



Press Release

Nice, February 1<sup>st</sup>, 2007

## **EDHEC to present exclusive preview of research on passive replication of hedge fund performance at the EDHEC Asset Management Days in Geneva on March 12-13**

In a session on emerging alternatives to hedge funds at the EDHEC Asset Management Days 2007 at the Hotel President Wilson in Geneva on 12-13 March, EDHEC will be providing an exclusive preview of the results of a study on passive replication of hedge fund performance. This study will be presented by **Jean-Christophe Meyfredi**, Professor of Finance at **EDHEC Business School** and discussed with **François-Serge Lhabitant**, Associate Professor of Finance at EDHEC Business School and Chief Investment Officer with **Kedge Capital**, **Pim van Santen**, Hedge Fund Manager with the **Shell Pension Fund** and **Christopher Woods**, Senior Managing Director of Absolute Return Strategies with **SSgA**.

In this thought-provoking research from the EDHEC Risk and Asset Management Research Centre, authors Walter Géhin, Lionel Martellini and Jean-Christophe Meyfredi provide a detailed critical analysis of various methodologies involved in the so-called "passive replication" of hedge fund returns, an old academic subject that has enjoyed renewed interest following recent initiatives by major investment banks such as Merrill Lynch and Goldman Sachs. In particular, **they examine the respective pros and cons of the two different and somewhat competing approaches to hedge fund replication**, which are respectively known as "factor-based replication", and "payoff distribution replication".

In essence, the authors argue that **hedge fund replication is in principle a powerful and attractive concept, but that it is still very much a work in progress in terms of successful implementation**. On the one hand, they argue that the factor-based approach, while the most natural and straightforward way to tackle the hedge fund replication problem, has mostly failed in thorough empirical tests to produce satisfactory results on an out-of-sample basis. They also argue that the payoff-distribution approach, on the other hand, while insightful and found to generate (relatively) satisfying results on an out-of-sample basis, unfortunately cannot be regarded as a method suitable for performing hedge fund replication, at least not in a sense likely to meet investors' expectations, because of its documented failure to match a number of relevant time-series properties of hedge fund returns.

As a conclusion, **the authors recommend that investors be cautious about passive replication of hedge fund returns**, and at least fully understand the limits of each technique so as to avoid major disappointments.



To receive an invitation to this conference, please contact:

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## About EDHEC

Founded in 1906, EDHEC Business School is a top-ranking, full range business school with campuses in Lille and Nice, France. One of the few institutions worldwide to have earned the "triple crown" of international accreditations (AACSB, EQUIS, AMBA), EDHEC Business School boasts the largest selection of English taught management programs in France. Ranked in the top 5 of the French "Grandes Ecoles", and 7<sup>th</sup> in the Financial Times Masters in Management Rankings 2006, the school offers six specialized M.Sc. courses and the Theseus MBA. EDHEC Business School's alumni are active in 70 countries worldwide.

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 EDHEC Risk and Asset Management Research Centre's team of 33 researchers implements six industry-sponsored programs focusing on asset allocation and risk management in the traditional and alternative investment universes. Adopted by managers and investors, the EDHEC Alternative Indexes are superior measures of performance of the various hedge fund styles.

The research centre maintains a website devoted to asset management research for the business community, [www.edhec-risk.com](http://www.edhec-risk.com), and has given rise to EDHEC Asset Management Education and EDHEC Investment Research. EDHEC Asset Management Education helps investment professionals to upgrade their skills with asset management training and preparatory courses for the CAIA examinations, the alternative investment industry's global educational standard. EDHEC Investment Research supports institutional investors and asset managers in implementing the results of the EDHEC Risk and Asset Management Research Centre's research. It proposes asset allocation services in the context of a "core-satellite" approach encompassing alternative investments.

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