

## New EDHEC-Risk Survey Reveals the Investment Management Opinions of Sovereign Wealth Funds

In a new survey entitled “*What Asset-Liability Strategy for Sovereign Wealth Funds?*” produced as part of a research chair supported by Deutsche Bank, Sovereign Wealth Fund (SWF) respondents have underlined **the need for a change in investment practices to take into account both short-term constraints and liabilities**. The survey presents the results of the Deutsche Bank research chair’s foundation paper – a dynamic asset-liability management (ALM) model developed to guide asset allocation and risk management decisions at the SWF level, and describes the results of a call for reaction on its theoretical and practical appeal for sovereign fund management.

In spite of the prevailing view that Sovereign Wealth Funds (SWFs) are not like other institutional investors and that they are pursuing a pure strategy of accumulation as a standalone, the EDHEC-Risk survey shows that **the funds themselves consider that ALM techniques are appropriate for their financial management and that they have as a mission and constraint to take account of the risks of the States that set them up**. The specific characteristic of their ALM is that it must cover **not only the liability risk but also the contribution risk**. It is noteworthy that **SWFs believe that the asset management industry is not providing them with liability-driven investment (LDI) solutions that are adapted to their situation**.

The survey received responses from sovereign wealth funds and public bodies responsible for managing sovereign investments. Most of the 27 respondents are SWFs from Asia-Pacific and Middle Eastern countries. The survey period is from 23 February 2011 to 2 December 2011. Among the most salient results:

- 89% of the sovereign investment practitioners surveyed think that SWFs are subject to implicit short-term constraints (e.g. a limit on the maximum drawdown over a given period or minimum performance requirement due to peer comparison, loss aversion or sponsor risk).
- 92% of the respondents think that implicit liabilities should be taken into account. These liabilities correspond to the objectives that justified their creation.
- 70% of the respondents agree that the ALM framework provides SWFs with a better understanding of optimal investment policy and risk management practices.
- A majority of the respondents report a lack of dedicated solutions for ALM and risk management by SWFs.

A copy of the EDHEC-Risk Institute survey can be found here:

[EDHEC-Risk Publication What Asset-Liability Management Strategy for Sovereign Wealth Funds?](#)



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## About EDHEC-Risk Institute

Since 2001, EDHEC has been pursuing an ambitious policy in terms of international research. This policy, known as “Research for Business”, aims to make EDHEC an academic institution of reference for the industry in a small number of areas in which the school has reached critical mass in terms of expertise and research results.

Among these areas, asset and risk management have occupied privileged positions, leading to the creation in 2001 of a major research facility: EDHEC-Risk Institute. This institute now boasts a team of 80 permanent professors, engineers and support staff, as well as 18 research associates from the financial industry and 6 affiliate professors.

EDHEC-Risk Institute is located at campuses in Singapore, which was established at the invitation of the Monetary Authority of Singapore (MAS), the City of London in the United Kingdom, and Nice, France. In addition, it has a research team located in the United States.

The philosophy of the institute is to validate its work by publication in prestigious academic journals, but also to make it available to professionals and to participate in industry debate through its Position Papers, published studies and conferences. Each year, EDHEC-Risk organises two conferences for professionals in order to present the results of its research, one in London (EDHEC-Risk Days – Europe) and one in Singapore (EDHEC-Risk Days – Asia), attracting more than 2,000 professional delegates.

To ensure the distribution of its research to the industry, EDHEC-Risk also provides professionals with access to its website, [www.edhec-risk.com](http://www.edhec-risk.com), which is entirely devoted to international risk and asset management research. The website, which has more than 50,000 regular visitors, is aimed at professionals who wish to benefit from EDHEC-Risk’s analysis and expertise in the area of applied portfolio management research. Its monthly newsletter is distributed to more than 1,000,000 readers.

EDHEC-Risk Institute also has highly significant executive education activities for professionals. In partnership with CFA Institute, it has developed advanced seminars based on its research which are available to CFA charterholders and have been taking place since 2008 in New York, Singapore and London.

EDHEC-Risk Institute has an original PhD in Finance programme which, in addition to its highly selective residential track for young talents worldwide, has an executive track for high level professionals who already have masters degrees from prestigious universities and significant industry experience. Complementing the core faculty, this unique PhD in Finance programme has highly prestigious affiliate faculty from universities such as Princeton, Wharton, Oxford, Chicago and CalTech.