

Hedge Funds In The Spotlight



Hedge Fund & Private Equity
Resource Center LLC

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FEATURED TOPICS:

GROWTH > INCREASED PARTICIPATION > “RETAILIZATION” > CORPORATE
GOVERNANCE > INCREASED FRAUD

2007

Reasons Hedge Funds Are in The Spotlight

- **Growth of US Hedge Fund Industry**
 - Tremendous growth in last 10 years
 - 1993: Estimated 400 hedge funds with assets of \$50 billion dollars
 - 2007: Estimated 5,000-7,000 hedge funds with assets of \$1.5 trillion dollars
- **Critics: Huge amounts invested in largely unregulated segment of the securities industry**

Reasons Hedge Funds Are in The Spotlight

- **Increased Participation of Institutional Investors**
 - Pensions plans, endowments, foundations, insurance companies
 - Concern: plan participants are unqualified investors indirectly involved in hedge funds without protection provided by registration
 - Same concerns regarding “funds-of-funds”

Reasons Hedge Funds Are in The Spotlight

- **“Retailization” of Hedge Funds**
 - Greater interest of the general public in hedge funds, including “middle class” investors
 - Largely unregistered hedge funds can directly solicit a large segment of the population through use of the internet
 - Concern: these unsophisticated and unqualified investors need further protection than current securities laws provide

Reasons Hedge Funds Are in The Spotlight

▪ Corporate Governance Issues

- Hedge funds acquire large interest in publicly traded company through short-term allocation of capital
- Concern: Use large interest to affect corporate policy with short-term/self-interested agenda to the detriment of long-term stakeholders and management
- Are only interested in maximizing their position and getting out
- No concern for long term viability of company

Reasons Hedge Funds Are in The Spotlight

- **Alleged Increasing Instances of Hedge Fund Fraud**
 - Regulators claim that growth of hedge funds = increased SEC fraud actions
 - Since 1999, the SEC has brought approximately 38 enforcement actions relating to hedge fund advisers and hedge funds