Understanding Hedge Funds

Welcome to Understanding Hedge Funds, a monthly e-newsletter designed to provide accessible educational content about the hedge fund and managed futures fund industry and investment strategies.

The hedge fund industry has grown in recent years to become a leading investment partner for qualified institutions and individuals around the world. The information and resources contained in these newsletters help explain how the industry works, who it benefits, and why so many institutional investors are increasingly using hedge funds to diversify and manage the volatility in their portfolios.

In this month's issue:

1) Measuring Hedge Fund Performance Infographic and Educational Presentation

Investors in hedge funds look to those allocations to fulfill a number of objectives for their portfolios, according to new data from Preqin. MFA used those data to illustrate a number of important points on how investors measure hedge fund performance in a new infographic and educational deck. Among the top objectives for hedge fund allocations are risk-adjusted returns that are not correlated to equity markets, reduced volatility within the portfolio, and risk mitigation in other areas of their portfolios.

2) Hedge Fund Fees

MFA released an educational presentation explaining the fees associated with hedge funds and how they are used by hedge fund managers. Generally, hedge fund structures incur management fees and performance fees. Management fees are typically a small percentage of the Net Asset Value of an investor's interest in the fund per year. These fees are designed to pay for the expenses of the fund's investment manager, and often include salaries, utilities, or office space/rent. Performance fees are sometimes also referred to as incentive fees, as they are designed as an incentive for fund managers to generate a profit for investors. An investor pays a performance fee only if the Net Asset Value of its interest in the fund increases over a specified time period. Simply put, managers do not get a performance fee if the fund does not make money for its investors.

3) Distressed Debt

MFA's distressed debt infographic explains the basics of distressed debt investing, delving into topics such as who invests and why this is a compelling investment space for fund managers. The infographic adds to MFA's online educational resources that explain various aspects of the global hedge fund industry.

4) What Does AIFMD Mean for the Hedge Fund Industry in Europe?

The Alternative Investment Fund Managers Directive (AIFMD) set forth in the European Union to expand regulation of the hedge fund industry similar to the Dodd-Frank Act. MFA President and CEO Richard H. Baker discussed how these new regulations have a number of goals for the industry and its investors.

For more information on the hedge fund and managed futures fund industry, visit the links below:

Hedge Funds 101 | U.S. Regulation 101 | CTA/CPO 101