RESEARCH FINDINGS AND ANALYSIS ON HEDGE FUND INVESTORS

EMBA 210

FALL 2011

ROBERT PAUL ELLENTUCK

RESEARCH FINDINGS AND ANALYSIS ON HEDGE FUND INVESTORS

Introduction

This section analysis the feed backs and results from the questionnaire and produces the findings of this study. The results are extracted from the questionnaires feed backs given by the respondents which consist of hedge fund investors and managers from different regions. A qualitative method has been used to evaluate the results, using sample base research techniques.

The sample size is relatively small because no such study has been carried out before and the questions itself are exploratory in nature. Graphs has been used for to present answers to definite open questions and to show the relation between the question asked and the percentage of respondents agreeing or disagreeing to certain facts. It has been carried out for the purpose of, to exemplify the most common answer as given by high number of respondents and to show the differences of views in certain areas.

Method used for analysis

The survey result of each question has been reviewed separately along with discussing the feed backs and findings. According to Renata Tesch (1990) describes qualitative research analysis as the process of making sense of narrative data. The remaining part of this chapter presents the data collected after carrying out primary research. The research result data has been expressed both in figures and text for the purpose of, to evaluate and critically assessed the information so to help this study to come with a valid conclusion and satisfy this research.

Another aim for taking such approach 'using questionnaires' was to assemble as much possible information, which should be of helped to fill the gaps of existing literature. The name of the hedge fund partnerships and individuals were not asked in the questionnaire as it would have raised confidentiality issues.

The result of questionnaires

1 - The level of investment required to qualify as hedge fund investor

The requirements to become institutional investors or as qualified investors, has been previously mentioned in the literature review. The minimum investment conditions on hedge funds as already specified by Security and Exchange commission (SEC) in the law. But it is not necessary as each hedge fund company has different conditions for minimum investment requirements.

For the purpose of to get numeric data about the hedge fund minimum investment requirements, a question was asked from respondents. It could be any amount above from $1m as minimum investment required by a specific hedge fund company. In the literature review it has already been discussed, the profile of the hedge fund investors and who falls under qualified investment criteria.

According to the primary data and figures given by respondents, $1m was the majority response as an initial investment required in hedge funds. Some of the respondents stated it from $5m to $25m. some hedge funds requires initial investment as a percentage of total portfolio(Minimum 5%) but the majority funds were agreed on $1m.

It can be seen in the above graph, the most commonly answer was $1 million from 12 respondents. 4 respondents have given their initial investment $5 million and 3 respondents declared $10 million. Only one respondents 'according to their minimum investment requirements' stated $25m, which is staggeringly high for individual investor as minimum investment. One of the purpose of such figures shown above to show that hedge funds companies only wants to attract high net worth individuals and to raise the initial barriers high so make unsuitable low profile investors from hedge funds. There may be some changes needed to make this initial barrier lower.

But in the meantime according to Adam Shell (2006) the creation of lower-minimum funds of funds which provide diversification by investing in a number of funds with different mandates, has also made it easier of retail investors to get in. Hence in general hedge fund investment needs risk taker investors who could afford any consequences as oppose to a common individuals who are by nature risk averse.

2 - SERVICE FEE CHARGED BY HEDGE FUNDS AND MANAGERS FROM INVESTORS

Service fee is a crucial factor of hedge fund investing and influence the investor's decision as hedge funds services can be avail at a significant price. Service fee can be performance based, in the form of incentives or management fee. A question (4) was put in the questionnaire survey for the purpose of to get more in-depth information with regards to the amount of fee paid by investors and various form of service charges given by different hedge funds. The US Securities and Exchange Commission (SEC,2006) stated that hedge funds typically charge an asset management fee of 1-2% of assets, plus a performance fee of 20% of a hedge fund's profits.

A question was put in the questionnaire with regards to the discloser of fee charged by hedge funds from investors. These figures are varied as every hedge fund company has their own fee criteria. Majority of the companies charge extra fees (apart from initial investment) as an incentive for the services they offer to the investors. Only few companies stated that they don't charge an extra fee from their investors. To help in getting a clear view of services charges, the following findings are included:

Out of 25 hedge funds, the majority of the respondents stated that they charge service fee but few companies includes the service fee in the initial investment. Some hedge fund charge 1.1% from their investors. Some companies did not wish to disclose the fee they charge, as it would breach their company confidentiality rules. Many hedge funds charge 25-30% on hedge fund profits on a monthly basis. It can be concluded that the majority respondents charge on average fee in the range of 1% and 2% and managers incentive varies between 10% and 20%.

In hindsight it can be concluded that fee has a significant influence on the investment decisions making by investors and may not wish to pay such a high amount of service charges that may further affect the hedge fund industry as being too expensive to invest in. However a survey carried by Hedge fund Centre (2005) shown that on average fund of fund investors pays 2% management fee and 11% performance fee. The justification of such higher charges by hedge fund manager's that manager is the person who is responsible for all investment decision. To perform better, manager's needs to be motivated by some form of extrinsic rewards i.e. incentives. Hence the fee is a price paid for the services offered to investors.

3 - HEDGE FUND REGISTRATION: OBLIGATORY OR OPTIONAL?

Regarding the hedge funds registration analysis, it can be linked back to the literature review where registration areas has been studied and researched well enough whether or not hedge fund partnership wish to be registered? Several publication and reports are stated that there is no need for registration. But on the other hand regulatory bodies such as The Security Exchange Commission and Financial services authority strongly put emphasis on the registration of hedge funds, in order to protect the public or investors from frauds and also avoid the risk of misappropriation of funds by individual i.e. the hedge fund managers.

In the questionnaire, question number 8, regarding registration, majority of the respondents declared that they were not registered with any concern hedge funds authority and none of them considered registration to be helpful for the development of hedge fund industry. This shows that most of the companies do not want to go through such regulatory procedure as it shall incur costs of registration. The choice of registration should be left with managers and companies whether wish to be listed until the regulatory bodies make it obligatory.

From the graph it can clearly be seen that out of the 20 companies replied only 6 of them wish to be registered and the rest 14 opposed the idea to be regulated. It appears that the hedge fund managers do not comply with regulations and would wish to skip registration until it becomes compulsory. Before December,2004 rules was published , a fund which has less than 15 clients and asset under administration of $25 million is exempted from registration as Investment Advisers but the effect of the rule for registration requirement as an adviser of hedge funds that have more than 15 investors-which is without doubt most, if not all, hedge funds (Seclaw.com, 2005).

A changed in regulations has been brought up by SEC on 2nd December,2004 under thoroughly consideration in their recommendations so to make sure that any fraud, biases or missing data does not occur which will protect the hedge funds investors. It also covered manager's wrongdoing and the non-discloser of information related to hedge funds.

<u>4 - THE REASONS WHY INVEST IN HEDGE FUNDS?</u>

This is one of the crucial question comes to the mind of investors; both existing and perspective investors who wants invest in hedge funds. This section shows the significant of those factors with reason to persuade investors to invest in hedge funds. It also covers the features that hedge fund possesses and why it has been so well accepted by investors.

In the literature review the reasons for investing in hedge fund is already covered in detail, which has been collected from various reports, publications of hedge funds, hedge fund data bases and from investors. However, some of the facts which have been extracted from questionnaires are as follows:

1. Hedge fund is a form of investment that gives investors the opportunity of higher return with minimum risk.
2. In comparison to other fixed income investments which provide less return with greater risk as compare to hedge funds.
3. It is a solid investment strategy during down market as favorable returns are achieved from hedge funds at the time when rest portfolios suffering losses.
4. Hedge fund gives the benefits of diversification in portfolios containing traditional investments and result in positive performance on a risk adjusted basis.

The above arguments in favor of hedge funds which have given by respondents are more or less similar to the literature review about the hedge fund investing reasons. This shows that in real term what has been researched is valid to the fact that investors think of the hedge fund the same. The questionnaire feedbacks clear the way to perspective investors by putting emphasis on the main reason that hedge funds become the center of attention, because hedge fund provide high returns with bearing less risks for investors.

5 - FACTORS THAT INFLUENCE AN INVESTOR DECISION OF INVESTING IN HEDGE FUNDS

There are various factors that can influence an investor's decision to invest in hedge. These factors may be different to each individual investor who wants to pour his personal wealth into hedge funds. This section was mainly researched to understand the investors approach towards investing in hedge funds and how do they go about taking such decision.

Naturally any investor would put his investment in those places where a high returns are expected with minimum risk. But choosing what form of investment instruments are safe, an investor have to consider various factors before taking a decision to choose a particular investment tool and the reason of choosing it.

After the data from questionnaire were received and the results were established, the below graph was made. In the question the respondents were asked to choose on the factor listed in question 12, so to find out the main consideration before taking decision of investment in hedge funds. Hence in the graph the responses are divided by each factor per respondent. Out of 5 factors each respondent of total 20 had to pick only one factor.

The factors which are influencing the investment decision are:

- Investment strategy
- Track record of the hedge fund
- Size of the fund
- Hedge fund fee and services
- Risk return hedge factor

From the graph bars it appears that , the maximum responses has been received for the risk factor considered to be vital issue for taking investment in hedge funds. 9 respondents favored risk factor. An article of Charles B. Schaap (2006) published by hedge fund association, commented that It is important for an investor to understand the type of hedge fund which best fits their portfolio because vary in risk and return.

This result is very much indicative and relates to why investors invest in hedge funds? Every investor would want to make sure to invest in the best hedge fund that gives the assurance of positive returns with low risks. Hence before investing in hedge funds an investor needs to evaluate the risk-return and make it top priority, which shall lead to whether or not to invest in hedge fund. A fund having lower risk but does not produce high return or a fund which delivers favorable returns by performing better in the market but risk level is high, shall not be taken up by investors as it is not a safe bet. The risk-return proportion needs to be balanced.

The second most chosen factor was the track record of the fund. The previous performance of hedge fund considers being significant factor before investing in hedge funds. Track will show the history of its operation and results. Although investors can have access to the historical information and figures on particular hedge fund, but it cannot be satisfactory to make the decision on historical information. Respondents felt that since hedge needs high initial capital, hence they would want to safeguard their wealth by investigating the fund they are investing in. due to so many misappropriate use of investor wealth by managers, investors would prefer those partnerships who are either registered or manager is registered as an hedge fund adviser. They also feel that full disclosure of historical information of hedge fund performance to investors would gain their confidence.

After the risk and tract record factor, investment strategy was chosen. Investors think that the operation of hedge funds such selecting right strategies and other functions should left on manager's ability and skills as investors would pay the performance fee. It appeared from the questionnaire that investors are not bothering about selecting strategy and therefore it does not get priority. Investors are only concern about, in which fund to invest and the rest is left on the discretion of managers of hedge funds. Only the right selection is vital it is important for each investor to pick the right hedge funds and to understand and monitor his choices. (Bernstein Journal, 2005).

Similarly to the questionnaire feedbacks, the Hedge fund center (2005) revealed that Performance and downside risk management continue to be the most important attributes to hedge fund investors. This finding by hedge fund Centre give further relevance and confirm that Risk factor and past performance are significant to decision making process. Another research conducted by Investor Home (1999) about what do individual investors consider investing in hedge fund? 75% considered hedge fund performance, 69% risk, 49% Investments goals, 46% portfolio securities, 43%considered fee and expenses. This findings very much associated to the questionnaire result , showing three factor- fees and expenses the size of investment and investment strategy are least preferred by investors.

6 - DO MANAGERS POSSESS THE REQUIRED SKILLS AND EXPERIENCE TO OPERATE HEDGE FUNDS?

This question was primarily asked to get the personal views of investors and how do they judge the skills, knowledge and strategy applied by hedge fund managers? In the question 11 it was put forward as a 'yes' or 'no' choice. It was necessary to know the investors view on manager's skills and experience. It is significant for investors to identify that when it comes to establishing just how much to invest, however, it is crucial to take into consideration how widely individual managers' returns can vary. The Bernstein Journal (2005).

The question was aimed to analyze the manager's activities and their skills and to appreciate what investors feel are the setbacks in the management of hedge funds. Respondents were also asked to put the suggestion for improvement so the mangers can perform well. There mixed response from respondents who agreed that mangers of hedge funds are skillful and have the ability to turn things around, another half believes that hedge fund managers are not trustworthy and their skills are not certain when it comes to the application of strategies and the disclosure of information about fund to investors.

The respondents who, are disagree with mangers skills and ability, claimed that they do not believe mangers follow the right manner of operating, and answered by choosing 'no'. They also put forward the reasons of disagreement justifying by the following points:

Investors feel that trusting a hedge fund manager would raise the conflict of honesty. The manager's fee influences manager performance. Fleischer (2005) identified the problem managers as they might be tempted to make overly risky bets with investors' money. Another reason is the manager dishonesty about disclosing the trading strategies, which would affect investors in some way.

Managers do not show transparency about hedge funds operation.

The perspective investors have the possibility to overcome these problems regarding hedge fund management. The industry itself growing faster and gaining popularity and more skilled people getting in to hedge funds. As a result of these developments, it will eliminate inefficiencies possess by managers. SEC rules also play important role once the conditions 'regarding manager role' put in to place. Responding to the rules passed by SEC to get registered Managers that registered under the Hedge Fund Rule could choose to deregister immediately; it appears that many will adopt a wait-and-see approach, pending the final resolution of the case and the fate of the rule.(Winchell, et. al., 2006).

The rules will help in defining the control and responsibility and ownership which is hold by manager and investor respectively. Fleischer (2005) commented What the SEC could do to help out where would be to facilitate a system to make it easier for investors to assess the credentials of managers.

7 - THE PROBLEM WITH HEDGE FUND INVESTMENT, AS VIEWED BY INVESTORS AND MANAGERS THROUGH QUESTIONNAIRES ALONG WITH SOLUTION IN THE FEEDBACKS.

Investors and managers were asked to provide information relating to the problems faced in 'hedge fund investing' and what they think could be effective solutions which would develop hedge fund industry in better way. This was put in question 9 in the questionnaire survey where they were asked to specify the problem they face are the most important ones which affect the investment patterns of hedge fund investors. Hence the respondents highlighted several problems which in their view were most impacting:

The relationship between manager and investor is not properly defined yet as the problem circling around many issues such as trust, fraud; misappropriate use of funds, non-disclosure of information, misleading figures and facts about hedge funds and the investors not being informed by manager about the implication of hedge fund strategies.

Transparency is another problem face by investors because several hedges are not registered according to the SEC rules and there is previous record to refer to and the vital information not made available to investors.

Mangers responded that due to the technical nature of investors tactics, investors are notable to understand the product they are investing in. investors does not have proper knowledge about hedge investments as some time the hedge fund can go in to loss if be, every given month.

Investors making mistake by relying on previous data and performance of the hedge funds 'which earlier mentioned' one of the crucial factor for them. In fact, risk-return and the fee charged should be the basis of making decision on hedge fund investment. This is because the high performance of hedge funds for yours many not repeat and turn out to be negative in the subsequent year.

Another problem is the pricing of overall portfolio arises in hedge funds as investors rely on managers to price the product and not using the option of hedge funds calculating the value of an investor's portfolio.

It is necessary to mention a statement by UK pension's (2004) in their survey of hedge funds for the purpose of supporting this results potential investors see absence of transparency as the most problematic issue to hedge fund at present (38%), fees are ranked 2nd (26%), followed by performance risk(22%) and high gearing or leverage (14%) (Hedge week, 2004).

The problems mentioned above however, some respondents came up with some positive suggestions to be referred as feedbacks.

Managers and hedge fund partnerships are suggesting that hedge fund should not be limited to high-net worth only but variety of investors should be attracted, so it will help hedge fund growth and development of industry.

The barrier of minimum investment should be made low, so it will not discourage retail investors to invest in hedge funds.

A greater public scrutiny is necessary and information on hedge fund should be largely available to investors.

Hedge fund partnerships should not mislead investors by showing them only better performance bur rather also give information on performance during the time of down markets.

Due diligence need to be given to investors base and the investment horizon should be expanded to at least 3 years, also investors should be willing to accept the probability of medium term draw downs.

Investor should be encouraged to cross check the portfolio price and its worth from external specialists and confirm it from certified sources, so it will help resolving the mispricing problem.

8. ASSESSMENT OF HEDGE FUND STRATEGIES USED GLOBALLY AND EXAMINING THE INVESTMENT PREFERENCES IN RELATION TO THE QUESTIONNAIRE RESPONSE

It is vital to understand the significance of hedge fund strategies and what are the most commonly used according to the preference given by managers and investors in the form of feedbacks. An investor have to be aware of the risk management and the manager's application of various strategies, so to act in the best manner for investors which would result in positive returns with minimum risks. An input given by Huschmid, a former Long term management principal on the investment strategies.

The investors has to make sure that the manager takes no more risk than is outlined in the prospectus (Business week, 2005). It appears that that before entering into a hedge fund, the investors have to identify the boundaries which are clearly drawn by the manager and if a particular strategy mention in the conditions of prospectus, the investor have to be aware of it.

In Question 5, respondents were given the option of 11 commonly used strategies to choose from. Investors choose a hedge fund manager for their choice after agreeing to the term and conditions and the application of strategies which suit investors personal objectives in the best manner. Respondents were asked state their preferred strategies they view is the best one. 20 responses were received regarding the following strategies which shall be presented using bar chart. The strategies are:

- Arbitrage
- Dedicated short bias
- Emerging Markets
- Equity Market Neutral
- Event driven investment

- Global macro
- Leveraging
- Long/short equity
- Managed futures
- Multi-strategy
- Use of derivatives

It appears from the graph bars respondents has given their preference of the most and least strategies that are known. Theses result somehow shows similarity to the real market trend that have been researched by various hedge fund authorities and financial experts. majority of the respondents out of total responses, arbitrage and long/short equity is the most preferred choice. using long/short equity strategy a hedge fund trying to maximise the earnings by leveraging the position so to generate gains and involves either buying or selling a particular security based on views of the market or the company(Global derivatives).

Both strategy were picked by 5 respondents each. They felt that a manager or hedge fund who offers theses strategies would be their preferred choice. The aim for choosing such strategies that it will enhance the manager's stock picking ability and protect investors in all market conditions(Definition, Hedge Fund.net). Event driven investment strategy was the second best choice for choosing strategy. This strategy is specific to certain conditions and events for investments.

In brief it means a hedge fund strategy in which takes significant positions in a certain number of companies with special situations such as merger, takeovers, falling of stocks or even news affecting the financial markets (Financial Dictionary). Another choice was derivatives and multi-strategy techniques which are favourable from investment point of view. Since hedge fund offer variety of strategies, that leads to a change in investment trends and preferences of the investors. Indirectly, these reflect the investor's preference as managers perform according to the suitability and to their agreement.

Apart from the preference of least and most strategies by managers, some of the respondents also provided additional notes that can be helpful in the implication of hedge fund strategies based on what they use themselves. Some information are related to the current trend they follow. Managers responded that hedge fund investors do not take into consideration the valuating and ranking of most preferred strategies. In managers' view, each strategy holds its own relevance in the overall portfolio. According to one manager statement since the relative attractiveness is subject to cycles, so we conduct tactical reallocations between the different strategies we use.

Another respondent commented that we currently run all the above strategies, as an investor it depends on risk profile. As a rule of thumb, credit funds have a lower risk profile. In reference to the importance of each strategy one respondent commented we invest in hedge fund using variety of strategies, but we use a ranking system for selection. One of the hedge fund considered that long/short equity still by far the most preferred hedging strategy as most of the hedge funds uses it as part of their overall portfolio.

Leveraging is not the favourite anymore since the collapse of the as LTCM(Long term capital management). Managers are reluctant to use leveraging as it has lost the credibility since LTCM disaster. It can be seen in the graph, none of the respondents use leveraging in the current scenario.

Overall the respondents felt that it is hard to give ranking and classify strategies on a preference scale. Hence it would not be fair to rank a particular being the best one and rest least preferred. To take a general view a statement can be established in accordance to the real market facts in existence. Due to changes in hedge fund industry investing trends no single strategy can be compared with other as managers follows strategies according to the investor requirements.

Dion Friedland, chairman Magnum has produced some real market facts in a report published by the Hedge Fund Association for the purpose of clear the misconception of the existing members of hedge fund industry. He argued that it wrong consider that all hedge funds are volatile in nature and most of the hedge funds use leverage but in reality less than 5%of hedge funds are global macro. Majority of hedge funds use derivatives only for hedging or don't use derivatives at all, and many use no leverage. To conclude further facts, a survey by Hennesse's Hedge fund, it was found that the hedge fund style most frequently chosen by investors was distressed, appearing in 63% of hedge fund portfolios, followed by event driven 56% and convertible arbitrage 55%.

Chapter 6

Conclusion on the basis of research finding:

This research is concluded on the basis of analysis of hedge funds which mainly covering the investor profile and the requirement for investing in this form of alternative investment. The conclusions are clear and well defined which the respondents gave through the feedbacks to questionnaire. The information provided in the questionnaire do not only cover the analysis but an overall picture of what conclusion can be drawn by this study. Only relevant and important conclusions are highlighted so to give help in answering whether or not the research question has been answered? Few significant conclusions which were extracted from, comments, suggestion and inputs of hedge fund investors that need to mentioned after analysing the questionnaire feedbacks are as listed below:

After thoroughly analysing the responses and reasons given by investors as to why they think hedge fund should an important part of their portfolio. It can be summed up that vast majority of investors are attracted towards hedge funds as it generate high risk-adjusted return by exposing the large amount of investment to the minimum level of risks. In theirs view this tool of investment, although it is not as old as other forms of investment but proved to generate higher return.

It is quite clear and strongly believed that the hedge fund industry, if explored in the right manners, shall expand remarkably in the future as there has been a high demand of hedge funds in the investment market from the pool of investors.

Some managers are confident that due this high increase in the number of hedge funds in the future, the opportunity will be made available to retails investors with lower minimum investment requirements. Funds of funds as an example of where investors with low capital prefer to invest.

Investors suggested that hedge fund will only viable if hedge fund managers themselves initiate funds with assets under management worth $100 million. Investors also stressing on the disclosure of information to each individual investor.

Another comments given by a hedge fund professional in the feedbacks, it is not necessary that hedge funds don't generate absolute returns. Basically it is not independent of all other assets as it had been propagated in the past. This is because there is a fundamental exposure of beta to hedge funds that need to be diversified.

Taking minimum initial investment in to view, majority of hedge funds researched have agreed on $1 million.

Another conclusion provided by respondents in the feedbacks about hedge funds fees, on an average the management fees varies 1.25-2% and the incentive fee for managers approximately 10-20%.

At present majority of hedge funds partnerships are not listed with Security and exchange commission (SEC). Investors are of the opinion that hedge funds should be registered, in particular the hedge fund managers as an investment adviser. It should rather be made mandatory so to help in prevent misconducts, frauds and providing misguided information. In this study most of the respondents were not registered, they argued that such process is quite and complicated and indeed costly, and another reason for not being registered is, it will not help in generate extra returns.

Since the requirement for hedge funds investing forms the core of this study, it is remarkable to find that the two main important factors for investors before selecting for hedge funds according to the questionnaire analyses were: This risk- return of hedge fund overall portfolio and past performance and record of the fund.

Finally the most preferred strategies in the current hedge fund market as per the responses to questionnaire are arbitrage, Long/short equity and event driven investment.

There have been some in-depth researches conducted to find if 'hedge funds' is a viable tool of investment and how do investors respond to them. One of the survey conducted by UK Pension, it was found that Unsurprisingly the survey shows that the most important reason for not considering hedge funds is the concern that they carry a high level of risk(Hedge Week,2004). On the other side, conducted by Morgan Stanley in 200 ,it revealed that inclusion of hedge funds justifies an increase in total non-fixed income of the portfolio from 50% to 70%.(Peskin, M.W.,et al.,2000).

Investors need to have in-depth knowledge to be successful in hedge funds investments. One of the comment from Berstein Journal (2005) that hedge funds can provide very meaningful opportunities for added returns to qualified investors with excess capital, if they understand and accept the risks of such investment.

A conclusion is the place where you get tired of thinking(Arthur Bloch).if it is true then researching , analysing the research further, and the process of thinking on it would end. However, as for this topic research, it does not end but there are yet many areas to be explored further. It can be carried out in the future to help in the contribution to the existing literature on hedge funds and related matters. I believe this dissertation would further open various topics to be researched and fill up the gaps which may not have been covered within the preset boundaries of the research question.

Research Limitations:

It is important to mention and reveal the limitations of this research study so to be able to present a clear and true picture about the topic.

Hedge funds is not a main stream industry and by law they are not obliged to disclose their financial reports as compare to other companies. Therefore available online information is very limited and there is the possibility of biasness on the current disclosed information. Most of the funds do not give access to their internal data for research purpose. Due to such circumstances it was not possible to cover all factors that influence hedge fund investment strategies, therefore it leave room for further research by getting access to the right data.

This study deal with a relatively new area of hedge fund, but most of the data ,which were relied upon was external available information, so for that reason the primary research sample size was kept. Another problem was the people who were contacted, many of the were reluctant and not willing to answer the questionnaire and provide information on hedge funds. in the future a sample size should be kept large to be effective so that will help in examining the global perspective.

However, it should be kept in mind that priority is not given to generalising the research topic and compare and contrast with other findings but to give a broader view to the future investors, managers and others who are interested in hedge fund industry.

7 RECOMMENDATIONS

This part has been included as it outline the basis for carrying out further research in hedge funds particularly on the viability of investment. Recommendations are directly extracted from the questionnaire feedbacks provided by hedge fund investors and managers and also taken the view of various external sources. the recommendations are used to emphasise the future of hedge funds i.e. what are the factors ' in respondents view' will responsible for the hedge fund growth are decline? It covers the recommendations provided in the questionnaires and identify the problems related with hedge fund investment and the solutions as suggested by them. There are many proposals submitted by respondents on what in their opinion should amend with the investment strategies applied by managers and what make a successful hedge fund manager.

Thus it can be said with assurance that these recommendations shall help , to give general feedback for those who currently are hedge fund investors or those who taking interest to know more about hedge fund investment requirements. Although this study is not based on larger sample size but provides reader with various dimensions on the research ' not based on my own recommendations' but those provided by the hedge fund investors and managers for future reference.

Some of the most useful and essential recommendation about the future prospects of hedge funds and what advice should managers/investors follow in order for funds to be successful and grow further. Here are some key suggestions as preferred by respondents to increase efficiency of hedge funds:

One of the common recommendation received, was about the future growth of hedge fund industry. The majority of managers believe that the number of hedge fund should grow as there is a huge potential of prospective investors and they would be attracted to hedge funds.

Investors wish to see transparency practices and the discloser of fee charged. They also want to be aware of manager's trading practices of hedge funds. by disclosing such information, investors would be come aware of the strategies implied by manager and the risk they are being exposed to.

Another suggestion was given on the credibility of information for prospective investors. Since there is no such independent database exist where one can check the performance of particular hedge fund. As every hedge fund database manipulate the results according to their needs. To help grow hedge fund industry further, it is vital to establish an independent data base so the reliability will be restored.

It is important to understand better the hedge fund mechanism, not only by managers but investors. Thus both of them will be aware of performance over long term period.

Recommendation Using External Sources:

External sources such as the Finance Magazine (2006) report has given important recommendations for hedge funds and the need to avoid various useless regulatory rules applied to hedge funds so it can be made more accessible to wide range of investors. the expert report stresses the need to remove the necessary barriers to institutional investment in hedge funds and cross border provision of essential support services to hedge fund managers.

The main important area where the report has put emphasis on is to cut any unnecessary regulatory measures which hold back the market growth of hedge funds and to establish a specific hedge fund market which shall offer important services like administration and prime brokerage.

Managing partner magazine (2006) has published some important recommendations by International Monetary Fund (IMF) for the Cayman Islands Monetary Authority (CIMA) which is the biggest off-shore hedge fund industry, making 80% of the world's hedge funds. the recommendations were given to craft a distinct line between public and private funds, although it may be expensive to follow. it recommended to registered funds to raise the minimum investment amount from US $50,000 to US$100,000.

And existing funds that have less than US $100,000 minimum investment requires, shall not be subject to new rule. Other notable recommendation were given to CIMA , is the reporting of all their funds to an electronic system to improve the performance of reporting. It also mentioned that it is not compulsory to submit the assessed financial reports of the hedge funds under the special conditions.

William H. Donaldson (2004), chairman of the US Securities and exchange commission has recommend that hedge fund managers need to register themselves as investment adviser under the commission's authority as many manager seem to avoiding it under the Investment adviser ACT of 1940. according to SEC to bring hedge fund managers under the Investment Adviser Act will create a false sense of security- a kind of good housekeeping seal of approval. Managers avoid it, for the reason, to get rid of the registering costs which may be more than the benefits of doing so.

The main reason behind the registering of hedge fund managers ' as investment advisers' to safeguard the interest of individual from any wrongdoing on the part of advisers. Once the manager registered as an adviser, then the commission will thoroughly inspect manager's work and will make it necessary to disclose any particular information to the investors. Managers are not bound to disclose information on hedging strategies, investment portfolio but only information related to administration, and brokerage to commission.