



# NEW CHALLENGES FOR HEDGE FUNDS



There are raising concerns that hedge funds will not be able to maintain their recent level of growth because of both competitive and regulatory pressures that are paradoxically the result of their very success.

### **Increasing Competition**

In recent years, hedge funds have performed so well and expanded their business so fast that managing growth has become a key concern for the whole sector. In 2003, the number of hedge funds has increased by 23% (from 5,700 to 7,000) and their assets under management have grown from about \$600M to \$800M. According to a report published by the Hennessee Group LLC hedge fund advisory group, considered to be the most authoritative in its field-hedge fund managers, believe they can triple their current assets under management without damaging performance... reassuring news for the investors.

*But what can hedge funds do to face off increasing competition due to their growing number and the organizational challenges caused by more and more assets under management?*

### **Mounting Regulatory Pressure**

Hedge funds have outperformed traditional investment funds during the last bear years not only thanks to a sophisticated range of investment strategies and existing market inefficiencies but also because of the loose legal framework they operated in. Loose regulations had been justified by the fact that hedge funds have traditionally been investment vehicles for

a small number of affluent, finance-savvy individuals, supposedly conscious of the risk implied by a de-regulated environment. However, their outstanding performance has recently attracted the attention of institutional investors. The sheer number of press articles and specialized journals and magazines dedicated to them is evidence of how this "alternative" form of investment has gone main stream. Even traditionally risk-adverse pension funds are investing directly into hedge funds: pension funds investing directly in hedge funds have grown 453% since January 1997, their total investment reaching \$72B. With the entrance of pension funds' assets in the sector, there has been a growing concern for what happens behind the scenes of hedge funds' trading.

*How can hedge funds deliver an adequate level of transparency without having their growth stifled by regulation?*

### **The Role of Technology**

Technology is an answer to these concerns. The expected increase in assets and trade volumes requires hedge funds to build organizations that can sustain growth, i.e. organizations that are supported by scalable technological infrastructures. The leading funds have started doing so and the rest are following suit. Furthermore, in a very competitive sector where investment strategies have to be kept confidential, the transparency ensured by end-to-end automation is also a tool to win the trust of institutional investors.

### **For More Information:**

To learn more about Omgeo's solutions for hedge funds, please visit [www.omgeo.com/hedgefunds](http://www.omgeo.com/hedgefunds)