



Press Release

London, Nice, Singapore, July 13, 2012

## EDHEC-Risk Institute Proposes a Robust New Method for Assessing Hedge Fund Performance

In a newly-released research publication produced as part of the Newedge research chair on “Advanced Modelling for Alternative Investments,” EDHEC-Risk Institute has evaluated the performance of hedge funds through a non-linear risk adjustment of returns. This methodology is applied to various hedge fund indices as well as to individual hedge funds, considering a set of risk factors including equities, bonds, credit, currencies and commodities.

The research findings strongly suggest that **what was incorrectly measured as hedge fund alpha in previous studies is actually some form of fair reward obtained by hedge fund managers from holding a set of relatively complex linear and non-linear exposures with respect to various risk factors.** Often the reduction in performance comes from a small number of extreme events which are not captured well with the usual linear approach.

The findings also support the view that **higher-moment equity risks capture a large part of the non-linear risk exposure of several hedge fund strategies.** However, exposure to higher-moment risks for bond, interest rate or currency is essential for other strategies, in particular Emerging Markets. Finally, the authors illustrate with individual funds **how a fund manager can measure the sensitivity of his portfolio of funds to shocks affecting risk factors,** that is macro shocks, or to idiosyncratic shocks impacting a particular fund.

This new approach can be extended to evaluate hedge fund managers' performance conditionally to specific macroeconomic environments such as high or low interest-rate states, large or limited economic uncertainty, bull or bear markets, and liquid or illiquid markets, making the performance measurement more transparent to general economic conditions.

A copy of “**Robust Assessment of Hedge Fund Performance through Nonparametric Discounting**” can be downloaded via the following link:

[EDHEC-Risk Publication Robust Assessment of Hedge Fund Performance through Nonparametric Discounting](#)

**This research was supported by Newedge as part of the “Advanced Modelling for Alternative Investments” research chair at EDHEC-Risk Institute.**



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## About EDHEC-Risk Institute

Since 2001, EDHEC has been pursuing an ambitious policy in terms of international research. This policy, known as “Research for Business”, aims to make EDHEC an academic institution of reference for the industry in a small number of areas in which the school has reached critical mass in terms of expertise and research results. Among these areas, asset and risk management have occupied privileged positions, leading to the creation in 2001 of a major research facility: EDHEC-Risk Institute. This institute now boasts a team of 85 permanent professors, engineers and support staff, as well as 18 research associates from the financial industry and 6 affiliate professors. EDHEC-Risk Institute is located at campuses in Singapore, which was established at the invitation of the Monetary Authority of Singapore (MAS), the City of London in the United Kingdom, and Nice, France. In addition, it has a research team located in the United States.

The philosophy of the institute is to validate its work by publication in prestigious academic journals, but also to make it available to professionals and to participate in industry debate through its Position Papers, published studies and conferences. Each year, EDHEC-Risk organises two conferences for professionals in order to present the results of its research, one in London (EDHEC-Risk Days – Europe) and one in Singapore (EDHEC-Risk Days – Asia), attracting more than 2,000 professional delegates.

To ensure the distribution of its research to the industry, EDHEC-Risk also provides professionals with access to its website, [www.edhec-risk.com](http://www.edhec-risk.com), which is entirely devoted to international risk and asset management research. The website, which has more than 50,000 regular visitors, is aimed at professionals who wish to benefit from EDHEC-Risk’s analysis and expertise in the area of applied portfolio management research. Its monthly newsletter is distributed to more than 1,250,000 readers. EDHEC-Risk Institute also has highly significant executive education activities for professionals.

In partnership with CFA Institute, it has developed advanced seminars based on its research which are available to CFA charterholders and have been taking place since 2008 in New York, Singapore and London. EDHEC-Risk Institute has an original PhD in Finance programme which, in addition to its highly selective residential track for young talents worldwide, has an executive track for high level professionals who already have masters degrees from prestigious universities and significant industry experience. Complementing the core faculty, this unique PhD in Finance programme has highly prestigious affiliate faculty from universities such as Princeton, Wharton, Oxford, Chicago and CalTech.

## About Newedge

Newedge is a leading force in global multiasset brokerage with a presence in more than 20 locations across 17 countries and access to more than 85 derivatives and stock exchanges, Supported by two top tier shareholders, Société Générale and Credit Agricole CIB, Newedge is independently run and offers a full range of execution, clearing and prime brokerage services.

Newedge Prime Brokerage has become a leading independent prime broker. It offers global hedge funds a multi-asset class prime brokerage platform covering a variety of assets and instruments across equities, fixed income, foreign exchange and commodities, cash and derivatives.

Newedge Prime Brokerage has received numerous awards including the 2010 Best Prime Broker – Capital Introduction Award from HFMWeek and a top 5 ranking from Global Custodian for European Prime Brokers. In a recent Eurohedge report, Newedge ranked No. 1 in European Global Macro/Fixed Income/CTA mandates and in New Fund Launches

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