



Welcome, from MFA President and CEO Richard H. Baker

Welcome to the new Managed Funds Association (MFA) e-newsletter, a communications tool to keep you updated on the latest in public policy, regulatory and other activities influencing the hedge fund industry.

This has been a busy fall at MFA, and I am pleased to announce the launch of our new, redesigned website – www.managedfunds.org. Our new site offers a host of resources for industry observers, policy professionals, investors and MFA Members. It is our goal to make the site a comprehensive portal for information, offering the latest updates on MFA's activities and important research and developments in the hedge fund industry. I hope you will take a few minutes to visit the site and provide feedback to help ensure we deliver the content that is most helpful to you. Thank you for your time, I look forward to staying in touch through this newsletter and other MFA outreach efforts moving forward.

MFA Policy Perspective: European Parliament Approves Restrictions on Short Selling, Sovereign CDS

Earlier this week the European Parliament [approved](#) short selling limitations and strong restrictions on sovereign credit default swap transactions (CDS). The United Kingdom has repeated objections with the legislation on legal grounds, saying that the legislation gives the European Securities and Markets Authority (ESMA) powers which are too broad. Following the vote, Conservative United Kingdom MEP Syed Kamall said, "This is a short-sighted ban driven by politics rather than sound economics. By banning uncovered CDS we will only encourage the creation of new, more complex and opaque, financial products." He went on to say, "At a time of sensitivity in sovereign debt markets, our fiddling could seriously undermine national governments' abilities to raise money by selling bonds. Investors will simply look to other markets where they still have the ability to fully hedge their investments." European Parliament's issue Rapporteur Pascal Canfin [argued](#) for the utility of the new rules, "These new rules will prohibit market actors from purchasing CDS of sovereign debt without holding actual bonds of the countries involved as a general rule. This will prevent cynical traders from speculating on the bankruptcy of a country."

MFA issued a [statement](#) in October on this issue, from Richard Baker, MFA President and CEO:

"(The measures) may well further economic instability during an already fragile period for the global economy. Increasing the borrowing costs for governments and corporations and removing a key tool used by pension funds and investors to manage credit risk compounds the current economic difficulties, and likely will have a negative impact on risk mitigation and investments in the European Union. While the measure seeks to mitigate those concerns by providing EU Member-States with the ability to "opt-out" of these restrictions, those exemptions could be invoked long after economies and investors have suffered harm. Further, we would note that the European Commission's own internal report found no evidence that sovereign CDS transactions had a material impact on the recent volatility

of sovereign debt prices.”

The legislation now moves to the Council of European Finance Ministers (ECOFIN), which is expected to review and approve the proposal during a meeting on either Friday, November 18 or Wednesday, November 30. Once approved by ECOFIN, the proposal will must be published in the Official Journal of the European Union and will take effect on November 1, 2012.

Read more about this issue on the [MFA Blog](#).

New Study on Hedge Funds’ Role in the Global Economy:

In September 2011, MFA teamed with Dr. Everett Ehrlich to release [“The Changing Role of Hedge Funds in the Global Economy.”](#) The research determines that a modest increase in hedge fund allocation could unlock \$13.67 billion in additional annual returns for public pensions and as much as \$1.73 billion in annual returns for college and university endowments.

The whitepaper also explores the evolution of the hedge fund industry in recent years, particularly the growing relationship between hedge funds and institutional investors, which now account for 61% of global hedge fund assets according to research firm Preqin. Through innovative modeling provided by Campbell & Company, an alternative investment manager with significant expertise in quantitative modeling, Dr. Ehrlich provides groundbreaking new data on the potential contribution hedge fund investments can provide U.S. public pension plans and college and university endowments.

Despite their growing popularity, hedge funds are still widely misunderstood. This study sheds light on the changing role of hedge funds in the economy. As people better understand the benefits hedge funds can provide, institutions will undoubtedly explore further partnerships. Hedge funds welcome that opportunity and stand ready to continue working with investors to help them meet their financial obligations and the financial goals of their beneficiaries.

Preqin: US-Based Foundations Investing in Hedge Funds:

Preqin, an independent research firm focused on alternative investments, recently released data showing that [396 US-based foundations currently invest in hedge funds](#), with others expected to make initial investments in the coming years. Foundations are an important component of the institutional investor landscape, leveraging assets to fund critical economic development, educational, health-related, and other philanthropic projects throughout the US. According to the Preqin report, foundations currently allocate an average of 16% toward hedge funds, primarily to help diversify investment portfolios and manage risk.

To learn more about how hedge funds have become a critical tool in the economy helping institutional investors, including foundations, protect and grow assets, click here to view [MFA’s Hedge Funds 101](#).

MFA’s Outlook 2011:

On October 20 and 21, MFA successfully hosted *Outlook 2011*, our annual hedge fund leadership conference for MFA members, investment advisers, investors and policy makers to engage in meaningful dialogue about critical issues that are transforming the alternative investment industry. *Outlook 2011* featured a distinguished lineup of speakers, including:

The Honorable Mary L. Schapiro, *Chairman, U.S. Securities and Exchange Commission* **Keynote Speaker

Harvey L. Pitt, *Chief Executive Officer, Kalorama Partners, LLC*

General Stanley McChrystal, *Former Commander of U.S. and International Forces in Afghanistan*

Outlook 2011 speakers also included these industry principals:

Frank Brosens, Co-founder, Taconic Capital Advisors LP

Nagi Kawkabani, Founding Partner, Senior Trader, Brevan Howard, Inc.

Marc Lasry, Chairman, CEO & Co-founder, Avenue Capital Group

Eric M. Mindich, Partner, Founder & Chief Executive Officer, Eton Park Capital Management, L.P.

John Paulson, President & Portfolio Manager, Paulson & Co., Inc.

Paul E. Singer, Founder & Chief Executive Officer, Elliott Management Corporation

Dinakar Singh, Founding Partner & Chief Executive Officer, TPG-Axon Capital Management, LP

Outlook 2011 featured engaging panels and discussion on the regulatory, investment and political environments around the globe. Attendance at *Outlook* continues to grow, driven by the thought leadership and analysis provided by industry experts that come together to make this event the premier hedge fund leadership conference.

For a roundup of conference highlights, please click [here](#).

Click [here](#) for information on upcoming MFA events.