EDITORIAL

Redefining investment  Historically, the investment management industry has focused its value proposal on asset selection and underutilised two key sources of added-value: asset allocation and risk management. Sophisticated asset allocation and consideration of liability constraints have heretofore largely remained limited to the confines of institutional investors with maturity transformation or retirement provision activities. More...

INDUSTRY ANALYSIS

Good risk management relies on the subsidiary status principle The European Commission consultation on the UCITS depositary function is necessary and welcome, because it puts an end to a long period of European ignorance of the importance of the depositary function to the construction of a single market for investment funds. The European regulator long focused on the responsibilities and obligations of asset management firms and on adapting the UCITS framework to new asset classes or to changing investment practices, as it mistakenly believed that stewardship would follow, and it thus paid too little attention to operational problems and the management of non-financial risk in the European fund industry. More...

Equity paradigms challenged Whatever happens in the short-term, that shares are a good long-term bet is a cherished paradigm in the investment industry. Another universally-held belief asserts that economic growth is good for equities. Both these beliefs have been undermined by authoritative research. More...

FEATURES

Macroeconomic Risk Management for Oil Stabilization Funds in GCC Countries The existence of oil stabilization funds as
the largest category of sovereign wealth funds relies on oil prices as a main source of macroeconomic risk for oil exporting countries. Given the often contingent spending policies of oil stabilization funds (accumulating wealth when oil prices are rising and spending wealth to support the local economy when GDP is shrinking) it is important to understand the magnitude and relative importance of oil price shocks relative to other sources of macroeconomic risk. More...

INTERVIEW

Has There Been Excessive Speculation in the US Oil Futures Markets? An interview with Hilary Till In this month's interview, Hilary Till, Research Associate with the EDHEC-Risk Institute, discusses the latest EDHEC-Risk position paper on the existence or otherwise of speculation in the US oil futures markets, the transparency of global oil markets, and changes in the commodities markets. More...

RESEARCH NEWS

Is Minimum-variance Investing Really Worth the While? An Analysis with Robust Performance Inference Patrick Behr, André Güttler, Felix Miebs. There are two interesting portfolios on the efficient frontier: the tangency portfolio and the minimum-variance portfolio. The minimum-variance portfolio is interesting because it does not require computation of expected asset returns, but only of the covariance matrix, which is more stable. Many researchers have estimated the performance of this portfolio and compared it to other portfolios and identified an advantage in terms of performance for this portfolio. More...

EDHEC PUBLICATIONS

Optimal Interest Rate Smoothing under Model Ambiguity This paper solves for the equilibrium of a standard real business cycle model with money under model ambiguity. It first shows that monetary certainty is a sufficient condition for an interest rate smoothing rule to be optimal even under preferences for model robustness on the part of private agents. It then derives the necessary and sufficient condition for a stochastic (but stationary) monetary policy to reproduce the equilibrium of the real economy and compute the optimal (constant) level of the nominal interest rate. The condition implies a monetary policy conducted in
randomness of the money growth rate on private agents' optimal consumption are nullified. More...

**Optimal Investment Decisions When Time Horizon is Uncertain**

Many investors do not know with certainty when their portfolio will be liquidated. Should their portfolio selection be influenced by the uncertainty of exit time? In order to answer this question, this paper considers a suitable extension of the familiar optimal investment problem of Merton (1971), where the authors allow the conditional distribution function of an agent's time horizon to be stochastic and correlated to returns on risky securities. In contrast to existing literature, which has focused on an independent time horizon, the authors show that the portfolio decision is affected. More...

**EDHEC-RISK NEWS**

**EDHEC-Risk Institute PhD in Finance supported by Doctorate Scholarship Programme in Singapore**

Since its creation, the EDHEC-Risk Institute PhD in Finance has been one of the approved programmes under the Doctorate Scholarship Programme (DSP) administered by the Monetary Authority of Singapore. More...

**New sessions of the CFA Institute/EDHEC-Risk Institute Alternative Asset Allocation Seminar organised in London and New York in 2010**

Following the success of the inaugural CFA Institute/EDHEC-Risk Institute Alternative Asset Allocation seminar held in London earlier this year, two new sessions of the seminar are being organised in London on 16-18 March, 2010 and in New York on 30 March-1 April, 2010. This intensive three-day course aims to impart advanced concepts and practical tools for optimal construction and risk management of multi-style multi-class portfolios. More...

**Next EDHEC-Risk Institute PhD in Finance information sessions taking place in London, Singapore, Paris, New York, San Francisco, Zurich, Frankfurt, Milan, Amsterdam, Vienna, Stockholm, Tokyo and on-line**

Since 2008, EDHEC-Risk Institute has been offering a unique PhD in Finance programme to elite practitioners who aspire to higher intellectual levels and aim to redefine the investment banking and asset management industries. More...