MFA POLICY BRIEF

MFA Chair William R. Goodell Discusses the Global Trading Landscape in Brussels

MFA's Chair, William R. Goodell, lent his years of industry expertise to a high-level discussion on the global trading landscape at the 10th Annual European Financial Services Conference last week. Recognized as the leading annual financial conference in Brussels, the forum gathered hundreds of senior bankers and policy-makers from around the world to examine issues affecting European and global financial markets.

Mr. Goodell discussed the industry's views on a number of relevant public policy initiatives, including global financial regulatory reform, the impact of consolidation and proposed reforms on global financial markets and investors, perspectives on the US tax reform debate, and the ongoing debate in Europe regarding the proposed financial transaction tax. Mr. Goodell was joined by Verena Ross, Executive Director of the newly formed European Securities and Markets Authority (ESMA), and Markus Ferber, a Member of the European Parliament who will play a lead role in drafting the legislation and conducting the negotiations for the Markets in Financial Instruments Directive (MiFID II).

Read more about this event on MFA's website.

NACUBO-Commonfund Study of Endowments Report Shows Steady Partnership Between Hedge Funds and U.S. University and College Endowments

In recent years, institutional investors such as pension funds and university endowments have strengthened their partnership with hedge funds in an effort to diversify portfolios, manage risk, and deliver reliable returns over time. The National Association of College and University Business Officers (NACUBO) and the Commonfund Study of Endowments (NCSE) recently released a report illustrating this steady partnership during fiscal years 2010 and 2011. Endowments utilize hedge fund investments to help provide scholarships to students, salaries for top-notch faculty, facilitate research, support athletic programs and various other engagements on campuses nationwide.

Of note from the NACUBO-Commonfund study:

- Smaller endowments (on a percentage basis) are more heavily invested in hedge funds than larger ones.
- According to coverage of the report from *HFM Week*, Commonfund Institute Managing Director William Jarvis indicated that hedge funds tend to be the first choice for small endowments for three reasons: "they can be funded immediately; the endowment may receive some current income; and the strategies are relatively more liquid than private capital."
- Per the study, endowments worth $25 million or less allocated about 60 percent of their alternative investment portfolio to hedge funds, while those worth $1 billion or more allocated 38%.
- Returns from hedge fund allocations remained steady at 9.9% in FY2010 and 9.4% in FY2011.

"Most institutions invest in hedge funds to achieve diversification benefits and to potentially achieve

higher returns over the long-term," Jarvis said, adding, "To have returns in the 9% range in this market is very favorable."

Click here to learn more about who invests in hedge funds and why they invest.

MFA President Richard Baker Op-ed in the *Providence Business News*

Rhode Island's State Investment Commission recently authorized the first direct investments with hedge funds by the state's public pension plan. This is a positive step that will help the plan diversify its portfolio, manage risk, and strengthen retirement security for beneficiaries.

MFA President and CEO Richard H. Baker penned an op-ed piece on the importance of this development, outlining the many ways hedge funds help build retirement security, expand educational opportunity, and improve the quality of life throughout the state. Excerpts from the piece, which ran in the *Providence Business News*:

> *"…Hedge funds are not entirely new to Rhode Island. According to publicly available data, employers such as MetLife and Raytheon, and academic institutions such as Brown University and the Rhode Island School of Design, invest in hedge funds to help meet their financial objectives.*
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> *Rhode Islanders should take comfort in, and support, the leadership of the State Investment Commission. Its decision to invest with hedge funds is an important and prudent move toward reducing investment risk and putting the system on a more sustainable path and ensuring it can pay benefits to the hard-working people who earned them."*

MFA Submits Comments to Regulators on Proposed Volcker Rule

On February 13, MFA submitted a comment letter to the SEC, CFTC, and the banking agencies in response to the agencies' proposed Volcker Rule. In our letter, we encouraged the agencies to implement the Volcker Rule in a way that does not impede two important intermediary functions of banks and broker-dealers, *i.e.,* market making functions in various assets and markets and distribution platforms for customers to invest in third-party private investment funds. We further encouraged the agencies to alter the proposed rules to ensure that the presence of U.S. residents in an offshore fund managed by a U.S. non-banking entity does not prevent foreign banks from investing in that fund.

The Volcker Rule, included as part of the landmark Dodd-Frank Act, generally prohibits banks from proprietary trading and investing in hedge funds, subject to limited exemptions. The rule aims to limit risk for banks that have government backing on deposits. MFA will continue to monitor this issue and report back to members with timely updates.

New Preqin Research Details Institutional Investors' Interest in Emerging Manager Hedge Funds

The research firm Preqin recently released a study illustrating emerging manager hedge funds' popularity among institutional investors. Preqin's Hedge Fund Investor Profiles database found that 83 percent of institutional investors that are active - or seeking to be active - in the emerging manager space do so because of new funds' potential for strong returns.

According to the report, endowments demonstrated particularly strong interest in partnering with emerging funds – with 58 percent saying they would invest in first-time funds. Family offices and asset managers also look heavily to emerging funds because of their ability to deliver reliable returns over time.