

**EDHEC Alternative
Investment Days
2007**

Bringing Academic Insights to
Alternative Investment

New Frontiers in Alternative Forms of Investment

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EDHEC-Risk Philosophy

Alternative Investments: Hedge Funds and Beyond

- Since its inception in 2001, the EDHEC Risk and Asset Management Research Centre has attempted to combine academic excellence with industry relevance.
- Perhaps best known for its research on hedge fund investing, EDHEC Risk has a vocation to address various topics related to alternative investment strategies.
- In particular, we expect to be very active in the following years in the following fields: commodities and real estate.
- We also expect to intensify our research efforts on alternative betas (e.g., credit risk) and also on absolute return strategies in the long-only environment.

EDHEC-Risk Philosophy

Real Estate Finance

- Real estate has always been the dominant alternative to stocks and bonds.
- Interest in real estate finance is currently being revived, with interesting industry initiatives in the domain of new real estate investment vehicles and index-linked products and derivatives.
- As a first step towards the establishment of a strong research agenda in real estate finance, we have conducted a survey, sponsored by UFG, on the perception of real estate investment by institutional investors.
- This survey, “the EDHEC European Real Estate Investment and Risk Management Survey”, will be presented by Prof. Frédéric Ducoulombier later in the afternoon.

EDHEC-Risk Philosophy

Commodities

- EDHEC-Risk has also developed an ambitious research agenda in the field of commodity investing. The research, which will be presented by Prof. Joëlle Miffre, aims to investigate the benefits of including commodities in an investor's asset allocation mix, both from the strategic and tactical perspectives.
- From the strategic standpoint, our research has shown that conditional correlations of commodities with equity and bond indices allow potentially significant diversification benefits.
- From the tactical standpoint, our research has documented the existence of strong momentum effects and shown that trend following strategies can usefully be implemented in the context of commodities markets so as to exploit these effects.
- Our dedicated resources on commodities also include affiliated researcher Hillary Till, who has produced a timely and relevant analysis of the Amaranth debacle (this EDHEC position paper can be downloaded from our website) and is leading dedicated executive education programmes in this field.

EDHEC-Risk Philosophy

Absolute Return Strategies in a Long-Only World

- Both in the private and institutional money management industries, there has been a renewed interest in absolute return strategies based on traditional asset classes, as a cost-efficient, liquid and transparent, alternative to investing in hedge fund vehicles.
- EDHEC-Risk has conducted a dedicated research programme on the potential benefits of suitably designed risk-controlled strategies for the generation of absolute performance (mostly) based on traditional investment vehicles such as stocks and bonds.
- This research will be presented by Senior Research Engineer Felix Goltz, with a specific emphasis on the documented convergence between traditional and alternative investment strategies.

EDHEC-Risk Philosophy

Credit Risk

- Credit risk exposure is one of the most commonly used forms of “alternative beta”, which allow traditional as well as alternative investment managers to generate excess performance.
- As recently evidenced by the sub-prime crisis, credit risk is a risk that needs to be actively managed.
- The rapid development of credit derivatives provides investors with convenient tools that can be used to manage credit risk exposure.
- In what follows, affiliated Professor Dominic O’Kane, formerly head of fixed-income research at Lehman Brothers in London, will offer a guided tour of the new credit derivative instruments and their use in portfolio management.