Press Release **London, Nice, Singapore, December 10, 2010**

BNP Paribas Investment Partners "Asset-Liability Management and Institutional Investment Management" Research Chair

New EDHEC-Risk Institute Research Questions Current Corporate Pension Fund ALM Practices and Proposes a New Integrated Model for Analysing the Capital Structure of Corporate Sponsors and Pension Fund Allocation Decisions

No comprehensive model is currently available for the joint quantitative analysis of capital structure choices, pension fund allocation decisions and their impact on rational pricing of liability streams. This conceptual problem is reinforced by new accounting reforms, which make it a real challenge to correctly assess the value of a pension plan in deficit with a weak sponsor company. EDHEC-Risk Institute has attempted to fill this gap by analysing the valuation of pension liabilities in the context of an integrated model of capital structure. The model is a stylised representation of the relationships between the stakeholders of a company with a pension plan, including **shareholders of the sponsor company, bondholders, and beneficiaries of the pension fund (workers and pensioners)**.

The new publication, "**An Integrated Approach to Asset-Liability Management: Capital Structure Choices, Pension Fund Allocation Decisions and the Rational Pricing of Liability Streams**," contains the results of the second-year research work conducted at EDHEC-Risk Institute within the BNP Paribas Investment Partners research chair on asset-liability management and institutional investment management.

The results show that **leverage decisions have a strong impact on the fair value of pension liabilities**, and conversely that **the presence of a pension plan decreases the optimal leverage ratio**. Besides, a fair assessment of a firm's creditworthiness can be done only when analysts and rating agencies have an integrated view of the firm's financial situation, a view that also takes into account the pension fund's situation and its funding status as well as its allocation strategy. The study also finds that interior optimal values may exist for allocation decisions. In an extension to a dynamic setting the study finds that **risk-controlled strategies allow the pension fund to take more risks, which has a positive effect on equity value, while protecting pensioners**.

The model has important **policy implications for regulators**, in that it provides a first step towards a much needed methodological framework for the design of firm-specific regulatory constraints and accounting valuation principles, and **strategy implications for pension fund managers**.

A copy of "An Integrated Approach to Asset-Liability Management: Capital Structure Choices, Pension Fund Allocation Decisions and the Rational Pricing of Liability Streams" can be downloaded via the following link:

EDHEC-Risk Publication Integrated Approach to Asset-Liability Management

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About EDHEC-Risk Institute

EDHEC-Risk Institute is part of EDHEC Business School, one of Europe's leading business schools and a member of the select group of academic institutions worldwide to have earned the triple crown of international accreditations (AACSB, EQUIS, Association of MBAs). Established in 2001, EDHEC-Risk Institute has become the premier European centre for financial research and its applications to the industry. In partnership with large financial institutions, its team of 56 permanent professors, engineers and support staff implements six research programmes and eleven research chairs focusing on asset allocation and risk management in the traditional and alternative investment universes. The results of the research programmes and chairs are disseminated through the three EDHEC-Risk Institute locations in London, Nice and Singapore.

EDHEC-Risk Institute validates the academic quality of its output through publications in leading scholarly journals, implements a multifaceted communications policy to inform investors and asset managers on state-of-the-art concepts and techniques, and forms business partnerships to launch innovative products. Its executive education arm helps professionals to upgrade their skills with advanced risk and investment management seminars and degree courses, including the EDHEC-Risk Institute PhD in Finance and the EDHEC-Risk Institute Executive MSc in Risk and Investment Management.

www.edhec-risk.com

About BNP Paribas Investment Partners

BNP Paribas Investment Partners is the dedicated asset management business line of the BNP Paribas Group. BNP Paribas Investment Partners offers a full range of investment management services to institutional and retail clients around the world. Central to the way we work is the concept of partnership – both in terms of how we behave as a family of companies and our relationships with our clients. Around 1,000 investment professionals work across our network of some 60 investment centres, each of which is a specialist in a particular asset class or type of product. With total assets under management of EUR 539 billion (USD 736 billion) as of 30 September 2010, BNP Paribas Investment Partners is the third-largest asset manager in Europe and the ninth-largest in the world*.

On April 1 2010, the operations of Fortis Investments were merged with those of BNP Paribas Investment Partners. Fortis Investments' investment experts and international locations were a natural and complementary fit with BNP Paribas Investments Partners, whose flexible partnership model has proven successful in integrating new expertise in the past. Together, our combined company provides clients with an even broader range of investment solutions and even better client service than before.

* Source: Based on the IPE Top 400, June 2010

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