

swiss : finance : institute



Activity Report
2007-2008

swiss:finance:institute

Activity Report
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As a world-leading financial center building on a rich history, Switzerland's financial sector has the natural ambition of housing a world-leading research and training center in banking and finance.

The Swiss Finance Institute is the product of this ambition. Established at the initiative of the Swiss Bankers Association, it is a private foundation created in January 2006 with the support of the Swiss banking and finance community and SWX together with the Swiss Confederation, the Swiss National Science Foundation and several Swiss universities with the aim of advancing research activities in finance and executive education in the banking and finance sector.

The Swiss Finance Institute encompasses three pre-existing foundations: the International Center for Financial Asset Management and Engineering (FAME), the Stiftung Banking und Finanz an der Universität Zürich, and the Swiss Banking School.

This merger has led to the creation of one of the major European providers of research, doctoral training and advanced executive education in banking and finance. This report gives an overview of Swiss Finance Institute's activities during 2007 and the first half of 2008.

Word from the Board

2007 was the second year of operation of the Swiss Finance Institute. Construction signs were still ubiquitous but the first fruits of our activity were ready to harvest. Here are some of the highlights:

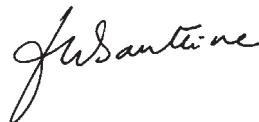
- The cooperation agreement with ETHZ became effective, thus bringing to 6 the number of academic institutions partnering with SFI.
- The final official act, the merger of the Stiftung Banking und Finanz an der Universität Zürich into the SFI foundation was concluded.
- Five new professors were hired by SFI with its partner universities in 2007. With four ETHZ professors joining the Swiss Finance Institute faculty and the three new researchers hired in 2006, this led to a total of 49 affiliated faculty members, all of whom benefit from some form of research support by SFI.
- Ten professors were awarded SFI chairs and fellowships in recognition of their research achievements, their intellectual reputation and their commitment to the Institute.
- The second SFI visiting professor joined the faculty for the 2007-08 academic year: a specialist of credit risk, Darrell Duffie, Dean Witter Distinguished Professor of Finance at Stanford University, was widely solicited by the media and SFI sponsors in this first year of the subprime crisis. He taught a very successful PhD class and delivered the keynote speech on "Portfolio Default Risk: Empirical Evidence" at our second Annual Meeting in December. His predecessor, Peter Bossaerts, SFI visiting professor in 2006-07, stayed on permanently on our faculty as the first SFI professor of finance at EPFL.
- The SFI PhD Program welcomed 18 new students and celebrated 11 new graduates, bringing the number of active students to 73, one of the largest student bodies for a PhD program in finance.
- Research activities have led to 37 new research papers published in collaboration with FinRisk on the Social Science Research Network, while 17 important publications in top journals have been recorded in 2007 or are forthcoming.
- 665 participants from all over the world registered for our executive education classes.

With new offices inaugurated in Zurich and Geneva and a growing staff (with a headcount approaching 20), 2007 was a year of transformation and growth. It was also a year of hard work sustained by considerable enthusiasm. This is the time for us to thank all involved, with a special mention to the members of the Institute's staff who have worked wonders under high pressure. Our gratitude also goes to the members of our Foundation Board and Advisories who have invested time and dedication to this collective undertaking despite very demanding professional agendas. We thank especially Prof. J. Weber, representing the SFI-Léman Center, and Dr. C. Kleiber, representing the Swiss Confederation, who have left the Foundation Board in the course of the year as well as Mr. P. Anghern, Credit Suisse and Mr. C. Streule, HSBC Private Bank, who have contributed to the Executive Education Advisory Board since its inception until the end of 2007.

In 2008, we fully anticipate continuing on the same path to success.



Olivier Steimer
Chairman of the Foundation Board



Jean-Pierre Danthine
Managing Director



The Swiss Finance Institute Faculty

With four ETHZ professors joining the Swiss Finance Institute in 2007 and the hiring of seven new professors in our first two years by our partner universities, SFI faculty totalled 50 professors halfway through 2008.

By June 30, 2008, the Swiss Finance Institute counted 50 researchers. These researchers hold professorial positions at the Institute's partner universities throughout Switzerland. They form one of the largest, if not the largest, academic research groups in Europe. This faculty body represents an extraordinary concentration of competencies; it will drive the translation of world-class research into an enhanced university finance curriculum and quality executive education in Switzerland.

The year 2007 saw the implementation of an end-of-2006 decision of the Foundation Board, following a recommendation of the SFI Scientific Council, to recognize the special status of ten researchers affiliated with the Swiss Finance Institute. Thus eight individuals who have distinguished themselves by their strong publication record and broad international reputation have received an SFI Senior Chair or an SFI Fellowship. Simultaneously, two younger scholars with highly promising potential were offered Swiss Finance Institute Junior Chairs.

With two recruitments in 2006, three recruitments in 2007, and one recruitment in the first semester of 2008, the core SFI faculty now boasts seven professors holding senior chairs, four SFI fellows and six junior chairs. The overall SFI research team includes thirty-three additional professors with permanent or temporary University contracts, all active in research under the name of, and eligible for support from the Institute.

Center highlights

At the SFI Léman Center two new professors were hired: **Peter Bossaerts** as an SFI Senior Chair at the EPFL and **Alexei Zhdanov** as an SFI Junior Chair at the University of Lausanne. The University of Lausanne was also fortunate to welcome **Darrell Duffie** as an SFI Visiting Professor this year!

At the SFI Lugano Center, **Francesco Franzoni** was hired as an SFI Junior Chair.

At the SFI Zurich Center, appointments for **Felix Kubler** as an SFI Senior Chair and **Alexander Wagner** for a tenure track assistant professor position for 2008 were both implemented by the University of Zurich.

Swiss Finance Institute Faculty (June 2008)

Philippe Bacchetta
*Giovanni Barone-Adesi **
Alessandro Beber
Tony Berrada
*Peter Bossaerts **
Marc Chesney
Fulvio Corsi
Jean-Pierre Danthine
Enrico De Giorgi
*François Degeorge ***
*Bernard Dumas **
Pierre-André Dumont
Paul Embrechts
Daniela Fabbri
Giovanni Favara
*Francesco Franzoni ****
*Patrick Gagliardini ****
Fausto Galli
Hans Geiger
*Rajna Gibson Brandon **
Manfred Gilli
*Michel Habib **
*Thorsten Hens ***
Martin Hoesli
*Julien Hugonnier ****
Jean Imbs
Eric Jondeau
*Felix Kubler **
Jean Lefoll
Markus Leippold
Henri Loubergé
Semyon Malamud
*Erwan Morellec **
Eric Nowak
Claudio Ortelli
Marc Paolella
*Michael Rockinger ***
*Olivier Scaillet ***
Enrique Schroth
*Norman Schürhoff ****
Martin Schweizer
Didier Sornette
Pascal St-Amour
Paolo Vanini
Rudolf Volkart
Alexander Wagner
Mei Wang
*Lucy White ****
*Alexei Zhdanov ****
Alexandre Ziegler

* Senior Chair
** Research Fellow
*** Junior Chair



Research Highlights

The visibility of the Swiss Finance Institute in the international academic world will in large part be proportional to the number and quality of publications by affiliated researchers in top academic journals, i.e., those journals that historically have been first in promoting the ideas that have changed financial practices.

The Scientific Council of SFI places extra weight on publications appearing in the following journals: Journal of Finance, Journal of Financial Economics, Review of Financial Studies, American Economic Review, Journal of Political Economy, Quarterly Journal of Economics, Econometrica and Review of Economic Studies. In 2007 and the first half of 2008 the following eight articles were published:

A GARCH Option Pricing Model with Filtered Historical Simulation, Giovanni Barone-Adesi, Robert F. Engle and Lorian Mancini, *The Review of Financial Studies*, 21(3), pp 1223-1258, 2008.

Heterogeneous Preferences and Equilibrium Trading Volume, Tony Berrada, Julien Hugonnier and Marcel Rindisbacher, *The Journal of Financial Economics*, vol. 83 (3), 2007.

Prices and Allocations in Financial Markets: Theory, Econometrics, and Experiments, Peter L. Bossaerts, Charles Plott and William Zame, *Econometrica*, vol. 75, pp 993-1038, 2007.

The Role of Knowhow Acquisition in the Formation and Duration of Joint Ventures, Michel A. Habib and Pierre Mella-Barral, *The Review of Financial Studies*, vol. 20 (1), pp 189-233, 2007.

Approximation and calibration of short-term implied volatilities under jump-diffusion stochastic volatility, Alexey Medvedev and Olivier Scaillet, *The Review of Financial Studies*, vol. 20, pp 427-459, 2007.

Financial Intermediation and the Costs of Trading in an Opaque Market, Richard C. Green, Burton Hollifield, and Norman Schürhoff, *The Review of Financial Studies*, vol. 20(2), pp 275-314, 2007.

Dealer Intermediation and Price Behavior in the Aftermarket for New Bond Issues, Richard C. Green, Burton Hollifield, and Norman Schürhoff, *The Journal of Financial Economics*, vol. 86 (3), pp 643-682, 2007.

Do vertical mergers facilitate upstream collusion? Volker Nocke and Lucy White, *American Economic Review*, vol. 97(4), 2007.

In addition 37 research papers were placed into the SSRN – Swiss Finance Institute series in 2007 with 16 more papers in the first half of 2008. This series was launched in 2006 as a collaborative project between SFI and NCCR FINRISK with both partners sharing costs equally. This series is published on the SSRN website www.ssrn.com/link/swiss-finance-institute.html. A complete list of the 2007 papers is available on pages 26-28 of this report.

“Municipal bonds trade in opaque, decentralized broker-dealer markets in which price information is costly to gather. We analyze a database of trades between broker-dealers and customers in municipal bonds. These data were only released to the public with a lag; the market was opaque. Dealers earn lower average markups on larger trades, even though dealers bear a higher risk of losses with larger trades. We estimate a bargaining model and compute measures of dealer’s bargaining power. Dealers exercise substantial market power. Our measures of market power decrease in trade size and increase in the complexity of the trade for the dealer.” Abstract from *Financial Intermediation and the Costs of Trading in an Opaque Market*, Richard C. Green, Burton Hollifield, and Norman Schürhoff, *The Review of Financial Studies*.



Outstanding Paper Award

Professors Susan Kerr Christoffersen and Sergei Sarkissian of McGill University received the first Swiss Finance Institute Outstanding Paper Award for their paper “City Size and Fund Performance.” Prof. Christoffersen received the award at the 2nd Annual Meeting on December 4 in Zurich while Prof. Sarkissian presented their findings and received the award at a public lecture in Geneva on December 6 (see p 14.). The Swiss Finance Institute’s Outstanding Paper Award is given annually to an unpublished research paper circulated over the previous 12 months and making an outstanding contribution to the field of finance. The jury selecting the winning paper is headed by SFI Senior Chair Prof. Michel Habib.

The Swiss Finance Institute Research Partner: NCCR FINRISK



Based on the FINRISK / SFI cooperation agreement, the active collaboration between both entities has been consolidated during 2007 and 2008. In the following pages the major joint activities by FINRISK and SFI during the reporting period are listed.

SFI Funded FINRISK Research Project

A new FINRISK research project on “Equilibrium Asset Pricing”, headed by Senior Chair Bernard Dumas (University of Lausanne and SFI) was launched in 2007. It is fully financed by SFI and includes several academics from the University of Lausanne as well as Senior Chair Felix Kubler (University of Zurich and SFI) as of June 2008.

The general theme of the project is the impact of “imperfections” on the prices prevailing in the financial markets and on the equilibrium values of the choices made by financial agents. The ultimate goal is to determine empirically which combination of “imperfections” best explains observed financial market prices. In this way, observed prices will provide information about the underlying behavior pattern of financial market participants (households and firms).

Some of the imperfections may also limit the ability of the financial economists to draw inferences about the meaning of financial market prices, and the ability of traders to make decisions.

The “imperfections” to be studied will be of several kinds: transactions costs when processing orders in the market, costs of adjusting the physical capital of firms, time-varying information arrival causing time-varying volatilities and jumps in prices so that returns have non-standard probability distributions, large numbers of state variables making it impossible to determine optimal portfolios exactly, changes in the boundaries of the firm making it difficult to track returns for the same activity over time, imperfect information of traders about the moments (first to fourth) of the securities returns distribution, presence of some “behavioral” features in the choices of traders, limited participation of households to the financial market and prospect of default.

Joint FINRISK / SFI General Assembly

The FINRISK General assembly was held together with the SFI General (Research) Assembly on May 24,

2007 in Zurich. SFI faculty, including most FINRISK project directors and other senior FINRISK members, came together to discuss recent developments (new hirings etc.) related to FINRISK and SFI research activities, and to coordinate developments of the doctoral program. In 2008, both SFI and FINRISK held their General Assemblies at the SFI/FINRISK Annual Workshop.

SFI / FINRISK Annual Doctoral Workshop in Finance

Each year since 2002 more than 20 doctoral students from the FINRISK network institutions present their current research in progress at a workshop organized by SFI and FINRISK and sponsored by the Study Center Gerzensee Foundation. Each paper is discussed by another doctoral student before René Stulz (Ohio), Jerome Detemple (Boston) as well as other professors from FINRISK provide their comments. Doctoral awards recognizing outstanding research papers and discussions led by students are given out each year following the workshop. (For more information please see page 7 of this report.)

The Sixth Swiss Doctoral Workshop in Finance was organized on June 14-15, 2007 in parallel to the FINRISK Research Day 2007. The FINRISK / SFI faculty (about 50 academics) attended the four “module workshops”. They presented and discussed ongoing research projects in their respective field of Risk Management, Asset Pricing and Portfolio Management, Corporate Finance and Quantitative Methods in Finance. In addition, Peter Bossaerts (at the time SFI visiting professor at the University of Lausanne) held a keynote lecture on neuro-finance.

The Seventh Swiss Doctoral Workshop in Finance was held from June 2-3, 2008 again in parallel to the FINRISK Research Day 2008. SFI and FINRISK also held their General Assemblies during the Workshop with the first evening ending with a keynote lecture by Felix Kubler, SFI Senior Chair beginning June 1 at the University of Zurich, on robust computational experiments in finance. On the second day of the Workshop, a meeting to further coordinate the doctoral program in finance across SFI Centers took place. This comprehensive event was the largest to date with over 80 participants.

The Swiss Finance Institute PhD Program in Finance



"Knowledge is a magical resource: it enriches only when it is used, comes alive only when it is shared, grows only when it is challenged. If it does not move forward, it dies; if it is not transmitted, it stagnates; if it becomes a belief, it falls silent. When it grabs you, it carries you, transforms you and calls you into question."

Dr. Charles Kleiber, former Secretary of State, State Secretariat for Education and Research, Bern and former member of the Swiss Finance Institute Foundation Board.

Launched in autumn 2006, the Swiss Finance Institute PhD Program in Finance is targeted towards the pursuit of academic excellence. It aims at providing an intellectual environment and a curriculum comparable with the top PhD programs in Europe and North America. The PhD program operates on the three Swiss Finance Institute campuses in Geneva/Lausanne (Léman), Lugano and Zurich under a strong collaboration with the NCCR FINRISK (see previous page). Prof. E. Morellec, SFI professor at the University of Lausanne, acts as overall coordinator of the SFI PhD program. In 2007, 11 students graduated and 18 new students joined the program, bringing the number of active students to 73 and student researchers to 55 at the end of the year. In the first half of 2008, three additional students graduated from the program.

SFI / FINRISK Doctoral Courses

A total of 10 doctoral courses in finance were jointly organized by FINRISK and SFI in 2007. According to the FINRISK / SFI cooperation agreement, these courses are offered to doctoral students from any Swiss University.

- **Empirical Corporate Finance**, Michel Habib (Zurich)
- **Corporate Finance Theory**, Erwan Morellec (Lausanne)
- **Modern Dynamic Asset Pricing Models**, Pietro Veronesi (Chicago)
- **Dynamic Asset Pricing**, Suleyman Basak (London)
- **Behavioural Portfolio Theory**, Enrico De Giorgi (Lugano)
- **Perturbation Methods in Modern Financial Economics**, Semyon Malamud (ETHZ)
- **Financial Econometrics**, Fabio Trojani and Patrick Gagliardini (St Gallen)
- **Evolutionary Finance**, Klaus Reiner Schenk-Hoppé (Leeds)
- **Numerical Methods in Finance**, Denis Talay (INRIA; France)
- **Empirical Asset Pricing**, Lu Zhang (Michigan)

In spring 2008 a large number of participants enrolled in the Advanced Doctoral Course "**Financial Modeling with Affine Processes**" given by Prof. Darrel Duffie (SFI Visiting Professor at the University of Lausanne). This six day long course had more than 30 participants - the largest Advanced Doctoral Course to date!

SFI PhD Program Assessment by SNSF review panel for FINRISK

Erwan Morellec and Eckart Jaeger presented the SFI PhD program in greater detail to the SNSF review panel at the FINRISK site visit in April 2007. The international experts were impressed by the achievements of FINRISK and SFI to develop a first class Swiss wide PhD program in Finance. According to the SFI / FINRISK agreement, the SNSF review panel will continue to assess the SFI PhD program over the next few years. The next assessment will take place in Fall 2008 at the next FINRISK site visit. The main evaluation criterion will be the placement record of the program graduates.

PhD Awards and Support

Swiss Finance Institute Best Paper Doctoral Award

The SFI Best Paper Doctoral Award was begun in 2003 by the International Center FAME and from 2006 has been extended to all Swiss Doctoral Students in Finance under the auspices of NCCR-FINRISK and SFI. It awards a PhD student for an outstanding research paper presented at the Annual Doctoral Workshop organized by FINRISK and SFI. The winning paper is nominated by a committee formed of outside experts participating in the Workshop and is selected by faculty representatives from each SFI Academic Center. The Award is bestowed upon the winner at the SFI Annual Meeting and the recipient receives CHF 2'000 and a certificate for her/his accomplishment. In 2007 this Award was bestowed upon Sébastien Michenaud from University of Lugano and SFI, for his paper on "Analysts Consensus Fixation and Corporate Investment". In 2008, the Award will be given to Laurent Frésard from the University of Neuchâtel at the SFI Annual Meeting

for his paper “Financial Strength and Product Market Behavior: The Real Effects of Corporate Cash Holdings”.

Swiss Finance Institute Best Discussant Doctoral Award

The SFI Best Discussant Doctoral Award was begun by SFI in 2007 and is awarded to PhD students for an outstanding discussion of a paper presented at the Annual PhD Workshop organized by FINRISK and SFI. The recipients are selected by the chairmen of the respective workshop sessions. The Awards are bestowed upon the winners at the SFI Annual Meeting and the recipients receive CHF 1'000 (to be shared among the winners) and a certificate for her/his accomplishment. In 2007 the recipients were Alex Jeanneret (SFI Léman), Anna Cieslak and Andrea Vedolin (both from St Gallen). At the 2008 Annual Meeting Jan-Peter Kulak and Rodolfo Prieto, (SFI Léman) and Leon Bogdan Stacescu, (SFI Zurich/FINRISK Graduate 2008), will receive these awards.

Advanced Doctoral Grants and PhD Study Abroad

Swiss Finance Institute PhD students with academic ambitions are strongly encouraged to spend an extended visit abroad in a top department under the pre-arranged supervision of a researcher interested in the PhD student's research. To that effect, on the recommendation of the Scientific Council, SFI instituted a program of advanced doctoral grants guaranteeing financial support for up to CHF 40'000 per candidate. At the end of 2007, Maria Cecilia Bustamante, a Léman Center PhD student received SFI sponsoring to become a visiting scholar at the University of California Berkeley. Other PhD students who have studied abroad during 2007 and 2008 are:

Laurent Barras

Visiting Researcher at Imperial College's Tanaka Business School in London

Gorazd Brumen, at the Bendheim Center for Finance, University of Princeton, USA

Alex Jeanneret at the Kennedy School of Government, Harvard University, USA

Artashes Karapetyan at Harvard University, USA

Florian Peters at the Department of Economics, University of California, Berkeley, USA

Giovanni Walter Puopolo at the Graduate School of Business, University of Chicago, USA

Lukas Schmid

Visiting Scholar, The Wharton School, University of Pennsylvania

Swiss Finance Institute Applied Research Prize of the Fondation Nicolas et François Grandchamp

Wishing to contribute to the research and teaching environment of the Lemanic area in the field of finance, the “Fondation Nicolas et François Grandchamp” announced in 2007 the creation of an Annual Prize of CHF 30'000. The prize of the “Fondation Nicolas and François Grandchamp” rewards the best PhD Thesis or the best Doctoral Research Project submitted by doctoral students or graduates affiliated with the Swiss Finance Institute - Léman. A committee headed by the Director of the doctoral program evaluates all the theses submitted in the previous 12 months as well as the research projects submitted by doctoral students in the last phase of their dissertation. The latter has the specific objective of permitting a fruitful research visit abroad.

The 2007 recipient of this Prize was Lukas Schmid. Lukas obtained a master's degree in mathematics from ETH Zurich and a master's degree in economics from HEC Lausanne. With the support of the Swiss National Science Foundation he was a visiting scholar at the Wharton School of the University of Pennsylvania in Philadelphia for two years and will soon be working at the Fuqua School of Business, Duke University. His research interests include asset pricing and quantitative corporate finance.

Graduate Placements

The Swiss Finance Institute PhD Program counts a growing number of outstanding graduate placements. Coming from either its foundation programs (FAME and FINRISK) or the Swiss Finance Institute program itself, our graduates are increasingly successful at securing notable positions at prestigious academic and financial institutions.

New graduates of the Swiss Finance Institute doctoral program in Lugano, Lausanne and Zurich with academic aspirations have taken up assistant professorships at prestigious finance faculties, including the Fuqua School of Business, Duke University, Jones Graduate School of Management, Rice University, and the BI Norwegian School of Management.

Graduates selecting a career in the financial marketplace have obtained positions at prestigious institutions such as UBS, Credit Suisse, RiskMetrics, Morgan Stanley, Barclay's Wealth, BCV etc. to name just a few.

SFI PhD's 2007

Kremena Bachmann-Damianova

Post-Doc ISB, University of Zurich

Laurent Barras

Visiting Researcher at Imperial College's Tanaka Business School in London

Matthias Hagmann-von Arx

Head of Quantitative Research, Concordia Advisors, London

Zhijiang (Brien) Huang

Quantitative Researcher, Credit Suisse in London

Amine Jalal

Trader, Securitised Structured Derivatives, Goldman Sachs International

Benoit Metayer

Associate Director, Barclays Wealth, London

Jijun (Robert) Niu

Assistant Professor of Finance, Faculty of Business Administration, Simon Fraser University

Florian Peters

Post-Doc, The University of California, Berkeley, USA

Lukas Schmid

Assistant Professor, Fuqua School of Business, Duke University

Frédéric Sonney

FAME PhD 2007

University of Neuchâtel
Quantitative Investment Manager,
Banque Cantonale Vaudoise

Martin Vlcek

NCCR FINRISK PhD 2007

University of Zurich
Quantitative Investment Manager,
Banque Cantonale Vaudoise

SFI PhD's 2008

Sébastien Michenaud

Assistant Professor of Management,
Jesse H. Jones Graduate School of Management, Rice
University, Houston TX, USA

Ganna Reshetar

Financial Services Advisor,
Deloitte Zurich

Leon Bogdan Stacescu

Assistant Professor,
BI / Norwegian School of Management, Oslo

Executive Education

Overview 2007

In its second year of operation Executive Education at the Swiss Finance Institute continued its success by offering 28 courses for 665 participants from all over the world!

Three quarters of the participants of our international programs came from outside of Switzerland, representing 40 different nationalities, demonstrating the international recognition of our programs!

Executive Education is where the intellectual capital of the Swiss Finance Institute can have the most immediate impact on the finance industry. Executive Education can short-cut the normal diffusion of new knowledge which takes place through young graduates and PhDs joining the industry. However, this requires that research results are conveyed in a palatable and practically useful form. And this is where SFI Executive Education wants to excel on an international level!

The fact that the Swiss Finance Institute can look back on 25 years of experience in executive education in finance and 20 years of executive education in bank management, through its predecessor organizations, gives it a sound basis to build on.

To achieve this goal the Swiss Finance Institute has developed a clear and focused, but also very ambitious, strategy for its Executive Education offering:

- It will concentrate exclusively on advanced graduate level finance courses on the one hand, and on bank management courses for executives on the other hand.
- In both areas the Swiss Finance Institute will offer open-enrolment programs on a graduate level, as well as Diploma and Master Programs with highly selective admittance.
- With a few exceptions, all programs will be aimed at a global audience, so as to foster the exchange of ideas on the foremost frontiers of knowledge and experience.

The strategy comes with a clear roll-out plan which is currently being implemented.

Key figures for the Swiss Finance Institute executive education in 2007

- *In 2007 the SFI offered 28 courses for a total of 43 weeks of Executive Education:*
 - > 21 courses in advanced finance for a total of 25 weeks
 - > 7 courses in bank management for a total of 18 weeks
- *665 participants took one or more of the Institute's courses; 137 graduated from one of its diploma courses!*
- *In the SFI international programs more than 75% of participants came from outside of Switzerland, representing 40 different nationalities*

In finance the Swiss Finance Institute expanded its offer in 2007 to 20 one-week courses, besides the traditional 4+1-week immersion Certificate Program in Financial Asset Management and Engineering (FAME). In bank management 4 open-enrolment courses for executives were held, plus the 5-week SFI Advanced Executive Program and the 7-week, two-year SFI Executive Program. In addition the SFI contributed to the Master in Wealth Management offered by the Singapore Management University together with the Wealth Management Institute of Singapore. On an international graduate level in banking and finance, this is one of the broadest offerings in the world!

The strategy of SFI Executive Education requires SFI to augment these programs with selected Executive Master degree programs, ideally in co-operation with Swiss and international universities. In this way the Swiss Finance Institute will focus the Swiss academic resources in finance and banking to become similar to a Graduate Business School, with degree programs, a PhD Program and Research. For the Master programs extensive discussions have been held and detailed preparatory work has been accomplished by the Swiss Finance Institute together with its partners towards this goal.



The Executive Education offering: Finance

In 2007 the Swiss Finance Institute celebrated the 25th anniversary of the Geneva Executive Courses in Finance and the 12th year of the Certificate in Financial Asset Management and Engineering. (CFAME). In recognition of our confirmed reputation, the Swiss Finance Institute with its Geneva courses was accredited by the Chartered Financial Analyst Institute (CFA) as an Approved Provider of continuing education.

The Geneva Executive Courses in Finance

No other year has seen so many jubilees among our GECF professors. Our sincere thanks for their long and outstanding contribution to executive education went to:

Stephen Schaefer, London Business School - 25 years

Richard Levich, Stern School of Business, New York - 20 years,

and for their 10 years of teaching:

Yacine Ait Sahalia, Princeton University

Francis Diebold, University of Pennsylvania and Wharton School

Philippe Jorion, University of California, Irvine

The main feature of the Swiss Finance Institute courses lie in the fact that our professors have unique insights into the functioning of financial markets through their research and their consulting activities. This enables them to see both the theoretical and practical aspects, which, given their pedagogical skills, they are able to convey effectively to course participants.

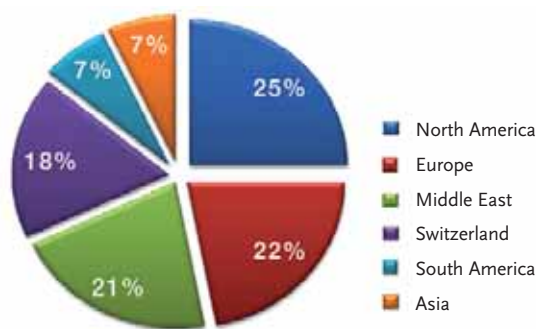
The 2007 courses were newly grouped into Fundamentals, Asset Class and Special Topics to facilitate a better understanding of which courses would fit the individual's needs. New subjects ranged from Private Equity by Prof. Per Strömberg, to Behavioral Finance in Advising Private Clients by Prof. Thorsten Hens. Selected practitioners joined in to demonstrate how they use the financial modeling, risk and asset management tools in their day-to-day life. The 20 courses offered were attended by 259 participants coming not only from major commercial financial institutions, but also from the World Bank, the European Central Bank and various national central banks and sovereign institutions.

Certificate in Financial Asset Management and Engineering (CFAME)

In its 12th year, CFAME is an intensive 4+1-week program designed to provide applied training in state-of-the-art techniques and practices used in asset management and financial engineering. Taught in Lausanne in a technology laboratory, CFAME is preceded by an

optional one-week pre-course which covers the foundations of finance. In the program, placed under the scientific supervision of Prof. Salih Neftci (New School, New York), each module is taught by a leading academic supported by practitioners. 28 participants joined this program in 2007 representing 20 countries from around the globe. The international nature of the program is shown in the pie chart hereunder.

CFAME Participants' origin in 2007 – A truly international program:



Finance Courses for Central Bankers with the Study Center Gerzensee

The Study Center Gerzensee and the Swiss Finance Institute jointly organize finance courses for central bankers. Some of these courses provide an overview of recent developments in quantitative finance that are relevant for researchers from these organizations, other courses address new developments in financial markets and financial theory for the benefit of central bank economists. All of these courses are by invitation only.

The Executive Education offering: Bank Management

In bank management, the focus of the Swiss Finance Institute is on providing insights on the key trends for the finance industry, both on a strategic and on an operational level. The concepts underlying these trends are presented by academics selected for their extensive industry exposure, and their understanding of the implications of these concepts for the finance industry. Senior executives are invited to present their institution's reaction to these developments: the strategic responses to the optimized challenges on one level, and the state of the art implementation of new operational techniques on the other. Finally, the carefully selected participants are of the highest caliber, ensuring a critical discussion of the presented ideas among peers.

Seminars in Bank Management

In 2007 the Swiss Finance Institute organized four national and international seminars with 113 participants. The most prestigious of these seminars is the five-day International Private Banking Retreat for Managing Directors. In 2007 this seminar addressed the strategic developments in Private Banking and Wealth Management for the 9th time, with worldwide participation.

SFI Executive Program and SFI Advanced Executive Program in Bank Management

These two German-speaking part-time bank management programs gathered a total of 211 participants in 2007. The aim of these programs is to develop a broadened understanding of the finance industry, and thereby achieve an improved quality of decision-making and a superior ability to interact with colleagues from other business areas.

The SFI Executive Program is 7 weeks long, spread over a two year period. It is aimed at young Vice Presidents; the SFI Advanced Executive Program consists of 25 days spread over one year, and is aimed at Senior Vice Presidents and Executive Directors. Both are comparable in style to a shortened MBA program, with extensive use of cases, class discussions, and group presentations to incorporate the experience of the widely diverse participants. Both programs utilize about a dozen professors selected from Swiss and foreign universities, each of them responsible to lead one specific subject. Up to eighty senior executives join for special presentations and in-depth discussions.

Master Program

The Swiss Finance Institute is also responsible for the two-week Swiss module of the Master in Wealth Management offered by the Singapore Management University, with the Wealth Management Institute in the third partner. The Swiss module was held for the 3rd time in 2007, with 54 participants from Singapore and South East Asia.

Participants Executive Education courses in 2007

Finance

<i>Geneva Courses</i>	<i>259</i>
<i>FAME Certificate</i>	<i>28</i>

Bank Management

<i>Banking Seminars</i>	<i>113</i>
<i>SFI Executive Programs and Advanced Executive Programs</i>	<i>211</i>
<i>Master Programs</i>	<i>54</i>

<i>Total</i>	<i>665</i>
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Outlook 2008

In the Executive Program 2008/2009 83 participants have successfully completed the Fundamentals of Finance course. This is a one-week course which is a prerequisite for the admittance to the core part of the Executive Program.

The Advanced Executive Program 2008 started in February with the first of its ten 2.5 day modules with 33 participants. The program will last until December 2008.

Finally, the new Senior Management Program can be successfully launched with 25 participants starting in July with the first one-week module held in Geneva. This will be followed by another three modules to be held in London, Madrid, and Warsaw.

Eight Geneva Executive Courses in Finance were held in the first half of 2008. These will be followed by another 13 courses in the second half of 2008 for a total of 21 courses. Among the courses offered so far in 2008 was the successful launch of a course on Emissions Trading, addressing new trading areas such as carbon emissions trading.

Alumni Association

The Swiss Finance Institute Alumni Association (SFIAA) took over from the former Swiss Banking School Alumni Association on April 28, 2006.

In the past graduates of the Executive Program, the Advanced Executive Program and the International Wealth Management Executive MBA were eligible to join. As a new development the SFIAA was opened to the graduates of the Certificate in Financial Asset Management and Engineering (FAME). There are now over 1,200 members in SFIAA.

The Swiss Finance Institute Alumni Association promotes

- networking among its members
- further education of its members by means of seminars and lectures (in collaboration with the Swiss Finance Institute)
- contributing to the ongoing improvement of the Swiss Finance Institute

In addition to an annual meeting of members, the Swiss Finance Institute Alumni Association and the Swiss Finance Institute jointly organize the Alumni Luncheons with prominent guest speakers as well as the SFIAA Golf Trophy in the fall.

2007 Alumni Luncheons

26.01.2007

Abbot Martin Werlen, Kloster Einsiedeln

25.04.2007

F. Bernhard Stalder, CEO Clariden Leu, Zurich

22.06.2007

Matthias Reinhart, President of the board and CEO VZ Vermögenszentrum, Zurich

18.09.2007

Maya Salzmann, Head market area UK, International and Eastern Europe, Division Private Banking, Credit Suisse, Zurich

Marketing and Communications

MEDIA PROFILE

During 2007, the Swiss Finance Institute intensified its efforts to develop and enhance its media profile. Efforts focused on strengthening contacts with journalists, the publication of press releases and newsletters, and the establishment of methods to assess the media profile of the Swiss Finance Institute in print, radio and on the internet.

The number of media references to the Institute's activities during 2007 was almost identical to that enjoyed during the inauguration year, 2006. In all, there were 117 print and radio references to the Institute in 2007, compared to 122 in 2006.

The Institute enjoyed a substantial year-on-year increase in media references between the months of September-December. This coincides with the period in which the Institute promotes its main knowledge transfer event, the Annual Meeting. A total of 67 media references appeared between September and December in 2007, compared with 47 references during the same period in 2006.

Following the Annual Meeting, December 4th, reports appeared in Le Temps and the NZZ, Finanz und Wirtschaft and L'AGEFI. Eight journalists registered to attend the Annual Meeting and spent, collectively, 24 hours at the event.

The newsletter of the Swiss Finance Institute is published twice a year. The September 2007 edition contained information about new faculty appointments, and about research publications appearing in top international journals. A second edition of the newsletter was produced in 2007 with a focus on doctoral education and the 2007 Annual Meeting. This was distributed in January 2008.

The distribution list for the Institute newsletter has expanded to include alumni of the Institute's executive education programs, including the Executive Program. This expansion of the distribution list reflects a broader goal to enhance our media profile with the active involvement of the Institute's closest affiliates and alumni.

Finally, efforts were made to examine the visibility of the Institute on the internet. During the fourth quarter, technical efforts were initiated to measure traffic on our website, and to track references published on the internet, worldwide, concerning the Institute's activities. The measurements are made using a free, industry-standard service.



Knowledge Transfer at the Swiss Finance Institute



“The Swiss Finance Institute is the embodiment of a vision, that as one of the world's premier centers of banking, Switzerland is perfectly positioned to be a global center of advanced research and teaching in financial economics. Through the foresight and coordinated efforts of key leaders in the financial services industry, academia, and government, this vision is now being realized across Switzerland.”

Prof. Darrell Duffie, Stanford University, SFI Visiting Professor at University of Lausanne
2007/2008

The Swiss Finance Institute holds each year a number of activities to encourage scientific exchanges between academic researchers, researchers affiliated with financial institutions and practitioners.

Swiss Finance Institute 2nd Annual Meeting on December 4, 2007 at SWX in Zurich

The Swiss Finance Institute 2nd Annual Meeting was a full day of activities and exchanges between more than 200 Swiss and international academics and financial professionals. The Meeting was structured along two parallel sessions. Prof. Rajna Gibson chaired two research sessions presenting fundamental research to the audience. Harry Huerzeler chaired the executive education session focusing on Margin Developments in the Finance Industry while Paolo Vannini chaired the knowledge transfer session focusing on Commodities of the Future. The Meeting concluded with a plenary session introduced by Olivier Steimer, Chairman of the Swiss Finance Institute's Foundation Board with the Plenary Speech “Portfolio Default Risk: Empirical Evidence” given by Prof. Darrell Duffie, Stanford University and SFI Visiting Professor at University of Lausanne. The event was organized under the direction of Paolo Vanini, Head of Knowledge Transfer at Swiss Finance Institute and FinRisk. The 3rd Annual Meeting will take place on November 18, 2008 in Geneva.

“Why not trade pension claims?”

Prof. B. Dumas, SFI professor at the University of Lausanne, presented the results of his research on the topic “Why not trade pension claims” in Geneva, on May 1 at the occasion of the awarding of the Annual Prize of the Fondation Nicolas and François Grandchamp. The conference focused on the potential benefits of trading pension claims. For more information on the Annual Prize of the Fondation Nicolas and François Grandchamp please see page 8 of this report.

Portfolio Management and Derivatives Conference

With the generous financial support of the Stiftung Finanzplatz Schweiz, the Swiss Finance Institute (SFI)

organized a conference focusing on the use of derivatives (in particular structured products) in portfolio management. The conference welcomed over forty academics and financial practitioners from all over the world. The high quality of presentations and the intensive interactions between academics and practitioners made possible by the format of the conference made this event a highly valuable experience. The Conference ended with an outstanding presentation by Prof. Bernard Dumas, SFI Professor at the University of Lausanne, on “Why not trade pension claims?” This portion of the conference was open to the public and was organized in collaboration with Associazione Bancaria Ticinese (ABT – Ticino Banker's Association).

Financial Innovation for Societal Risks Conference

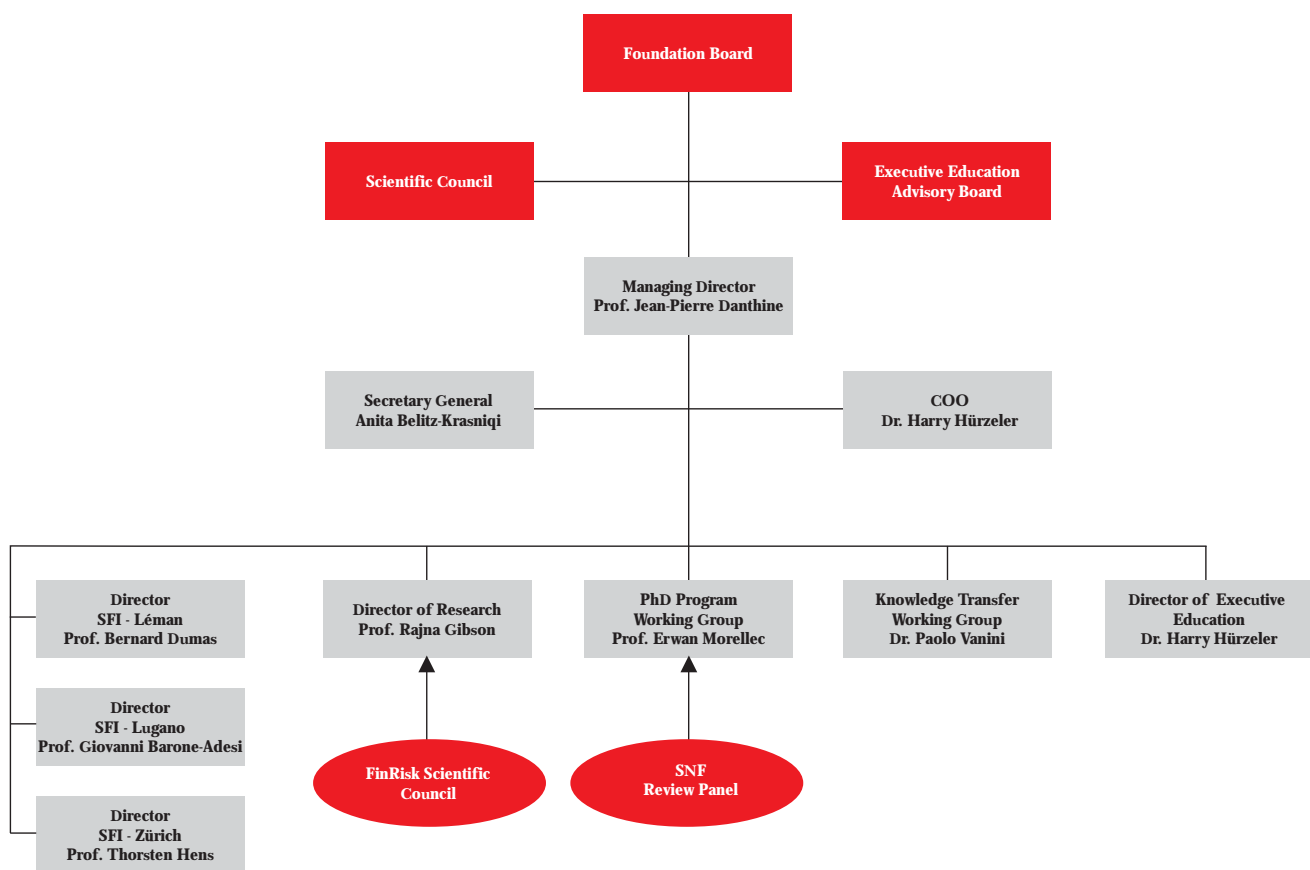
On May 29, 2007, some 60 participants attended an SFI organized conference addressing the societal risks posed by our aging society, climate change and natural resource concerns. The conference, organized by Paolo Vanini, took place at the Zurich Development Center and focused on how financial innovations can be used to develop sustainable and politically viable solutions to these critical challenges. The conference concluded with a panel discussion entitled: “Micro Finance and Globalization, Is There a Joint Future?”.

City Size and Fund Performance

Professor Sergei Sarkissian, McGill University, Montreal, was one of the recipients of the Swiss Finance Institute Outstanding Paper Award 2007 for the paper entitled “City Size and Fund Performance”. Professor Sarkissian presented the key results of this research paper in a public lecture on December 6, 2007 in Geneva while Prof. Christoffersen presented a synopsis of their findings at the Awards Ceremony at the SFI Annual Meeting on December 4th.

Structure and Overseeing Bodies

swiss:finance:institute



Governing Bodies

The Foundation Board of the Swiss Finance Institute is its main governing body. It includes representatives of its founding members as well as representatives of its academic regional centers. The Foundation Board is advised by the Scientific Council on matters of scientific content and by the Executive Education Advisory Board on matters of Executive Education.

Foundation Board

The Foundation Board members represent the entire finance and banking community in Switzerland, both locally and internationally. The Swiss Finance Institute expresses its sincere thanks to its members who have left the Foundation Board in the course or at the end of 2007: Prof. J. Weber as representative of SFI-Léman Center and Dr. C. Kleiber as representative of the Swiss Confederation.

Swiss Finance Institute Foundation Board - June 2008

Chair

Mr. Olivier Steimer

Chairman of the Board of Directors
Banque Cantonale Vaudoise, Lausanne

Dr. Philipp Halbherr

CFO and Member of the Executive Committee,
Cantonal Bank of Zurich (ZKB), Zurich

Vice-Chairs

Dr. Ulrich Körner

CEO Credit Suisse Switzerland, Zurich

Prof. Dr. Piero Martinoli

President, University of Lugano, representing the
Swiss Finance Institute Lugano Center

Dr. Marcel Rohner

Group CEO, UBS AG, Zurich

Mr. Patrick Odier

Managing Partner, Lombard Odier Darier Hentsch
& Cie, Geneva - as representative of the Swiss Private
Bankers Association

Members

Mr. Raymond J. Baer

Chairman of the Board of Directors, Julius Baer
Holding Ltd., Zurich - as representative of the
Association of Swiss Commercial and Investment
Banks in Switzerland

Dr. Urs P. Roth

CEO, Swiss Bankers Association, Basel

Mr. Antonio Foglia

Chairman of the Executive Committee, Banca del
Ceresio, Lugano - as representative of the Ticino
Bankers Association

Dr. Pierin Vincenz

CEO, Raiffeisen Group, St. Gallen

Prof. Dr. Peter Gomez

Chairman of the Board of Directors, SWX Swiss
Exchange AG

Prof. Dr. Jean-Dominique Vassalli

Rector, University of Geneva, representing the
Swiss Finance Institute Léman Center

Dr. Alfredo Gysi

CEO, BSI SA, Lugano - as representative of the
Association of Foreign Banks in Switzerland

Prof. Dr. Hans Weder

Rector, University of Zurich, representing the
Swiss Finance Institute Zurich Center

Scientific Council

The Swiss Finance Institute Scientific Council (SC) counts 5 international experts nominated as a result of a wide consultation with its university partners representing the Swiss Finance Institute main fields of research: financial mathematics, financial econometrics, investments, and corporate finance. The Foundation Board of the Swiss Finance Institute has committed to make decisions with scientific content exclusively under the recommendation of its Scientific Council. The Swiss Finance Institute is very fortunate to have been able to secure the enthusiastic support of 5 internationally renowned experts under the chairmanship of:

Prof. René Stulz

Fisher College of Business, Ohio State University.

The other members of the Scientific Council are:

Prof. Tim Bollerslev

Fuqua School of Business, Duke University

Prof. Patrick Bolton

Columbia Business School, Columbia University

Prof. Michael Brennan

Anderson School of Management, UCLA

Prof. Ioannis Karatzas

Dept of Mathematics, Columbia University

The cooperation agreement with the Swiss Finance Institute and the Swiss National Science Foundation indicates that the **International Scientific Council of FINRISK** is to act as the main supervisory body for all activities and funding falling under the heading of Project Research.

Executive Education Advisory Board

The Executive Education Advisory Board (EEAB) is the main supervisory body concerned with Executive Education. The Executive Education Advisory Board ensures that the Executive Education offering of the Swiss Finance Institute is of the highest quality, addresses the needs of the industry and is well coordinated with other initiatives within Switzerland. The Swiss Finance Institute expresses its gratitude to two members of the EEAB, Mr. C. Streule and Mr. P. Anghern, who have contributed their advice since the beginning of SFI and left the EEAB at the end of 2007.

The members of the Executive Education Advisory Board are:

Chair

Urs Hofmann

Executive Advisor Learning & Development, Credit Suisse

Members

Prof. Dr. René Capitelli

Managing Director, Head Business Support, UBS AG and University of Basel

Curdin Duschletta

Head of HR & Education, Strategy and Global Learning, UBS AG

Per Etholm

Managing Director, Citigroup

Prof. Dr. Rudolf Grünig

University of Fribourg

Dr. Jürg Gutzwiller

Member of the Board, RBA-Holding

Prof. Dr. Alfred Mettler

Georgia State University

Dr. Martin Moehrle

Chief Learning Officer, Deutsche Bank AG

Maxime Morand

Head HR, Lombard Odier Darier Hentsch & Cie

Matthias Wirth *

Swiss Bankers Association

* *Executive Education Advisory Board Secretary*

2007 Facts & Figures



Summary of 2007 financial accounts

Balance sheet as of December 31, 2007

	31.12.2007
	<u>CHF</u>
ASSETS	
Current assets	
Cash and cash equivalents	17'297'276.44
Accounts receivable	21'200.75
Other receivables	329'801.59
Prepaid expenses and accrued income	59'208.97
Total current assets	<u>17'707'487.75</u>
Fixed assets	
Investment portfolios	47'176'246.02
Due from Securities Lending and Borrowing	11'566'486.25
Deposits	50'796.65
Office equipment	83'301.60
IT equipment	59'612.90
Total fixed assets	<u>58'936'443.42</u>
TOTAL ASSETS	<u><u>76'643'931.17</u></u>
LIABILITIES AND FOUNDERS' EQUITY	
Short-term liabilities	
Accounts payable	766'542.95
Other payables	140'383.53
Research accounts	177'119.31
Accrued expenses and deferred income	1'213'673.80
Long term loans founders	8'000'000.00
Total short-term liabilities	<u>10'297'719.59</u>
Founders' equity	
Foundation capital	15'000'000.00
Reserves	22'564'785.00
Retained earnings	
- As of January 1, 2007, from SFI donations and operations	28'859'492.85
- From the merger (ZHB)	<u>-595'104.97</u>
Net result from donations and operations	517'038.70
Total founders' equity	<u>66'346'211.58</u>
TOTAL LIABILITIES AND FOUNDERS' EQUITY	<u><u>76'643'931.17</u></u>

**Profit and loss statement
for the period from January 1st to December 31, 2007**

		31.12.2007 CHF
		<hr/>
Income from Executive Education courses		5'410'764.01
Expenses from Executive Education courses		-3'104'620.75
Net result from courses before general expenses		<u>2'306'143.26</u>
Expenses Research		-1'777'467.71
Expenses Ph D Program		-874'225.60
Income from Knowledge Transfer	126'885.63	
Expenses from Knowledge Transfer	-191'115.15	-64'229.52
Expenses Projects		-613'774.10
Net operating result before general expenses		<u>-1'023'553.67</u>
GENERAL EXPENSES		
Personnel expenses		-2'247'938.05
Other operating costs		-1'017'666.44
Net operating result		<u>-4'289'158.16</u>
Net extraordinary income		335'503.65
Donations		4'730'023.00
INCOME/EXPENSES ON INVESTMENTS		
Total realized and unrealized gains on investments		36'813.89
Administration and bank fees		-296'143.68
Total income/expenses on investments		<u>-259'329.79</u>
RESULT FROM DONATIONS AND OPERATIONS FOR YEAR 2007		<u><u>517'038.70</u></u>

2007 and Forthcoming Publications in Academic Journals and Books by SFI Researchers

Philippe Bacchetta

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University of Leeds, Business
School and School of
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Peter WINKER, Department of
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Overview of courses offered in 2007 by the Swiss Finance Institute

Programs in Bank Management

March 19 - 30, 2007

- **Master of Science in Wealth Management, Swiss Study Block**

The Swiss Finance Institute delivers the Swiss Study Block for this program of the Singapore Management University and the Wealth Management Institute of Singapore. This part-time program develops high potential Private Banking advisors and Asset Managers particularly for the Asian region.

March 2007 - December 2007

- **Executive Program in Bank Management**

The Executive Program combines solid knowledge and skills in management with practical know-how and insight into the functioning of the financial sector. It lasts a total of 7 weeks, spread over 16 months. This course is held predominantly in German.

In December the celebration of the 20th anniversary of the Executive Program took place at the Hyatt in Zurich.

February 2007 - November 2007

- **Advanced Executive Program in Bank Management**

The Advanced Executive Program helps senior executives from financial and related sectors to strengthen their management competences, to broaden their factual knowledge and to promote integrated thinking with respect to the current dramatic trends in the financial sector. The course comprises 10 modules, each lasting two and a half days. The course is held predominantly in German.

- **Senior Management Program in Banking**

The Senior Management Program in Banking brings together a dynamic international faculty, industry leaders and peers to present and discuss strategic developments in the finance industry. The program is split into four blocks lasting 4-6 days, for ease of participation with each block taking place at a different European financial center. This course is held in English.

During 2007 the course has been developed and the respective marketing activities have been initiated.

Seminars in Bank Management

The following seminars last between 3 and 6 days and are aimed at Executives from clearly targeted segments. They are taught by a mixture of academics and senior practitioners.

- **International Private Banking and Wealth Management Retreat**
Various Academics and CEOs from Private Banking
- **Team Leader in Private Banking**
Peter Schuppli
- **International Wealth and Tax Planning**
Various Academics and experts from Wealth Planning

Programs in Finance

July 23 - August 24, 2007

Certificate in Financial Asset Management and Engineering

This 4+1-week immersion program offers intensive training in state-of-the-art techniques and practices of asset management and financial engineering. Focusing on applications with a view of achieving in-depth understanding of modern finance, the program provides a certification that is unique for its breadth, compactness and intellectual stimulation.

Geneva Executive Courses in Finance

The Swiss Finance Institute offers one of the most extensive and thorough overviews of major developments in finance currently available. Known as the Geneva Executive Courses in Finance, this suite of independent courses is taught by world renowned experts, with each course lasting from 2 to 5 days.

Fundamentals

- **GLOBAL ASSET ALLOCATION AND RISK BUDGETING**
Philippe Jorion
- **INTEGRATED RISK MANAGEMENT**
René Stulz
- **VOLATILITY AND CORRELATION: PRACTICAL METHODS FOR FINANCIAL APPLICATIONS**
Tim Bollerslev
- **BEHAVIORAL FINANCE AND INVESTMENT STRATEGY**
Werner De Bondt
- **QUANTITATIVE APPROACHES FOR EQUITY PORTFOLIO MANAGEMENT**
François-Serge Lhabitant
- **IMPLEMENTING QUANTITATIVE TECHNIQUES FOR FINANCIAL MARKETS**
David Cox

Asset Class

- **PRIVATE EQUITY**
Per Strömberg
- **STRUCTURED PRODUCTS**
Salih Neftci
- **ADVANCED EQUITY PORTFOLIO MANAGEMENT**
G. Andrew Karolyi
- **MODERN FIXED INCOME MARKETS: RELATIVE VALUE, ARBITRAGE, PORTFOLIO AND RISK MANAGEMENT**
Stephen Schaefer

- **ALTERNATIVE INVESTMENTS**
Thomas Schneeweis and Giovanni Beliossi
- **REAL ESTATE INVESTMENT AND FINANCING**
J. Baumberger, Ph. Sormani, M. Hoesli and O. Scaillet
- **USING AND MANAGING INFLATION LINKED INSTRUMENTS AND THEIR DERIVATIVES**
David Cox

Special Topics

- **FINANCIAL ECONOMETRICS AND FORECASTING**
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- **INTEREST-RATE MODELS: THEORY AND PRACTICAL APPLICATIONS**
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The Activity Report can be obtained free of charge from:

Swiss Finance Institute

Bd. du Pont d'Arve 40

1211 Geneva 4 - Switzerland

Tel +41 (0)22 379 84 71 - Fax +41 (0)22 379 82 77

www.SwissFinanceInstitute.ch - research@sfi.ch

swiss:finance:institute

Geneva

Bd. du Pont d'Arve 40
1211 Geneva 4
Switzerland

T +41 22 379 84 71

F +41 22 379 82 77

research@sfi.ch

Zürich

Walchestrasse 9
8006 Zurich
Switzerland

T +41 44 254 30 80

F +41 44 254 30 85

executive-education@sfi.ch

www.SwissFinanceInstitute.ch