

July 2009



\$50 billion boost for hedge funds by year-end

Research by Barclays Capital indicates hedge funds are likely to see inflows of \$50bn before the end of 2009 as investors' re-invest cash balances built up defensively during recent market turmoil. On average, nearly 14% of portfolios are being held in cash and nearly 80% of portfolios plan to reallocate during 2009. Pension funds are expected to increase their hedge fund allocations but will demand "easier" access to their money and will focus on more liquid investment strategies and those that focus on opportunities in dislocated markets.

Hedge fund launches on the mend

The size and number of hedge fund launches has reached levels not seen since 2004. CEO of *Gravitas Technology*, a leading technology service provider to the alternative investment industry, Jayesh Punater, says the number of launches during the second quarter is exceeding that of the first quarter of 2009. More funds are launching in the \$250-500mn range, with a few expected to launch with more than \$1bn in assets.

Punater also stated the "new generation" of hedge funds is focusing on a new set of business factors; including "smarter" rather than bigger funds; outsourcing of non-investment functions; independence and scalable costs.

Principles for regulation of short selling published

International Organization of Securities Commission (Iosco) has published a report on principles for regulation of short selling that they believe will contribute to a more consistent global approach to regulation.

Whilst it recognises that regulation will vary from jurisdiction to jurisdiction, *Iosco* found that short selling should be subject to:

1. Controls to minimise potential risks that could affect orderly and efficient functioning and stability of financial markets;
2. A reporting regime providing timely information to the market or market authorities;
3. An effective compliance and enforcement system, and
4. Allow appropriate exceptions for certain types of transactions for efficient market functioning and development.

AIMA has welcomed the principles.

An intelligent approach to tackling hedge fund reform

Managed Funds Association (MFA) - proposals and legislation relating to the regulation of hedge funds and other privately managed pools of capital in the US represent an intelligent approach by the US Government to "tackle" financial regulatory reform.

The proposals would subject all investment advisers and managers to oversight, examination and inspection by a strengthened SEC. They would require periodic, detailed reports to regulators and to the public, including investors and financial counterparties, describing who they are and what they do. In addition, investment advisers and managers will need to provide regulators with information regarding their size, leverage and interconnectivity to help regulators better assess the extent to which, if at all, such entities may pose a systemic risk.

President and chief executive officer of the MFA, Richard H. Baker said, "... *hedge funds were not the cause of the ongoing challenges in our markets and economy. However, as participants, we have a shared interest and responsibility to work constructively with the Administration, congressional leaders and federal regulators on a path toward financial regulatory reform.*"