



Press Release

Nice, 24 July 2007

Will European insurers be able to continue to invest in hedge funds?

EDHEC surprised by the 45% capital charge set by CEIOPS in QIS3 for all alternative investments and hedge funds

Within the equity risk sub-module of the third Quantitative Impact Study (QIS3) undertaken by the Committee of European Insurance and Occupational Pension Supervisors (CEIOPS), a preamble to the Solvency II supervisory standard, all alternative investments are subject to a capital charge of 45%, nearly 50% higher than the 32% applied to regular equity exposures.

EDHEC's work clearly shows that this capital charge is **totally inconsistent with the real risk profile of hedge funds**. Indeed, hedge funds as an asset class are far less risky than stock indices: over the past ten years funds of hedge funds have an empirical downside risk with a 5% confidence interval of 3.69%, three times less than the S&P500's downside risk of 10.73%.

CEIOPS has probably succumbed to some of the most widespread fears about hedge funds, which are often accused of leading to systemic risk; of being a threat to the businesses they target; and of being extremely risky for private investors because of the risk of fraud and a "bet the house" attitude.

EDHEC's research has proved that **most of these preconceptions are statistically unfounded**. Overall, investing in hedge funds is generally far less risky than investing in equities and CEIOPS' proposed calibration should now be corrected because otherwise it will be practically impossible for European insurance companies to continue to invest in hedge funds. This will in turn be detrimental towards good risk management, because previous EDHEC studies have shown that hedge funds could improve asset-liability management for institutional investors, and notably for insurance companies.



For more information, please refer to the following article on the EDHEC-Risk website:
http://www.edhec-risk.com/latest_news/featured_analysis/RISKArticle.2007-07-23.1923

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About EDHEC

With 104 full-time faculty and more than 4,700 students on campuses in Lille and in Nice, EDHEC is the largest of the French “Grandes Ecoles”. Founded in 1906, EDHEC Business School is a top-ranking, full range business school. One of the few institutions worldwide to have earned the "triple crown" of international accreditations (AACSB, EQUIS, AMBA), EDHEC Business School boasts the largest selection of English taught management programs in France. Ranked in the top 5 of the French "Grandes Ecoles", and 7th in the Financial Times Masters in Management Rankings 2006, the school offers six specialised M.Sc. courses and the Theseus MBA. EDHEC Business School's alumni are active in 70 countries worldwide.

EDHEC Business School is recognized as a centre of excellence for asset management and alternative investment research and several of its professors are regarded as international experts in the fields of asset management, fixed income securities, alternative investments and risk management. The aim of the EDHEC Risk and Asset Management Research Centre is to produce research that meets the most stringent academic standards and to facilitate corporate use of this research. In partnership with large financial institutions, the research centre brings together 34 researchers and implements six industry-sponsored programs focusing on asset allocation and risk management in the traditional and alternative investment universes. Adopted by managers and investors, the EDHEC Alternative Indexes are superior measures of performance of the various hedge fund styles.

The research centre maintains a website devoted to asset management research for the business community, www.edhec-risk.com, and has given rise to EDHEC Asset Management Education and EDHEC Investment Research. EDHEC Asset Management Education helps investment professionals to upgrade their skills with asset management training and preparatory courses for the CAIA examinations, the alternative investment industry's global educational standard. EDHEC Investment Research supports institutional investors and asset managers in implementing the results of the EDHEC Risk and Asset Management Research Centre's research. It proposes asset allocation services in the context of a “core-satellite” approach encompassing alternative investments.

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