Press Release **London, Nice, Singapore, November 23, 2010**

New EDHEC-Risk Institute Publication Proposes an Optimal Investment Strategy for Sovereign Wealth Funds

This new publication, "**Asset-Liability Management Decisions for Sovereign Wealth Funds**," contains the results of the first-year research work conducted at EDHEC-Risk Institute within the Deutsche Bank research chair on asset-liability management (ALM) techniques for sovereign wealth fund management. Under the responsibility of Professor Lionel Martellini, the scientific director of EDHEC-Risk Institute, this chair examines optimal allocation policies for sovereign wealth funds.

The publication proposes **a formal analysis of the optimal investment policy and risk management practices of sovereign wealth funds**, which can be regarded as the extension to sovereign wealth funds of the liability-driven investing paradigm recently developed in the pension fund industry.

The optimal asset allocation strategy takes into account the stochastic features of the sovereign fund endowment process (where the money is coming from), the stochastic features of the sovereign fund's expected liability value (what the money is going to be used for), and the stochastic features of the assets held in its portfolio.

The results suggest that **the investment strategy for a sovereign wealth fund should involve a state-dependent allocation to three building blocks**:

- a performance-seeking portfolio (typically heavily invested in equities),
- an endowment-hedging portfolio (customised to meet the risk exposure in the sovereign wealth fund endowment streams),
- and a liability-hedging portfolio (heavily invested in bonds for interest rate hedging motives, and in assets exhibiting attractive inflation-hedging properties when the implicit or explicit liabilities of the sovereign wealth fund exhibit inflation indexation).

This work highlights in particular **the need for a hedge against the risk emanating from fluctuating revenues to the fund**. In an empirical application, the composition of a revenue-hedging portfolio for an oil-based sovereign fund is investigated.

This analysis has important potential implications in terms of the emergence of genuinely dedicated ALM and risk management solutions for sovereign wealth funds.

A copy of "Asset-Liability Management Decisions for Sovereign Wealth Funds" can be downloaded via the following link:

EDHEC-Risk Publication Asset-Liability Management Decisions for Sovereign Wealth Funds

This study was sponsored by Deutsche Bank as part of the "Asset-Liability Management Techniques for Sovereign Wealth Fund Management" research chair. Sovereign wealth management will be featured at a special session of the EDHEC-Risk Institutional Days (Monaco December 8-9, 2010).

---ends

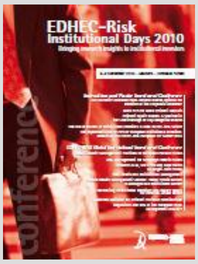
EDHEC–Risk Institute	EDHEC Risk Institute—Europe	EDHEC Risk Institute—Asia
393 promenade des Anglais BP 3116 - 06202 Nice Cedex 3 France	New Broad Street House - 35 New Broad Street London EC2M 1NH United Kingdom	1 George Street #07-02 Singapore 049145

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 47 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



For more information or to receive an invitation to the EDHEC-Risk Institutional Days 2010, please contact Séverine Anjubault:
Tel.: +33 (0)4 93 18 78 63 – E-mail: severine.anjubault@edhec-risk.com
www.edhec-risk.com

The conference programme can be accessed via the following link: **EDHEC-Risk Institutional Days 2010**.