News Release

MANAGED FUNDS ASSOCIATION

FOR IMMEDIATE RELEASE
JULY 7, 2015

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MFA Publishes Paper on Anniversary of the Dodd-Frank Act

Paper examines financial regulatory changes over last five years & resulting role alternative investments play in capital markets

WASHINGTON – Managed Funds Association (MFA) today released a new position paper detailing the changes financial markets have undergone since the passage of the Dodd-Frank Act, as well as the expanded role alternative investments now play. The paper, *"Dodd-Frank at 5: The Role of Alternative Investments in Today's Capital Markets,"* is the first in-depth look at the role the Dodd-Frank Act has had in reshaping our financial institutions from the standpoint of the alternative investment industry.

A copy of the position paper is available for download here.

"MFA played a meaningful role throughout the legislative process by providing constructive feedback to policymakers on ways to ensure a safer, more stable and more transparent post-crisis financial system," MFA President and CEO Richard H. Baker wrote in the foreword. "Although no hedge fund required a government bailout during the recent - or any past – financial crisis, the industry has evolved its business practices to adapt to recent reforms, often going beyond what is mandated by law. As the paper details, today's well-regulated hedge fund industry plays an active and dynamic part in capital markets as well as a critical role in the global economy."

The report largely focuses on the Dodd-Frank Act, but also discusses regulatory regimes implemented in the European Union (EU) since the financial crisis. These new regulations have changed the way financial markets function, creating a new economy that is more regulated, more transparent and more reliant on alternative investment vehicles. Hedge fund managers, as the paper explains, have adapted to this new environment and continue to advocate for globally-consistent regulations that foster fair and efficient markets for all investors.

The following key takeaways provide a more detailed understanding of the hedge fund industry and its investors, as well as clarify several common misconceptions:

- Hedge funds are no longer just tools for high-net worth individuals. Today, institutional investors now represent nearly two-thirds of the industry's assets under management. Fund managers are

trusted partners of pension funds, charitable foundations and university endowments that help these organizations fulfill their fiduciary obligations and meet financial goals.

- Hedge funds are part of the financially regulated mainstream. Fund managers and their activities are monitored by the SEC and CFTC in the U.S. and well-regulated by several EU regulatory laws and individual Member State authorities.

- The hedge fund industry is more transparent than ever before. Fund managers report detailed information about their funds to regulators and investors.

- As new regulations have constrained the lending capabilities of banks, hedge funds have stepped in to provide capital for local communities and businesses working to expand and create jobs.

- The U.S. systemic risk regulator, FSOC, has acknowledged that "asset management firms and investment vehicles have closed without presenting a threat to financial stability." In fact, the very nature of the industry prevents it from posing a systemic risk for the following reasons:
    - Relative Size: Hedge funds' approximately $3 trillion in AUM represents a fraction of broader markets.
    - Less Concentration: The hedge fund industry is far less concentrated than other parts of the financial services industry, making it unlikely that the closing of any one fund would cause a systemic risk. Only a few hedge fund firms have more than a one percent market share of the industry's total AUM, and no hedge fund has more than 10 percent – small percentages when compared to other members of the financial system.
    - Diverse Investment Strategies: Hedge funds pursue a tremendous diversity of investment strategies and invest in a wide range of asset classes that are often not correlated to the broader markets or each other.
    - Less Leverage: Data shows that hedge funds are less leveraged than many other types of financial institutions.

About Managed Funds Association

The Managed Funds Association (MFA) represents the global alternative investment industry and its investors by advocating for sound industry practices and public policies that foster efficient, transparent, and fair capital markets. MFA, based in Washington, DC, is an advocacy, education, and communications organization established to enable hedge fund and managed futures firms in the alternative investment industry to participate in public policy discourse, share best practices and learn from peers, and communicate the industry's contributions to the global economy. MFA members help pension plans, university endowments, charitable organizations, qualified individuals and other institutional investors to diversify their investments, manage risk, and generate attractive returns. MFA has cultivated a global membership and actively engages with regulators and policy makers in Asia, Europe, the Americas, Australia and all other regions where MFA members are market participants.

For more information, please visit: www.managedfunds.org.

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