

Hedge funds continue to confound the scientists

On Friday 14th May, International Asset Management Ltd (IAM) the London and New York-based fund of hedge fund manager co-hosted a conference at the London School of Economics and Political Science (‘LSE’) on the ‘Risk and Return Characteristics of Hedge Funds’.

An invited audience of investment professionals, students and other guests heard presentations from representatives of some of the world’s top academic institutions on the latest research into the complex world of hedge funds. In response, industry practitioners commented on how the theoretical thinking was actually unfolding in the market where a less scientific (but often highly systematic) investment style was being underpinned by the overwhelming need to follow trading instincts.

In conclusion, the research conducted so far has led to an increasing level of comprehension amongst the professional investing community regarding the generic characteristics of hedge fund strategies and where the systemic risks lie.

However, it remains difficult to accurately map hedge fund strategies with any level of scientific certainty and a good hedge fund manager is not very scientific. If they were we could clone them. Put simply, the current lack of clarity may be helping protect the geese that are laying the golden eggs.

Enquiries:

Rupert Young / Helen Barnes

Brunswick 020 7404 5959

Notes to Editors:

International Asset Management (“IAM”) is one of the oldest and largest independent specialist hedge fund portfolio managers in Europe. Founded in 1989, IAM has approximately \$1.7 billion in assets under management. IAM specialises in tailor-making portfolios of hedge funds for its institutional and high net worth clients.

For further information on IAM, please visit www.iam.uk.com

The London School of Economics Financial Markets Group (‘FMG’) was established in 1987 at the LSE. FMG is now one of the leading centres in Europe for academic research into financial markets.

Research at the FMG is conducted through a number of thematic research programmes. Each thematic programme hosts a number of associated projects on key research areas and the Centre’s dissemination activities such as seminars, conferences, public lectures and publications are organised around the FMG’s research programme structure.

For further information on FMG, please visit www.fmg.lse.ac.uk

IAM Hedge Fund Research Programme

IAM sponsors the IAM Hedge Fund Research Programme, run by the Financial Markets Group of the LSE to undertake independent research into aspects of the hedge fund industry.

This event was the second LSE conference in IAM's programme.

The event was chaired by Gregory Connor, Professor of Finance and IAM Fellow in Hedge Fund Management (*LSE*). The day began with a lively discussion panel discussing in detail the topic of 'Understanding hedge fund risk, styles and benchmarks'. The panel was chaired by Barry Cohen, Features Editor of HedgeFund Intelligence with fellow panel members Mark James (*ABN AMRO*), Professor Carol Alexander (*University of Reading*), Dr Ros Altmann (*LSE Governor*), David Harding (*Winton Capital Management*) and Bernard Minsky (*LAM*).

Dr Naryan Naik (*London Business School*) talked about 'Risks in Hedge Fund Strategies: Case of Convertible Arbitrage' in which he demonstrated the Asset Based Style (ABS) of analysis to understand a significant portion of return variations. His findings suggested ways of showing where exploitable pockets of market inefficiency exist.

Next, Dr Andrew Patton (*London School of Economics*) presented his paper on 'Are "Market Neutral" Hedge Funds really market neutral?' in which he proposed that no funds were truly neutral to market influences, but some were more so, relative to other strategies.

Dr Bing Liang (*University of Massachusetts*) discussed the topic 'Do Hedge Funds Have Enough Capital? A Value-at-Risk approach'. His research addressed concerns regarding capital adequacy in hedge funds and investigated the potential causes of hedge fund failures, showing that a higher proportion of 'dead' hedge funds suffered from lack of capital than existing 'live' hedge funds.

In response to the academic presentations, industry practitioners from firms such as *Goldman Sachs*, *Deutsche Bank*, *Julius Baer* and *Jefferies International* provided a very real contribution on how some of the theoretical thinking was actually unfolding in the market. Additional contributions were heard from Professor Vikas Agarwal (*Georgia State University*), Dr Michela Verado (*LSE*) and Professor Mark Salmon (*University of Warwick*).