



Press Release

London, Nice, Singapore, December 15, 2010

## **New EDHEC-Risk Institute survey reveals that European private wealth managers wish to offer their clients customised risk management but generally fail to do so**

This European survey conducted by EDHEC-Risk Institute as part of the “Private ALM” research chair in partnership with Ortec Finance draws on responses from 159 private wealth managers (PWMs), whose clients include the mass affluent (financial assets of less than \$1 million) as well as so-called ultra-high-net-worth individuals, or UHNWIs (financial assets of more than \$30 million). The 159 respondents are mainly senior European investment professionals working in private banks, asset management firms, and family offices; more than half represent organisations managing more than €1 billion of clients’ money.

The key findings of the survey can be summarised along three lines:

- \* PWMs see the relationships with their clients as the principle source of value they add. But **they fail to exploit this close relationship to customise the services they offer their clients:** when portfolios are designed for clients, market factors are taken into account more frequently than are the individual characteristics of the clients. Wealth managers often assess their clients’ level of risk aversion, but other individual risk factors—longevity risk, individual income risk, and individual spending objectives—are accorded much less importance.
- \* PWMs also generally fail to provide state-of-the art means of horizon-dependent asset allocation. **Current practice is inconsistent in the sense that horizon effects are recognised as important but the factors that generate horizon effects—stochastic outside income and time-varying equity risk premia—are not.** PWMs rarely work with explicit models of mean reversion of the equity risk premium. 77% of respondents do not model long-term equity returns at all.
- \* Finally, PWMs see the potential of taking into account client-specific spending objectives, but **only a small minority actually attempts to realise this potential.** The methods PWMs are most familiar with are traditional investment analysis, which focuses on direct alpha generation (fundamental and macroeconomic analysis), or fund-selection concepts, which focus on accessing alpha indirectly (performance analysis and due diligence). These concepts, by aiming mainly at alpha, are unrelated to client-specific spending objectives, and PWMs acknowledge that they are of little value in achieving these objectives. Together, PWMs who are unfamiliar with ALM and those who are familiar with it but do not use it make up a majority of our respondents. **The lack of adoption of ALM has more to do with unfamiliarity with the concept and with the perceived difficulty of using it than with sceptical views of its usefulness.**

A copy of the survey can be downloaded via the following link:

[EDHEC-Risk Publication European Private Wealth Management Survey](#)

**This study was produced as part of the “Private ALM” research chair in partnership with Ortec Finance.**

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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](http://www.edhec-risk.com)

## About Ortec Finance

Ortec Finance is a global provider of technology and advisory services for risk and return management. Established in Rotterdam in 1981, Ortec Finance has 160 employees who combine mathematical ability, business awareness, and practical application to deliver innovative and pragmatic solutions. Our client base operates in the pension, investment management, insurance and private wealth management markets, and is long-standing and global. We help improve investors' decision making and decision monitoring. We design, build, and apply solutions for asset-liability management, risk management, performance measurement and attribution and private wealth management. Our solutions derive from the combination of software models and professional advisory services. Our ALM is founded on a methodology that has been developed over the last 20 years and is based on stochastic analysis of both assets and liabilities. Ortec Finance's Risk Management Solution starts where ALM finishes and provides a continuous ex ante and ex post overview of the risks in a holistic, objective and transparent way.

In 2010 over 4,000 advisors, predominantly in the Netherlands, but also in other European countries including Belgium, Luxembourg, and Switzerland, use Ortec Finance solutions for PWM. These professionals work for more than 20 asset managers, family offices and (private) banks, but also include independent financial advisors and financial and wealth planners. Ortec Finance offers customised solutions for each market segment composed of consultancy, software models and training.

[www.ortec-finance.com](http://www.ortec-finance.com)

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