



# Hedge Funds

The Hedge Fund asset class first began in the 1940s. The asset class has grown to a USD 900 billion global industry with over 7,000 hedge funds in the market. Hedge Funds are long-term investments and are often used to enhance the risk-reward dynamics of traditional portfolios rather than as stand alone investments. The weighting of Hedge Funds in your portfolio and how you invest in Hedge Funds depends on your risk appetite.

Hedge Funds aim to generate positive returns that have a low correlation to general market movements. The name *hedge fund* comes from the funds ability to use derivatives to *hedge* out some risks—allowing the fund manager to increase the funds exposure to certain isolated risks. Hedge Funds often rely on complex strategies in sophisticated markets to capture higher returns.

## Hedge Fund Investment Strategies

Market Neutral	Opportunistic	Event Driven
Equity Market Neutral Fixed Income Arbitrage Convertible Arbitrage Relative Value	Long/Short Equity Global Macro Emerging Markets Managed Futures	Merger Arbitrage Distressed Securities

Hedge Funds are often viewed as higher risk investments because they attempt to isolate risk, not avoid risk. It is best to diversify your risk in the hedge fund asset class with either a fund of hedge funds or a multi strategy fund.

*individual hedge funds* - isolate your risk into one fund manager often utilizing only one strategy

*multi-strategy funds* - offer diversification into many investment strategies but isolate your risk to a single fund manager or fund house

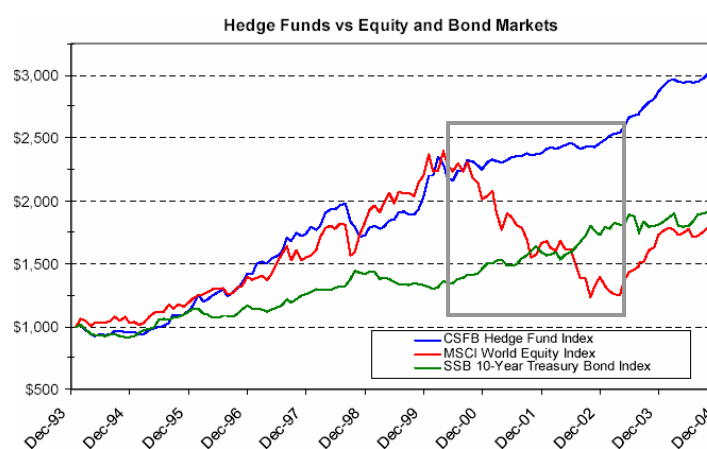
*fund of hedge funds* - invest in many, often more than five, strategies as well as in several funds within each strategy—diversifying risk exposure to multiple strategies and many funds

## Benefits of Hedge Funds

- ➔ seek absolute returns (not index-based performance)
- ➔ great diversity of investment strategies
- ➔ low correlation with traditional assets such as equities and bonds
- ➔ generate higher “risk adjusted” returns than traditional ‘long only’ funds
- ➔ able to hedge risk and profit from down markets
- ➔ attract the best investment talent—managers often hold significant positions in their fund
- ➔ products often offer capital guarantees/principal protection and use leverage

## Hedge Fund Returns

Hedge funds target double digit returns with lower volatility than equities and bonds. The graph below illustrates how the hedge fund asset class did not suffer during the sell-off of global equities experienced from 2000 to 2003.



Asset Allocation