), circulates a monthly newsletter to over 350,000 practitioners, conducts regular industry surveys and consultations, and organises annual conferences for the benefit of institutional investors and asset managers. The centre's activities have also given rise to the business offshoot EDHEC Asset Management Education. EDHEC Asset Management Education helps investment professionals to upgrade their skills with advanced risk and management seminars and its PhD in Finance programme.

About ORTEC Finance

ORTEC Finance is a leading, global provider of solutions for holistic risk/return management for pension funds, insurance companies and asset managers. The company was founded in 1981 and has more than 150 employees with expertise in areas such as actuarial sciences, economics, econometrics, investment management and information technology. The philosophy of ORTEC Finance is to provide highly specialised decision making support in a transparent and truly independent manner. Our clients are active in the pension, investment management, insurance and private wealth management markets in Europe, Asia, Australia and North America.

ORTEC Finance delivers tailored solutions in Asset Liability Management (ALM), risk management and investment consulting. Our ALM is founded on a methodology that has been developed over the last 20 years and is based on stochastic analysis of both assets and liabilities. ORTEC Finance's Risk Management Solution starts where ALM finishes and provides a continued ex ante and ex post overview of the risks in a holistic, objective and transparent way.

In 2009 over 4,000 advisors, predominantly in Holland, but also in other European countries, such as Belgium, Luxembourg and Switzerland, use ORTEC Finance solutions for PWM. These professionals work for more than 20 asset managers, family offices and (private) banks, but also include independent financial advisors, and financial and wealth planners. ORTEC Finance offers customised solutions for each market segment composed of consultancy, software models and training.