

HEDGE FUNDS



Hedge Funds (1/2)

- Hedge Funds are lightly regulated investment companies that pool investors dollars and reinvest them into all kinds of complicated financial instruments
- Their goal is to outperform the market and attain maximum returns
- They are very smart to create high returns regardless of how the market does
- Unlike mutual funds, whose owners are public corporations, hedge funds traditionally weren't regulated
- Hedge Funds are very risky. It is exactly this risk that attracts many investors who believe higher risk leads to higher return

5 TOP HEDGE FUNDS

1

**Bridgewater
Associates
LLP**



Assets Under
Management

\$ 87 Bn

2

**J.P. Morgan
Asset
Management**

J.P.Morgan
Asset Management

Assets Under
Management

\$ 59 Bn

3

**Och-Ziff Capital
Management
Group LLC**



Assets Under
Management

\$ 47 Bn

4

**Brevan Howard
Asset
Management
LLP**

BREVAN HOWARD
Asset Management LLP

Assets Under
Management

\$ 40 Bn

5

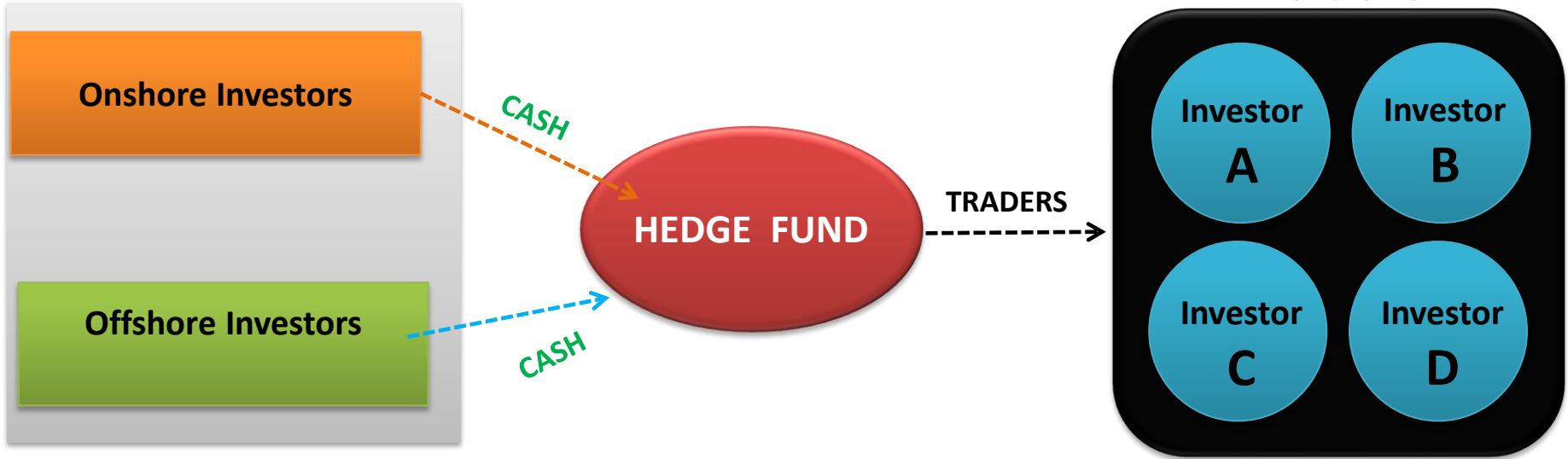
**BlueCrest
Capital
Management**

BlueCrest
BlueCrest Capital Management (UK) LLP

Assets Under
Management

\$ 34 Bn

Hedge Funds Structure



Hedge Funds & Role in Financial Markets

- Greater Efficiency to Financial Markets
- Widening the use of Investment Strategies
- Increasing number of Investors
- Returns are un correlated to those we get in other Markets
- Provides Liquidly and helps Investors to manage risks
- Freedom to invest anywhere & everywhere



Who Invests in Hedge Funds?

- Institutional investors who are very sophisticated in nature
- They are professional investors who manage large amount of cash
- They work for Pension funds for corporates, government – trade unions
- They handle cash of insurance companies & trust funds
- Institutional investors provide 65 percent of the capital invested in hedge funds
- Hedge Fund investors are usually required to have at least \$1 million in net worth



Parties to a Hedge Fund

- **Fund Manager or Investment Manager** is the person or organisation that has the responsibility for investment decisions and day to day running of the fund
- **Investor** : High net worth individuals (HNI) and big clients invest in hedge funds
- **Prime Broker/Bank/Custodian**: Usually a firm that charges Commission For executing trading instructions submitted by another firm
- **Counterparty**
- **Legal & Auditor**
- **Hedge Fund Administrators**- 3rd party Administrator for Accounting, Pricing, Valuation & more

ACCOUNTANCY & Journal Entries



Dividends

Cash Dividend

- When company decides not to use money for operations but transfer economic value to Investors
- Company share price falls
- It gives you Income but shareholders has to pay tax on them

Stock Dividend

- No cash available or if they want to invest cash somewhere else
- Avoid Tax and price doesn't falls
- They may come with Cash

Dividends

- **Declaration date:** The day the Board of Directors announces their intention to pay a dividend. On the declaration date, the Board will also announce a date of record and a payment date
- **Date of record (ex-dividend date):** The day when the stockholders are entitled to the dividend payment. A stock will usually begin trading ex-dividend or ex-rights the fourth business day before the payment date. In other words, only the owners of the shares on or before that date will receive the dividend
- **Payment date:** The date the dividend will actually be given to the shareholders.



Case Study

On March 15 a board of directors approves dividend of \$0.40 per share to pay on May1 to stockholders of record on April 15 (Shares 2,000)

Declaration Date 15 th March	Retained Earnings (2,000 X \$0.40)	800	
	Dividends Payable		800

Record/Ex Date 15 th April	No Entry The record date merely determines the names of the stockholders that will receive the dividends
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Payment Date 1 st May	Dividends Payable	800	
	Cash		800

7 Common Hedge Funds Terms

Absolute Return

- The goal is to have a positive return, regardless of market direction.
- This is the return that an asset achieves over a certain period of time.

Accredited Investor

- A term used by the Securities and Exchange Commission (SEC) under a rule known as “Regulation D” to refer to investors who are financially sophisticated and have a reduced need for the protection provided by certain government filings.
- Individuals, banks, insurance companies, employee benefit plans, and trusts can all be considered accredited investors.

Hurdle Rate

- The return where the manager begins to earn incentive fees. If the hurdle rate is 5% and the fund earns 15% for the year, then incentive fees are applied to the 10% difference

7 Common Hedge Funds Terms

Alpha

The return to a portfolio over and above that of an appropriate benchmark portfolio

Leverage

- This is when someone borrows money to increase their position in a security.
- If one uses leverage and makes good investment decisions, leverage can magnify the gain.

Run on Funds

- This is when a hedge fund faces a growing amount of redemption requests.
- SAC experience this earlier in the year

Value at Risk

- Value at risk is used by risk managers in order to measure and control the level of risk which the firm undertakes. The risk manager's job is to ensure that risks are not taken beyond the level at which the firm can absorb the losses of a probable worst outcome.

FINANCIAL TERMINOLOGIES



Financial Markets Terminologies

- TD & VD
- T, T+1, T+2, T+3
- Bullish & Bearish
- HNI,FII,FDI

- RBI,FED,SEBI
- PAF,CAF,DEAL
- Block, Electronic, GAG Trades
- New Deal, Amendment deal, Unwind, Novation & Expiry