Most studies on return predictability assume that predictor variables follow stationary processes with constant long-run means. However, there is now overwhelming evidence that there are structural breaks in predictors in general and in the dividend-price ratio mean, in particular, and the predictor variable should consequently be adjusted by the structural changes (see for instance Lettau and van Nieuwerburgh, 2008).

In our research paper we propose a return forecasting methodology that addresses the nonstationarity of the predictor variable as well as the parameter estimation noise from the predictive regression. The methodology follows two steps. First, to obtain a stationary predictor, we estimate the structural-changes adjusted-mean of the raw predictor, using the Bayesian Change Point (BCP) algorithm of Barry and Hartigan (1993) and Erdman and Emerson (2007), and subtracting it from the original variable. Then, taking advantage of one by-product measure of the Bayesian algorithm (i.e. the posterior variance of the predictor variable), we propose an optimal shrinkage method to reduce the noise in the estimation of the regression parameters.

The BCP algorithm incorporates the uncertainty related to the timing of the structural changes in the predictive variable. Also, unlike alternative methods used to estimate regime changes, the model used permits the changes to happen progressively instead of sharp break points occurring at a particular time. In our tests, we find that the BCP algorithm is very effective in removing the persistent component of the predictor variables. Subtracting the estimated ex-post mean from the dividend-price ratio yields a stationary predictor, reducing its first and second order autocorrelation (AC) coefficients dramatically for quarterly and annual time series with respect to the unadjusted series. In annual data, the AC of order 1 (AC(1)) went from 0.92 for the raw dividend yield ratio to 0.02 for the BCP adjusted ratio, and the AC(2) from 0.85 to -0.19.
In quarterly data, the AC(1) and AC(2) decreased from 0.97 and 0.94 to 0.16 and -0.01 after the BCP adjustment. Furthermore, using the BCP algorithm, the R2 of the predictive regression increased from 4% when using the raw dividend-price ratio in annual data, to 19% using the BCP-adjusted ratio, and in quarterly data from 0.82% to 11.25%.

In order to measure the out-of-sample predictive performance of the model, we use several metrics. The first one is the out-of-sample R²OS introduced by Campbell and Thompson (2008), which compares the mean squared error (MSE) of the predictive model with respect to the MSE of the prevailing historical average (i.e. the null hypothesis of no predictability). A positive value for R²OS means that the predictive model outperformed the historical average in terms of cumulative predictive error during the out-of-sample period. We assess the statistical significance of the out-of-sample forecasting gains in R²OS with the MSE-F statistic proposed by McCracken (2007). Furthermore, we use the Mincer-Zarnowitz measure of forecasting accuracy introduced in Mincer and Zarnowitz (1969), which is the determination coefficient of the regression of the return at t + 1, as the dependent variable, on the return forecast done at time t.

In order to measure economic risk-adjusted benefits of the model's forecasts, we calculate the realized utility gains for a mean-variance investor using the model over time. We compute the average utility for an investor with a relative risk aversion parameter of g = 3 who allocates every period between stocks and risk-free bills using forecasts of the stock market returns with allocation limits to the stock index of [0%; 150%]. We simulate 4 portfolio strategies using 4 different forecasting models for stock returns based on: (i) the historical average, (ii) the raw dividend price ratio combined with Ordinary Least Square regression coefficients, (iii) the raw dividend price ratio combined with shrunk regression coefficients, and (iv) BCP-adjusted dividend price ratio and shrunk parameter values.

In annual predictions of the broad US market return index, first, we observe that the parameter shrinkage method alone reduces the forecasting errors, but not enough to perform better than the historical average. On the other hand, the BCP adjusted method without shrinkage yields an important improvement in the forecasting errors and a utility gain of 1.40% per year. However, in the absence of estimation error shrinkage, the BCP method can produce large forecasting errors, yielding often the lowest R²OS (-6.46% in this case). These results show that the BCP adjusted dividend yield forecast can produce better “directions” but potentially produce very large deviations from the historical mean. Hence, in the absence of parameter shrinkage, when the forecast fails, the error can be very high. The BCP model tends to bet on the right numbers of the “roulette”, but the size of the bets in each number is very high, thus the importance of shrinking the size of the bets in each period to avoid blowing up the prediction error in one period. Indeed, the BCP with shrinkage yields a statistically significant positive R²OS of 8.12% and utility gains of 0.81%.

These results were confirmed in tests with different sample periods, other equity indices and applied successfully to other known predictors such as the book-to-market and the earnings-to-price ratios.

In conclusion, our tests provide evidence of out-of-sample return predictability that could have been exploited in real time with the proposed methodology.

References

This editorial is based on the article forthcoming in the journal “Financial Markets and Portfolio Management”. The co-authors Daniel Mantilla-Garcia, PhD (2011) and Vijay Vaidyanathan, PhD (2012), who sign it, defended their thesis respectively entitled "Essays on Idiosyncratic Risk and Return Predictability" and "Essays in Venture Capital and Predictability".
What are your current research themes and could you share a bit about your findings?

My main areas of research are currently fixed income on the one hand, and stress testing on the other. To be more precise, in fixed income I am working on risk premia (and risk factors) for Treasuries and risky bonds. This has both a time-series dimension (when is it a good time to invest?) and a cross-sectional angle (if we ‘had to’ invest today, which assets would give us a most attractive compensation for the risk we bear?).

Of course, the cross-sectional studies are another incarnation of ‘smart-beta’ strategies, this time applied to fixed income. In both cases (time-series and cross-sectional) we strive for a financial understanding of the factors, and we are very mindful of the twin dangers of data mining and over-engineered proxies. To be more specific, I am working (with my PhD students) on liquidity and liquidity risk premia and on a variation on the theme of Downside CAPM. As for stress testing, I am working on the application of Bayesian-net technologies to this domain. I think it is fair to say that the ‘conceptual case for stress testing’ has been won – we all agree that, for macro- and micro-prudential purposes stress testing can be very useful. What stands in the way of more widespread application, I think, is a number of ‘engineering’ problems. Clearly, speaking of engineering solutions only makes sense in the context of a specific technology, and the technology that I prefer is the Bayesian-net one. However, the solutions I am developing can be applied to most stress testing programmes. This should be of interest to portfolio managers, regulators, and risk managers for buy- and sell-side firms.

You have recently taught an elective course entitled “Term Structure Modelling in the P & Q Measures”. How is this course related to your research?

In the course I have tried to share with my students the excitement in term structure modelling of the last decade or so. After the work by Cochrane and Piazzesi (2004) on the one hand, and on fixed-income smart-beta on the other, a field that until recently had been rather staid and ‘boring’ has become red hot with ideas and innovations. I also shared with these PhDs students the latest findings, and explained why they matter: for the conduct of monetary policy, for instance, for investing, and to understand price formation.

"they come with a wealth of professional experience that makes them a particularly deep and perceptive cohort of students"

What has been your experience teaching participants working in industry?

Teaching the EDHEC PhD students has been a real pleasure because they come with a wealth of professional experience that makes them a particularly deep and perceptive cohort of students. They immediately understand why a result is important, and they can see the connection between theory, measurement and financial reality straight away. Working with them is truly a give-and-take process.

What advice could you give to an executive who pursues doctoral studies?

I would recommend that they highly prize (and not hide) their professional experience. It is a great asset. It is easy to brush up on rusty maths, but experience cannot be improvised.
As associate editor for several journals of applied finance and risk management, what advice can you offer to researchers or graduates who would like to publish parts of their dissertations?

My strongest recommendation is to make sure that the results they present really improve our understanding of a topic of finance. It does not matter if the contribution is small, but it should be ‘honest’. By this I mean that analytical pyrotechnics to show the cleverness of the author or over-stylised cases of the “let's assume a horse is a sphere” type may be fun games to play, but leave no lasting mark. A simple insight, a clear result, a useful technical suggestion all make a positive impact, and improve our understanding (and our practice) of finance. Also, the style should be ‘professional’, but not stuffy. When the reasoning becomes complex, don't be shy to use examples (Many times a referee has thanked me for that). And, please use simple words whenever you can. The goal is to be understood, not to baffle.

Could you tell us about your background and what you are doing today?

In the final year of my science degree I became fascinated with the mechanics of the stock market. This was the beginning of my path towards Finance. Since then I have worked for a few banks and proprietary trading firms, and completed my Master in Financial Mathematics at Stanford.

Today I'm Head of Research at a firm called ET Index Research that helps investors construct strategies that incorporate environmental metrics. We have found that the benefits of utilising this information are compelling, both in terms of helping to manage risk and increase returns.

Why go for doctoral studies at this stage of your career and how did you choose this particular programme?

At the time I applied to EDHEC I was working on an interesting research project for a bank which involved building a global, multi-asset class correlation model. I thought that if I'm doing original research already, why not get a PhD with it? I was also interested in getting an academic opinion on my work and to see if there were non-proprietary contributions I could publish. The executive track of the PhD programme at EDHEC seemed like an almost-perfect for this.

Now that we've started ET Index Research, the programme also works really well as it allows me to spend most of my time growing my business. However, as my research relates directly to my company, it fits in very naturally.
You presented your first working paper at the end of March on the Nice campus in front of faculty and programme participants; could you please introduce the topic and explain how this research is relevant for your organisation.

My topic is whether or not the market is currently pricing environmental risks. For example, if increasing global temperatures is increasing the risk of losses due to extreme weather events in the future, then you might expect this to be observable in (decreasing) stock prices today. There are a couple of academic studies that suggest this is the case. And therefore that increasing environmental risk is acting as a global drag on asset returns. This is important to ET Index Research as we help investors design strategies to navigate these increasing risks (and opportunities). With my research at EDHEC, I hope to examine the pricing of environmental risk in greater detail and to build on the interesting results that have already been obtained.

You are at the end of the second year of the programme; have you gained specific insights so far?

I've confirmed the result that temperature risk seems to be priced, and shown that this holds out-of-sample, which was not done before. In addition, I've studied other environmental risks beyond temperature and found some interesting positive, and negative, results. I look forward to publishing these results more widely later this year.

Also, what I've found useful in the programme so far is that both the professors and students have a diverse range of research interests. This makes it essential to communicate your research clearly and concisely so that researchers from different backgrounds can appreciate it. This is a life-long skill and the programme offers a friendly environment in which to refine it. And the immediate payoff is that once you've shared your ideas, there is a diverse range of researchers ready to offer you inspiring ideas that you might not have received from a more narrowly focused group.

Have there been “a-ha” moments over the course of the first year?

What I found particularly rewarding about the first year was the way we covered finance from many different angles. A key part of this was Corporate Finance. I hadn't realised how many interesting and fundamental research questions there are in this area. At ET Index Research we believe that it is important for investors to consider environmental risks. But it is important for corporate managers to incorporate environmental information as well. Thanks to our review of corporate finance research, I'm now fascinated by the implications that growing environmental risks have for manager behaviour and how this might impact returns.

"what I've found useful in the programme so far is that both the professors and students have a diverse range of research interests"

Have you been enriched by the diversity of background of your fellow classmates?

Definitely. My classmates come from a diverse range of organisations including hedge funds, investment banks, and central banks. As someone in an entrepreneurial venture myself, I've found it particularly interesting to talk with classmates who have founded their own firms and to swap stories about building organisations.

What is, according to you, the main challenge of the programme?

To get the most out of the programme, I think that time management is key. We all have very busy jobs. But any time we are able to devote to EDHEC is valuable. Whether from interactions with the professors, classmates, independent research or reviewing the elective courses online.
Following its “Research for Business” motto, EDHEC Business School launched a PhD in Finance programme 10 years ago. The main objective was to train well established senior professionals in cutting edge research methods within different fields of Finance. EDHEC Business School thus expects to make an educated and strong impact on practices within the financial industry.

The programme is proud of its 37 PhD graduates to date who have gone on to author over 20 publications in top academic journals and leading professional reviews. To broaden the audience of this wonderful collection of original contributions, a PhD forum will take place every year where professionals from the industry will have first-hand access to new and stimulating results about the operation of financial markets and how they can be improved.

The inaugural EDHEC PhD in Finance Forum 2017 took place mid-June 2017 and showcased the following topics that alumni and candidates of the programme have been working on; each of these presentations is based on the specific dissertation work of the speakers.

- Could a mandatory investor assessment lead to better investment outcomes? by Chris Firth, PhD (2015)
- Asset Pricing with Housing Crashes and Booms by Messaoud Chibane, PhD (2016)
- Markowitz Meets Merton: Efficient Mean Variance Frontiers with Default Risk by Stefano Dova, PhD candidate
- Local Volatility and the Recovery Rate of Credit Default Swaps by Jeroen Jansen, PhD (2016)

The keynote speech “A Portfolio Perspective on the Multitude of Firm Characteristics” was delivered by Professor Raman Uppal who looked at the multitude of firm characteristics from a portfolio perspective. He provided some guidance on relevant characteristics and discussed how they relate to factors that drive stocks returns.

This event was also a great opportunity for exchanging with an audience made up of alumni, PhD candidates, faculty and industry practitioners.

More information
Succeeding Emmanuel Métais, following his recent appointment as Dean of EDHEC Business School, Michelle Sisto has been appointed Associate Dean for Graduate Studies, and will officially assume the role from 1 September 2017. She therefore assumes responsibility for a portfolio of programmes including the EDHEC PhD in Finance as well as the School’s Master in Management and Masters of Science (both the Business Management and Financial Economics tracks).

Michelle Sisto, 48, is of Italian and American nationality and holds a PhD in Finance from EDHEC, a DEA (Research Master) in Mathematics from the University of Nice Sophia Antipolis and a Bachelor in Mathematics from Georgetown University (Washington DC). As a specialist in statistical data analysis and big data, Michelle Sisto has been teaching in an international environment for over 20 years. She has published research work extending from the asset management field, with a particular focus on corporate social responsibility and financial regulation, to pedagogies in multicultural environments.

Her doctoral thesis supervised by Professor Abraham Lioui was on Responsibility, Regulation and Asset Pricing.

Raman Uppal, EDHEC PhD in Finance programme Academic Director, co-authored a paper with Adrian Buss and Grigory Vilkov entitled “Financial Innovation and Asset Prices”, which has been selected to win the CICF Best Paper Award in the 2017 China International Conference in Finance (CICF).

This paper was chosen from among the 240 papers accepted on this year’s programme after going through a thorough process that required recommendations from all 60 session chairs combined with independent readings by the award committee consisting of Hui Chen (Massachusetts Institute of Technology), Jie Gan (Cheung Kong Graduate School of Business, Xiaoyun Yu (Indiana University & CICF programme committee chair), Harold Zhang (University of Texas at Dallas), and Jun Pan (Massachusetts Institute of Technology & CICF programme committee chair).

The award ceremony took place during the conference on 13 July.

The China International Conference in Finance provides an open platform that brings worldwide scholars together to present current research and stimulate new development in finance. CICF presented its first conference in 2002. CICF invites papers from all areas of Finance and over the years, CICF has grown to be one of the leading finance research conferences in the world. The 2017 CICF conference will be held on 12-15 July 2017 in Hangzhou, China.
**Programme and faculty news**

**Award for achievement in research**

EDHEC PhD in Finance Affiliate faculty **Professor Peter Christoffersen** is one of the co-winners of the 2016 Roger Martin Excellence in Research Award. Roger Martin served as Dean at the Rotman School from 2008 to 2013.

**Peter Christoffersen** is a Professor of Finance at the Rotman School of Management (University of Toronto) and holds the TSX Chair in Capital Markets. He is also a fellow at the Bank of Canada. His main research interests are in volatility modelling for option valuation as well as in developing back testing procedures for risk management systems. He is the author of the Elements of Financial Risk Management, Second Edition (Academic Press, December 2011).

Within the EDHEC PhD in Finance programme, **Professor Christoffersen** regularly delivers a doctoral research seminar on risk management and extreme risks.

**EDHEC PhD in Finance doctoral research seminars in 2017**

After completing their core courses, PhD in Finance candidates will advance to the second stage of the curriculum and select the elective courses that will help them with their dissertation work. Candidates must take a minimum of five elective seminars across their second and third years.

Electives offered in the 2017 academic year to PhD candidates form a balanced portfolio of seminars presenting conceptual advances and state-of-the-art quantitative methods. PhD in Finance candidates will have the privilege of learning from the world’s leading specialists in these areas.

The schedule for the 2017 electives may be found below:

| Liquidity Risk | Rama Cont, Professor of Mathematics and Chair in Mathematical Finance, Imperial College London | January 2017, London |
| Term Structure Modelling in the P and Q measures | Riccardo Rebonato, Professor of Finance, EDHEC Business School | January 2017, London |
| Data Science, Analytics, Algorithms | Sanjiv Das, William and Janice Terry Professor of Finance, Santa Clara University's Leavey School of Business | March 2017, Nice |
| Monetary Policy and Asset Prices | Harjoat Bhamra, Associate Professor of Finance, Imperial College London | August 2017, London |
| Monte Carlo Methods in Finance | Marcel Rindisbacher, Associate Professor of Finance, Boston University Questrom School of Business | August 2017, London |
| Behavioral Finance and Asset Management | Harrison Hong, Professor of Economics, Columbia University | October 2017, London |

**Programme adds a new alumnus**

On 24 May 2017, Majid Hasan successfully defended his doctoral thesis entitled "Dynamic Asset Pricing with Funding-Shortfall Risk".

In his first paper, Majid explores the effects of funding-ratio constrained institutions with intertemporal consumption, when there is a tension between the institution's unconstrained preferences and the demands of an externally imposed funding-ratio constraint, and in his second paper, he examines the qualitative effects of unforecastable demand shocks.

Majid was advised by Professor Raman Uppal and his thesis committee also included EDHEC Business School Professor Laurent Calvet and Caltech Richard N. Merkin Professor of Mathematical Finance Jaksa Cvitanić, who served as external reviewer. Majid joined the programme in 2014 as residential track participant and he is currently Head of Asset Pricing Models at EDHEC Infrastructure Institute. He has recently co-authored an article with Frederic Blanc-Brude (EDHECinfra) entitled “You Can Work It Out Valuation and Recovery of Private Debt with a Renegotiable Default Threshold” and published in The Journal of Fixed Income (Spring 2017).
A specialist in Financial Intermediation, Banking and Corporate Governance, Ibolya Schindele will join EDHEC Business School and the EDHEC PhD in Finance core faculty as Associate Professor of Finance at the beginning of September 2017. Previously, she was on the faculty of BI Norwegian Business School and worked as Senior Researcher at the Central Bank of Hungary. She also held visiting positions at the Central European University, the Swedish Institute for Financial Research (SIFR) and Toulouse Business School. Her research interests are in the fields of banking and financial intermediation.

Her recently published papers focus on the active role of shareholders and non-shareholding stakeholders in governance. Since her affiliation with central banking research, her papers have investigated the impact of monetary policy on banks’ lending decisions. Her research has been presented at various international conferences and published in peer-reviewed journals such as the Review of Finance, Review of Financial Studies, Economics Letters, and the Journal of Banking and Finance. She is Subject Editor of the Journal of Multinational Financial Management.

Ibolya Schindele holds a Master of Arts in Economics (Central European University) and a PhD in Financial Economics from the University of Amsterdam.

In the PhD in Finance programme, Dr Schindele is going to teach Advanced Corporate Finance focusing on Corporate Governance, and she will also advise PhD candidates.

A selection of recent presentations:

Global Derivatives 2017

In early May 2017; the Global Derivatives Conference entitled “How to Survive & Thrive in the New Era for Quant Finance” took place in Barcelona.

Professor Riccardo Rebonato (EDHEC Business School) gave a talk about smart-beta in fixed income, and about stress testing with Bayesian nets. Dr Rodney Hoskinson, PhD (2016), was invited to give a presentation in the Interest Rate Modelling stream on “Why it’s time to swap to switching interest and default rate models”. Rodney Hoskinson is currently the manager of KVA desk quantitative analysis in Fixed Income, Currencies and Commodities at National Australia Bank.

Innovations & Regulations in Investment Banking

Hosted by European Institute of Financial Regulation (EIFR) and Institut Louis Bachelier (ILB), the Conference on “Innovations & Regulations in Investment Banking”, was held in June 2017 in Paris. Professor Raman Uppal (EDHEC Business School) presented his research paper entitled “The Intended and Unintended Consequences of Financial-Market Regulations”. In this research, Dr Uppal and his co-authors study the intended and unintended consequences of various regulatory measures used to reduce fluctuations in financial as well as real markets and to improve welfare.

Four-University Rotating FinTech Conference: Wealth Management Systems for Individual Investors

EDHEC-Risk Institute, Korea Advanced Institute of Science and Technology (KAIST), Princeton University and Tsinghua University – all renowned for the quality and relevance of their educational and research programmes in Finance and technology – are partnering for the first time. Together, they will host an international series of rotational conferences on financial technologies and offer a forum that will facilitate discussion among all interested parties (academics, practitioners and regulators) from around the world.
The first conference took place on the Princeton University campus on 26 April 2017 and it was an opportunity to interact with experts of each university including Lionel Martellini – Professor of Finance, EDHEC Business School and Director, EDHEC-Risk Institute, Woo Chang Kim – Associate Professor, Industrial and Systems Engineering Department, and Head, KAIST Center for Wealth Management Technologies, John Mulvey – Professor of Operations Research and Financial Engineering, ORFE Department, Princeton University and Andrew Yao from Tsinghua University.

Recent and forthcoming articles by faculty

Below is a selection of articles by programme faculty members which were published in 2016/2017 or are forthcoming. Appearing are representative articles in scientific journals co-authored by faculty members publishing under their EDHEC Business School or EDHEC-Risk Institute affiliations.


*Rama Malladi and Jeroen Jansen are graduates of the EDHEC PhD in Finance programme.

Doug Chau, PhD (2016) has joined the University of Toronto Asset Management Corporation (UTAM) as Chief Risk Officer and Head of Research. Prior to UTAM, he held senior positions in portfolio construction and quantitative research at OPTrust (OPSEU Pension Trust).

Messaoud Chibane, PhD (2016) will join NEOMA Business School on the Rouen campus (France) as Assistant Professor in the Finance Department from September 2017. He is currently Lead Researcher at the ESSEC Finance Chair and he previously headed Shinsei Bank’s cross asset quantitative team in Tokyo.

Matt Lanfear, PhD (2016) presented research findings from the paper “Flight to Gold: Extreme Weather Events and Stock Returns”, co-authored with Mark Siebert, PhD (2016) and Abraham Lioui, at the “10th Financial Risks International Forum - Retail Finance and Insurance: Impact of Technical Innovation, Through Majors and FinTech” in Paris on 28 March 2017. The focus of this conference was the digital revolution under way in financial services. Matt is a Restructuring and Turnaround Consultant and Startup Advisor.


Forthcoming in the Journal of Financial Economics is an article written by Gideon Ozik, PhD (2011) and his co-authors Kenneth Froot, Namho Kand and Ronnie Sadka, entitled "What Do Measures of Real-Time Corporate Sales Tell Us About Earnings Surprises and Post-Announcement Returns?". This paper won the 2016 Crowell Second Prize awarded by PanAgora Asset Management, actively supporting academic research that furthers the field of quantitative management.

R.L. Shankar, PhD (2014) Professor of Finance and Analytics at Great Lakes Institute of Management, truly honoured to be featured among the most inspiring 40-under-40 educators (Indian Express). He recently won NYU Stern-NSE’s inaugural research grant for his joint work on “Impact of Algorithmic Trading on Indian Markets".
EDHEC Business School is pleased to announce the appointment of Emmanuel Métais as the new Dean of EDHEC Business School. He succeeds Olivier Oger who has led the School since 1988. He assumed this role on 1 July and has been working alongside Olivier Oger in order to ensure a smooth transition.

Emmanuel Métais, 48, has worked for EDHEC Business School for over 20 years and has served as Associate Dean for Graduate Studies since 2015. Emmanuel holds a PhD in Strategic Management and is a Professor of Strategy. His main research themes focus on corporate strategy and particularly on disruptive strategies and M&A performance. He has published numerous articles and book chapters relating to these themes in French and international academic journals.

Emmanuel Métais ran EDHEC Business School’s Strategy & Management Department between 1997 and 2005. He has overseen several major transformations within the School: after having supervised EDHEC’s first AACSB accreditation in 2002, he managed the School’s portfolio of International post-graduate programmes between 2005 and 2008 and was responsible for the EDHEC Global MBA between 2006 and 2015. In this last position, he accelerated the development of this strategic programme, during a period in which it successively entered the rankings of The Economist (now 24th worldwide and 3rd French) and The Financial Times (74th worldwide and 3rd French in 2017).

Why EDHEC?

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Financial Times ranking 2017: #1 Master in Finance Worldwide

EDHEC Business School’s Master in Finance tops the Financial Times Masters in Finance ranking in 2017. This result underscores EDHEC’s international excellence in Finance. After gaining 7 places in 3 years, EDHEC is now ranked as the top business school for Finance worldwide by the Financial Times. This ranking vindicates the high-impact strategy initiated several years ago by the School and which has entailed a disruptive policy in the international research field, executed in close proximity to businesses. By producing research that is of true practical use for businesses and disseminated through the School’s different programmes, EDHEC ensures this strategy has an exceptional impact on the training and placement of its students throughout the world.

This top ranking underscores the excellence of EDHEC’s portfolio of programmes and especially the Master of Science in Financial Markets, taught on EDHEC’s Nice campus and commended here today. The dimensions analysed by the Financial Times, particularly via a questionnaire sent to graduates, coincides with the pillars of the programme, namely excellence of tuition and diversity of the student experience, graduate satisfaction & career development and international exposure (“Alumni Career Progress”, “School Diversity” & “International Experience and Reach” in the FT’s terms). “We are very proud to see EDHEC internationally recognised as the world’s top business school for finance. Our original “EDHEC for Business” growth model, founded on academic excellence and close ties with businesses, has proved popular with the market for years, and our graduates are now among the most highly sought-after by financial institutions operating in the world’s leading financial centres”, explains Olivier Oger, Dean of EDHEC Business School.

Please discover this ranking online
Since Professor Noël Amenc’s creation of EDHEC-Risk Institute (ERI) in 2001, the School has become an academic reference within the financial industry. This centre of applied research focused on asset management is without equivalent worldwide and has spawned two new entities since its inception. The first, EDHECinfra, is supported by the Monetary Authority of Singapore and has become the leading research team dedicated to infrastructure-project financing and risk assessment. The second, ERI Scientific Beta, based in London, Singapore, Nice, Paris, Boston and Tokyo, is now one of the world’s leading designers and producers of indices offering alternatives to traditional market indices. Together these three entities generate combined annual research revenues in excess of €15 million. They stem from the use of EDHEC’s research models and products by world-leading financial institutions such as Amundi, BlackRock, Goldman Sachs, Merrill Lynch, Morgan Stanley, Nomura and Société Générale. The Scientific Beta indices are used to manage over €15 billion of assets by the world’s largest pension funds and sovereign funds. By promoting and exploiting its research in this way, EDHEC has a positive impact on the largest employers—who are also EDHEC’s clients—and helps create a preference on their part for EDHEC graduates.

The result confirms the progress made by EDHEC in all global rankings: the School has risen 11 places in the FT ranking of European Business Schools, 10 places in the FT ranking of Global MBAs worldwide and 7 places in the FT Global Executive Education ranking.

Research for Business

The Research for Business strategy is a key component of EDHEC Business School’s identity. EDHEC spends more than 20% of its resources on research. Business and value creators benefit directly from the research centres’ contribution: which guides major institutions in their global business action. This is the case for the EDHEC-Risk Institute in terms of asset management, EDHEC Infrastructure Institute for long-term investments and LegalEdhec for business legal management.

Riccardo Rebonato’s speech on fixed-income smart beta at L’AGEFI Day: Indexing, ETF & Smart Beta Summit in London

A conference dedicated to institutional investors, multi-managers, private bankers and family officers took place in London on 8 June 2017. The “L’AGEFI Day: Indexing, ETF & Smart Beta Summit” focused on the key aspects of modern investment approaches including indexing, single- and multi-factor portfolios and smart beta solutions.

The aim was to help delegates better understand the details of how modern benchmarks are built and how they should be analysed and used. The conference also offered unique insight into the investment vehicles providing access to those benchmarks and shed light on how you can select the most efficient funds available on the market to benefit from the liquidity offered by secondary markets through listed ETFs.
Riccardo Rebonato*, Professor of Finance, EDHEC Business School, member of EDHEC-Risk Institute and core faculty member of the EDHEC PhD in Finance programme introduced Smart Beta in fixed-income, and he examined the following issues:

- What is fixed income smart beta, and why is it different?
- Cross-sectional versus time-series risk premia: empirical findings
- The problem with proxies: how to ensure robustness and repeatability

Access Professor Rebonato’s presentation (video) and his slides.

In this conference, Felix Goltz, Head of Applied Research, EDHEC-Risk Institute and Research Director, ERI Scientific Beta, spoke about ETFs and smart beta, unveiling the results of the 10th EDHEC-Risk European ETF & Smart Beta Survey.

*Riccardo Rebonato is Professor of Finance at EDHEC Business School, member of EDHEC-Risk Institute and author of journal articles and books on Mathematical Finance, covering derivatives pricing, risk management and asset allocation. Prior to this, he was Global Head of Rates and FX Analytics at PIMCO. Academically, he is an editor of financial journals and was until recently a visiting lecturer at Oxford University and adjunct professor at Imperial College’s Tanaka Business School. He sits on the board of trustees for the Global Association of Risk Professionals (GARP). Previously, he was global head of market risk, head of research and head of complex derivatives trading for European banks. He was a Research Fellow in Physics at Corpus Christ College, Oxford, a Visiting Scientist at Brookhaven National Laboratory, and a Chercheur Invité at the Institute Laue-Langevin (Grenoble). He holds a doctorate in nuclear engineering (University of Milan) and a PhD in condensed matter physics/science of materials from Stony Brook University, NY.

Infrastructure Benchmarking Special

In the June-July 2017 issue of AsianInvestor, the supplement is an Infrastructure Benchmarking Special with the contribution of EDHEC Infrastructure Institute (or EDHECinfra).

First EDHECinfra discusses the rise of #fakelnfra and how it has been an impediment to the development of real infrastructure investment. It posits that there is no such thing as a “listed infrastructure asset class”, which is presented to investors as an opportunity to gain exposure to something new or rare, but has really always been available, that is, it is already ‘spanned’ by existing capital market and other instruments.

It proves its point with a study of listed infrastructure, showing that any “listed infrastructure” effect was already spanned by a combination of capital market instruments over the past 15 years in global, US and UK markets. It then presents the results of private equity and private debt indices. On the private equity side, it created the ability to measure the risk-adjusted performance of private infrastructure equity investments on a comparable basis with other asset classes. These results allow asset owners and managers to begin evaluating how they might better access infrastructure investments, so that infrastructure investing can become a means to an end and help them meet their investment goals in a more meaningful manner.

On the debt side, it concludes that a private infrastructure senior debt index exhibits investment characteristics that set it clearly apart from a senior corporate debt index. However, this broad market infrastructure debt index is composed of two subgroups of assets that have different profiles: the first one, infrastructure project finance, has a unique risk/reward profile and offers a relatively high reward per unit of risk, especially since 2007; the second one, infrastructure corporate debt, is a higher-risk / higher-return version of the corporate debt market, but it does not offer a better level of risk-adjusted performance than corporate debt.

It describes how investors need their private asset managers to adapt better valuation methods. Asset owners are winning the argument to lower private equity manager fees, their next battle will be about the valuation of private assets.

Finally, it details its approach to the private equity and debt valuation used to build the infrastructure investment benchmarks created by EDHECinfra.

Access the supplement
Commodity Risk Management, Hilary Till

Commodity futures trading is such a niche discipline that discovering how to succeed using disciplined risk-management principles usually only occurs through hard-won experience. This article provides an alternative approach: one can instead study a logical structural framework, as set forth in this article.

In covering the topic of commodity risk management, this practitioner-oriented paper proceeds as follows. A number of trading strategies exist because the trader is being paid to bear risk: that is why they can continue to exist, even if well-known. But then in order for a trading program to be viable in the long-term, a trader must implement disciplined risk management procedures. The key parameters for a risk-management program include quantifying a client’s risk tolerance and attempting to ensure that one does not exceed that tolerance as well as understanding the price behaviour of commodity futures prices and their potential for explosive behaviour. Both of these parameters are essential for the choice of leverage level and hedging strategy for a trading program. Next the paper covers two types of useful risk metrics for a trading program, which include Value-at-Risk and historical worst-case measures. The article then discusses how to avoid inadvertent concentration risk, namely by understanding the fundamental drivers of a strategy. The paper also advocates the use of (a) out-of-the-money options to hedge against identifiable extreme scenarios and (b) disciplined exit strategies for when trading strategies exceed worst-case outcomes. Finally, the paper enumerates what should be included in a trading program’s risk-management reports.

More...

You Can Work It Out! Valuation and Recovery of Private Debt with a Renegotiable Default Threshold, Frédéric Blanc-Brude and Majid Hasan*

Large infrastructure projects are often financed through limited-recourse project finance (PF) vehicles with a high proportion of senior debt. PF is a unique form of corporate governance that creates extensive creditor rights when certain covenants are broken, most notably the option to “step in” upon a credit event, and to restructure the firm to maximise either expected recovery or expected payoff, depending on the nature of the credit event. These options significantly impact the outcome of credit events, and credit rating agencies report anecdotal evidence of very high recovery rates in project finance debt compared to comparable corporate debt. However, data paucity forbids robust reduced-form modelling of expected recovery rates. In this article, we extend the structural credit risk model of illiquid debt developed by Blanc-Brude and Hasan (2016) to incorporate the step-in option of senior creditors in PF, and model its impact on the valuation and risk profile of senior unsecured project debt, taking into account the bargaining power of creditors and borrowers in investment projects that are relationship-specific. Step-in options also can be understood as trading off credit risk and duration, depending on creditor risk preferences.

Other articles provide a broad overview of initiatives to launch new forms of alternative indexes based on the market value of debt, to put the search for factors and beta strategies in the context of asset pricing, to present the results of our research on smart beta replication costs, and to examine the argument that portfolio rebalancing can be a source of additional performance. Further articles introduce a new approach that aims to maximise exposure to the long-term rewarded equity factors in a “top-down” framework in a robust and well-diversified manner and examine the respective merits of the “top-down” and “bottom-up” approaches to multi-factor portfolio construction.

Lastly, this edition presents the results of the first in-depth survey of institutional investors’ perceptions and expectations of infrastructure investment and asks whether focusing on listed infrastructure stocks creates diversification benefits previously unavailable to large investors that are already active in public markets.

Access the supplement

P&I EDHEC-Risk Institute Research for Institutional Money Management

The latest edition of the Research for Institutional Money Management supplement to P&I begins by exploring a novel approach to address the challenge raised by the standard investment practice of treating attributes as factors.
Important information for prospective applicants

Application Information

Executive and Residential track
The next application deadlines are 15 July 2017 for September 2017 admissions and 15 December for September 2018 admissions.

EDHEC is seeking to matriculate ten to twelve new participants in 2017.

Next programme presentations

Presentations or interviews are scheduled all year round on-site or on-line.

Sessions are upcoming in London (22 August & 26 September).

For more information about the programme, to register for a presentation or to request an application form, please contact Brigitte Bogaerts.