**What are Hedge Funds!**

The very first intuition about “Hedge Funds” is management of collection of assets(may be money, stocks or bonds or other financial derivatives) in such a way that asset holders have security against financial loss or when adverse market situations uprise. But that’s not all folks!

**Abstract overview**

Hedge fund is derived from the word “hedge” whichevolve during the outgrowth of early hedge funds who tried to "hedge" their exposure to the market i.e. they could manipulate up and down trend of market as long as they were good at augmenting their hoards. But today it belongs to huge class investment funds.

A hedge fund is basically complicated alias for an [*investment*](https://www.investopedia.com/terms/i/investment.asp)[*partnership*](https://www.investopedia.com/terms/p/partnership.asp) which consists of *general partner*s (which are often professional [fund manager](https://www.investopedia.com/terms/f/fundmanager.asp)s) and [*limited partners*](https://www.investopedia.com/terms/l/limited-partner.asp) (or more precisely investors) who pool their money into the fund. The fund works on the basic that these fund managers use various aggressive investment techniques to “hedge” the net risk or to lower the risk of the investments and generate a market- neutral returns with reduced risk.

But does it sound more or less like a mutual fund? The fact is that these funds are less regulated than mutual funds which in exchange, they are not allowed to market or only take investments from a particular group of people often known as ‘accredited’ or qualified investors. These funds can employ leverage to amplify their returns as well as are generally considered to be more aggressive, flexible, and exclusive one as opposed to the mutual funds.

Although hedge funds try to reduce the risk but their top priority is to generate returns on their investments through various strategies and for this, fund managers receive the standard “”2 & 20”(most popular among hedge funds) which means 2% of net assets managed per year plus 20% of profit above a predetermined *hurdle rate* already defined in operating agreement with investors. It is therefore not shocking to find a lot of Hedge funds at a higher risk and net exposure than the Market. But still, the reduced market exposure and the diversified techniques that are employed by them are the reason that they are successful all over the world.

Diverse Strategies Of Hedge Funds

Ever wonder how hedge funds generate their returns?