# Hedge Funds

**Trilochan Sharma**
**Department of Commerce**

## Hedge Funds

## Back-Ground

- The first hedge fund in the world introduced 1949.
- It was started by Alfred Jones.
- Started like limited liability partnership.
- This fund was a private fund resulted beyond the scope of any regulations.

## Hedge Funds

Meaning

- It is an investment fund that trades in large amount of securities, currencies and metals etc. to receive the benefits of Rising and Falling of Prices.

# Hedge Funds

## Definition

Hedge fund is a vehicle where People Pool their money to make investment. The fund must be privately organized i.e. to ensure that minimum regulation is applicable to this fund. The fund also need to be managed by professional firm. The fund must be free to choose or change its assets classes and investment decisions.

## Hedge Funds

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- Usually, hedge fund company worked as conglomerates which have many funds. The responsibility for marketing each fund lies on the individual hedge fund manager.
- Companies like Credit Suisse and JP Morgan chase merely Provide brand name and charge fee.

# Hedge Funds

Features and Benefits

- Hedge Fund industry in India is quit young. It got a green signal from security exchange Board of India in the year 2012. SEBI allowed for alternative investment fund.

## Hedge Funds

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- Only High net worth investor can invest. The minimum ticket size for investor investing in these funds of Rs.1 cror.
- It have a comprehensive portfolio of Investment. The range of investment Derivatives, Stocks, Real state, Currencies, Bonds etc.. It covers all assets class.

# Hedge Funds

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- It works on 2 and 20 principles it means 2 Percent fixed charges and 20 percent profit Globally. It management the fee and expenses ratio.
- Income from hedge funds is taxable at the investment fund level. The obligation of tax will not Pass through unit holders.
- Registration with security regulators or market is not required.

## Hedge Funds

## Operations -

- The return is very important for every investment. Return of hedge funds depend on market conditions and skill of the manager. The manager can use the following for better return.

1. Short sell
2. Arbitrage
3. Invest in high discount.
4. Invest in future event.

## Hedging Funds

### Incentive Fee

Fee charged by the hedge fund management based on the Performance of the fund. For instance if the fund generate a return of 25% Percent on the assets under management. Then a Portion of 25% retain by the hedge fund management.

# Hedge Funds

## Hurdle Rate

- When a assets generate a low return then it feels unfair to receive incentive fee. In this circumstances this funs follow the concept of hurdle rate. This rate is the minimum benchmark which is expected from the fund.

## Hedge Funds

Surrender Fee

- It provide an opportunities to investor divert their money whenever they feel that the fund is not doing well. If any investor divert the money then the fund manager will charge surrender fee.

# Hedge Funds

Management Fee

Retrospective Fee

- The fund management charge 1% to 2% management fee. This charge management use for their operational Expenses.
- Fund management usually does not refund the incentive fee however to attract more client. It return the incentive fee to check the seriousness of investor.

## Hedge Funds

### Financing Fee

- Some hedge funds are highly leveraged. Obtains such leverage cost money in the form of interest payments. The funds management charged this from investor as a form of financing fee.

# Hedge Funds

The End Here

# Thank You