

# FSA Hedge Fund Survey

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IMF Conference - Operationalizing Systemic Risk  
Monitoring

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# Agenda

- **Background – Objectives**
- **Survey Programme and Content**
- **October 2009 survey results**
  - Footprint/leverage
  - Liquidity/market concentration
  - Asset/Liability mismatch
  - Counterparty risk
  - Other risks
- **April 2010 survey and beyond**

# Background - Objectives

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**The survey, along with the FSA hedge fund as counterparty survey, aims to help the FSA identify sources of systemic risk that hedge funds may pose, either individually or collectively**

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**The survey aims to help the FSA better understand:**

- Managers' and larger funds' 'footprints', including concentration and liquidity issues
- The scale of any larger funds' asset/liability mismatch
- Larger funds' counterparty risks
- Managers' and larger funds' use of leverage

# Survey Programme

- Bi-annual Survey
- First iteration in October 2010 - *Assessing Possible Sources of Systemic Risk from Hedge Funds: A report on the findings of the hedge fund as counterparty survey and hedge fund survey* (Feb 2010)
- Collecting results for April Survey – for data as at 30 April 2010

# Background – Survey Content



## Section 1

- All managers
- Size AUM
- Firm footprint (size at the time of the survey)
- Asset turnover (size in the markets day-to-day)

## Section 2

- For funds over USD 500 million
- Fund strategy and domicile
- Performance (and redemptions)
- Fund footprint (size at the time of the survey)
- Risk measures - % OTC, VaR etc.

- Asset/liability mismatch

- Counterparty risk

## Section 3

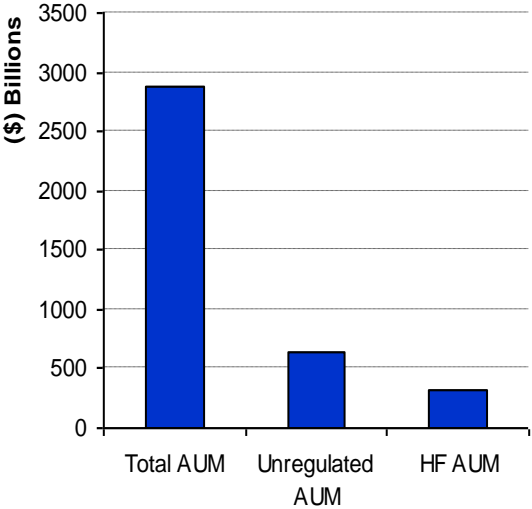
- (Just for October 2009)
- Cost of completing the survey

# October 2009 Results

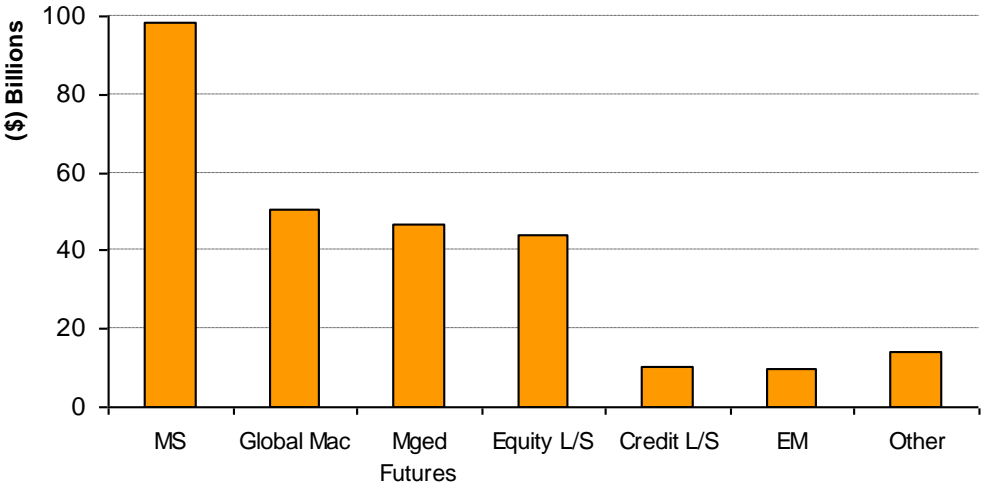
**Total AUM:**

- In total 47 Investment Mangers participated in the Hedge Fund Survey (HFS). Together these firms managed approx. \$320bn and over 80 Qualifying Funds (being individual funds with net assets of minimum \$500 million).
- For some of the very large multi-manager firms Hedge Fund AUM comprised only a small part of their portfolio.

**Total AUM**

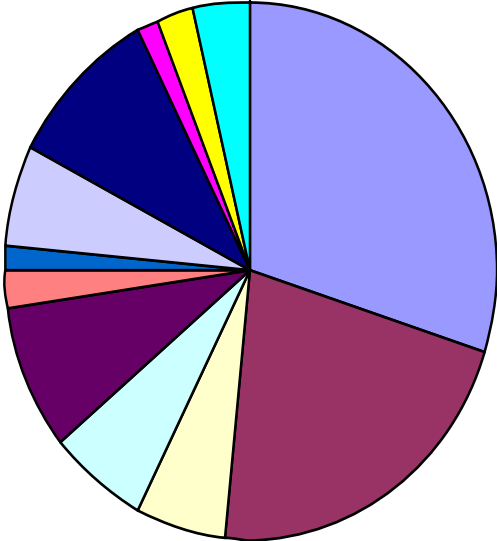


**HF AUM by Strategy**

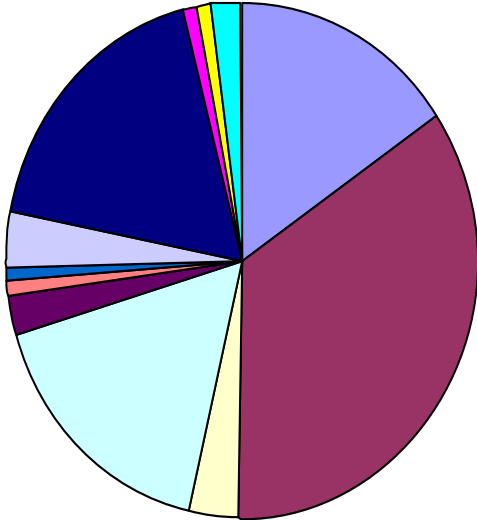


# October 2009 Results

**Funds by Strategy**

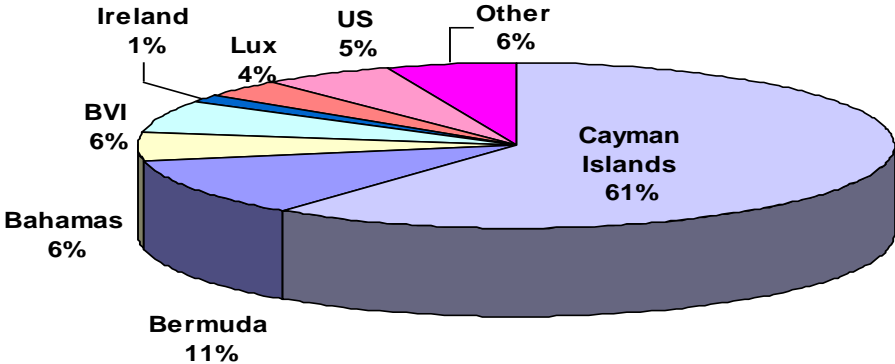


**AUM by Strategy**



- Equity Long/ Short
- Multistrategy
- Emerging Markets
- Managed Futures
- Other
- Event Driven
- Credit Distressed
- Credit Long/ Short
- Global Macro
- Equity Market Neutral
- CB Arbitrage
- FI Arbitrage

**HF AUM by Domicile**

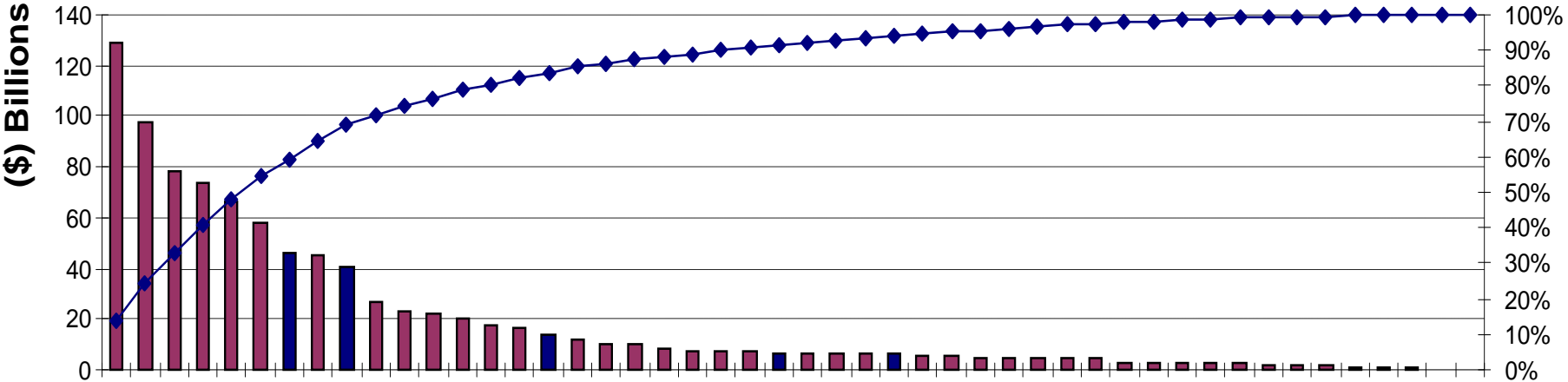


# October 2009 Results

### Footprint by manager:

- The largest five firms in terms of global footprint each had assets of more than \$60bn.
- Based on this measure the Top 10 firms accounted for, a relatively more concentrated, 72% of total HF footprint.
- More than half of the Top 10 firms by footprint also appeared in the Top 10 firms by HF AUM.

Firm size by footprint



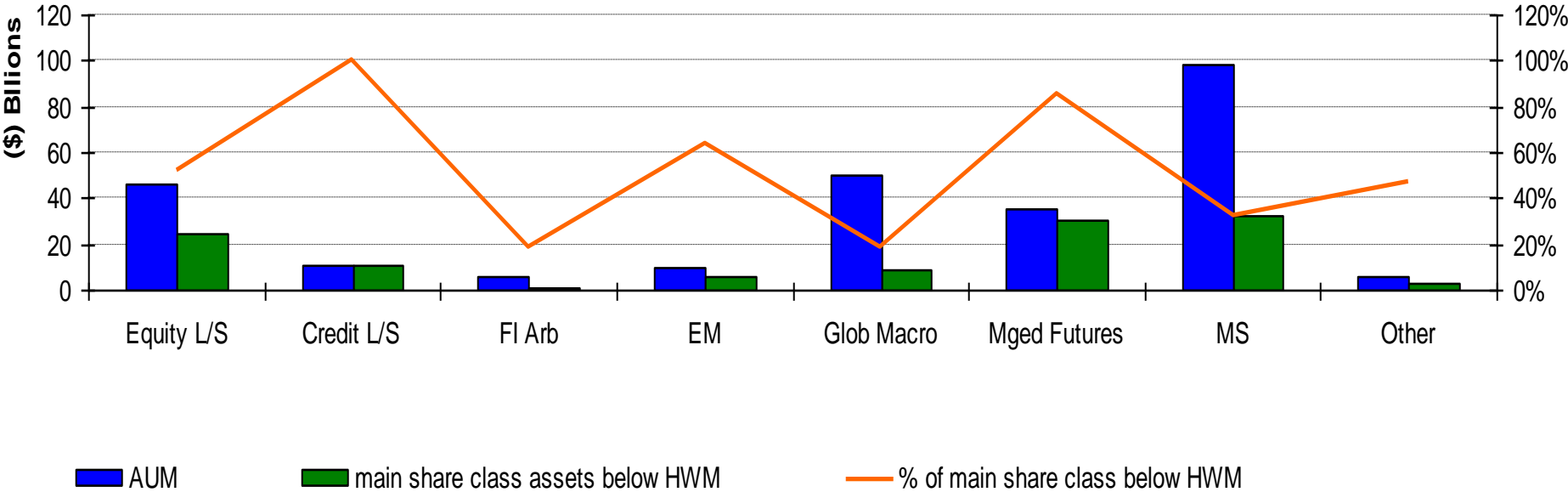
Footprint = LMV +SMV of securities (including CDS and futures notionals and delta adjusted values of bond and equity options, but excluding FX, Rates and Commodity Derivatives)



# October 2009 Results

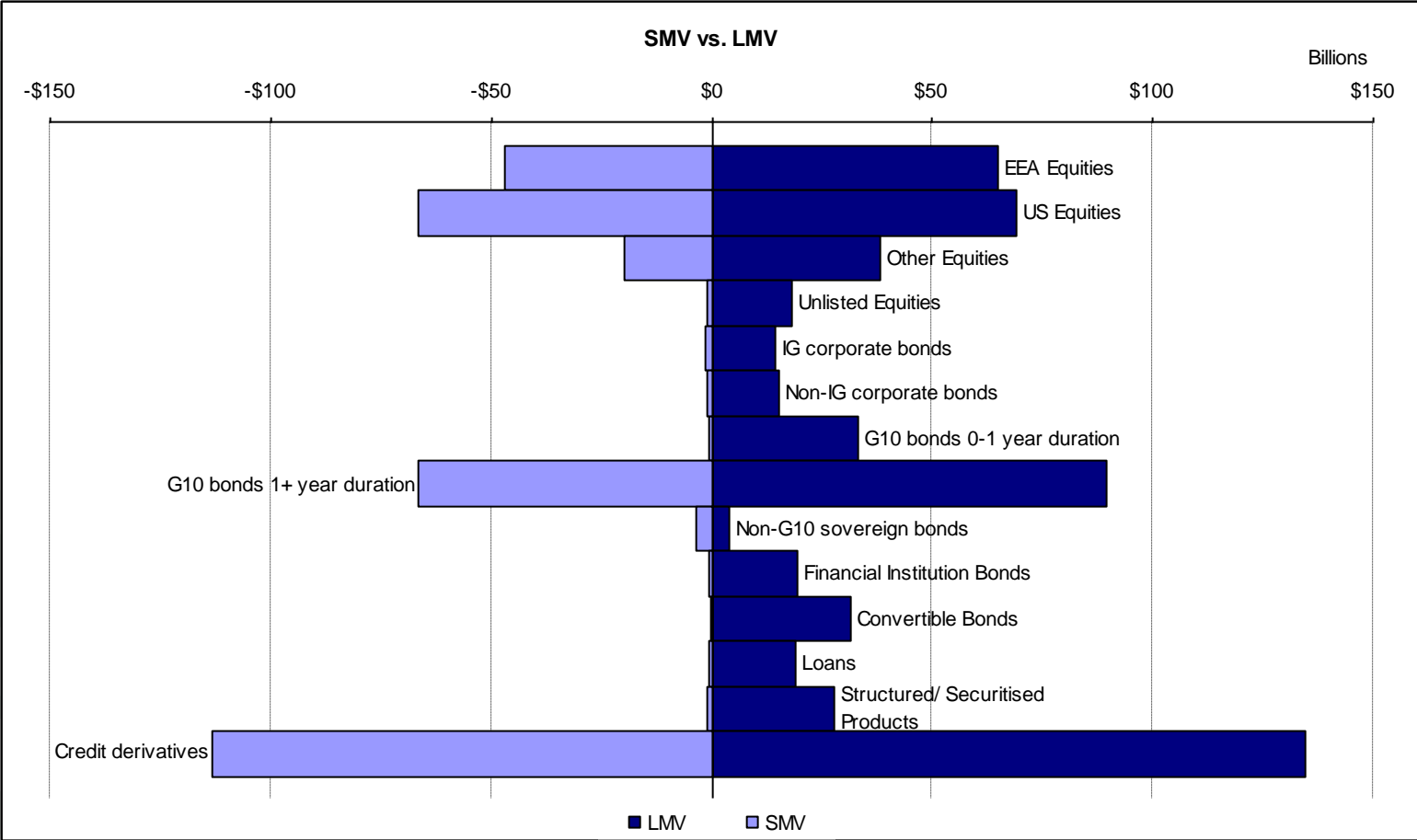
## HF main share classes below High Water Mark:

- Almost half the Qualifying Funds' main share classes by assets were 'underwater' (i.e. below the HWM) as at 31 October 2009. This may have meant Managers were unable to charge performance fees (although note that full transparency on each investor's HWM would be necessary to understand this fully).
- Of the larger strategy categories, Equity/ Long Short funds had 53% of their main share class by assets below HWM, while Multi-Strategy had 33% and Global Macro 18%.



# October 2009 Results

## Relative long/short positions:



# October 2009 Results

## Footprint by Asset Class:

- The Gross Footprint of hedge funds across asset classes varied greatly. The HFS indicates that they comprised a particularly significant investor class in Convertible Bonds.
- Data collected by the FSA also showed that hedge funds were important investors in Interest Rate derivatives, Leveraged Loans, G10 bonds, US listed equities and Single Name CDS.

Asset Class	Surveyed Fund 'Footprint'	Grossed up Industry 'Footprint'
<b>Convertible Bonds</b>	<b>10.1%</b>	<b>60.6%</b>
<b>Interest Rate Derivatives</b>	<b>3.1%</b>	<b>18.6%</b>
<b>Leveraged Loans</b>	<b>1.7%</b>	<b>10.3%</b>
<b>G10 bonds &lt;1yr duration</b>	<b>1.2%</b>	<b>7.2%</b>
<b>US Listed Equities</b>	<b>1.1%</b>	<b>6.7%</b>
<b>Single Name CDS</b>	<b>1.0%</b>	<b>5.8%</b>
<b>EEA Listed Equities</b>	<b>0.9%</b>	<b>5.5%</b>
<b>All G10 Bonds</b>	<b>0.9%</b>	<b>5.3%</b>
<b>All Credit Derivatives</b>	<b>0.8%</b>	<b>5.0%</b>
<b>G10 bonds &gt;1y duration</b>	<b>0.8%</b>	<b>4.6%</b>
Exotic CDS	0.7%	4.4%
CMBS	0.7%	4.3%
All Listed Equities	0.7%	4.3%
Index CDS	0.6%	3.9%
RMBS	0.4%	2.3%
Corporate Bonds	0.3%	1.7%
Other Listed Equities	0.3%	1.7%
FX Derivatives	0.3%	1.7%
Agency MBS	0.1%	0.6%
Non-G10 Sovereign Bonds	0.1%	0.5%
ABS/CDO/WBS	0.1%	0.4%
FI Bonds	0.0%	0.2%
ABCP	0.0%	0.0%

**Top 10**

The 'Gross up' factor used for the 'Footprint' calculations was 5.98 for Section 2 data.

# October 2009 Results

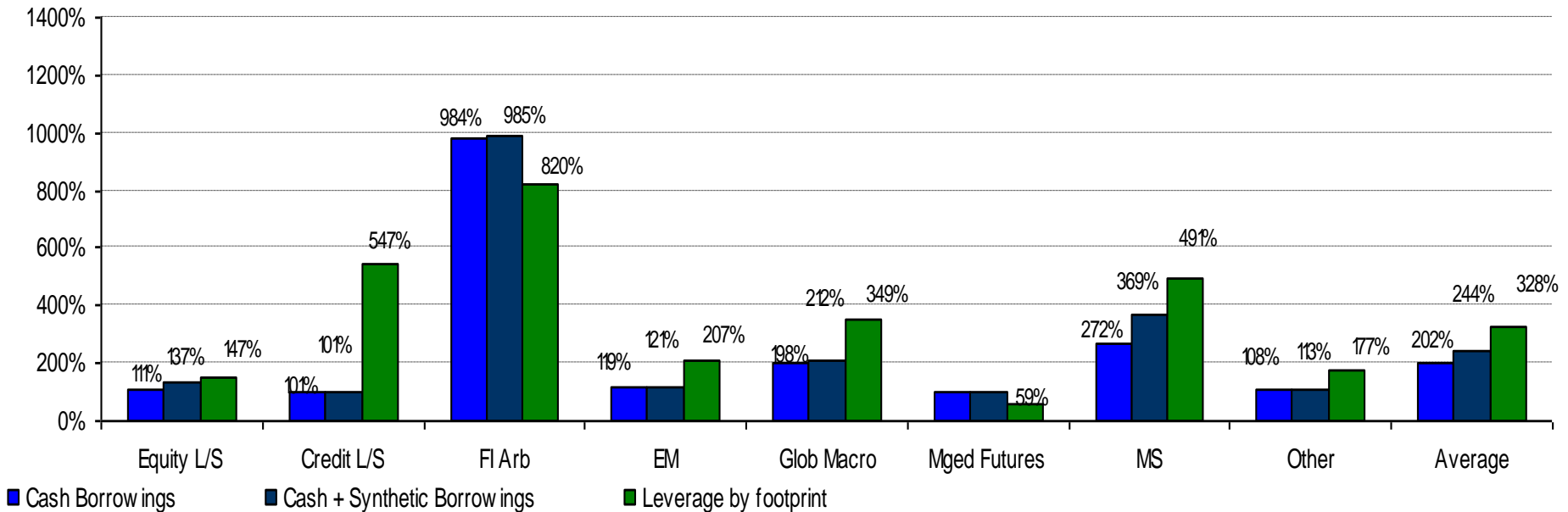
## Markets with a significant share:

- Managers were asked to identify those markets in which their trading could represent a significant proportion of overall daily volume.
- The results varied quite widely, given the range of instruments traded by participating firms, but were weighted toward futures contracts (as perhaps expected given availability of data on aggregate volumes traded) . Note that some Managers felt unable to answer this question, particularly where they were mostly active in OTC markets.
- Markets where managers identified their trading as being significant included:
  - Equity index futures;
  - Swap note futures;
  - STIR futures;
  - Convertible bonds; and
  - Some commodities futures

# October 2009 Results

## Leverage:

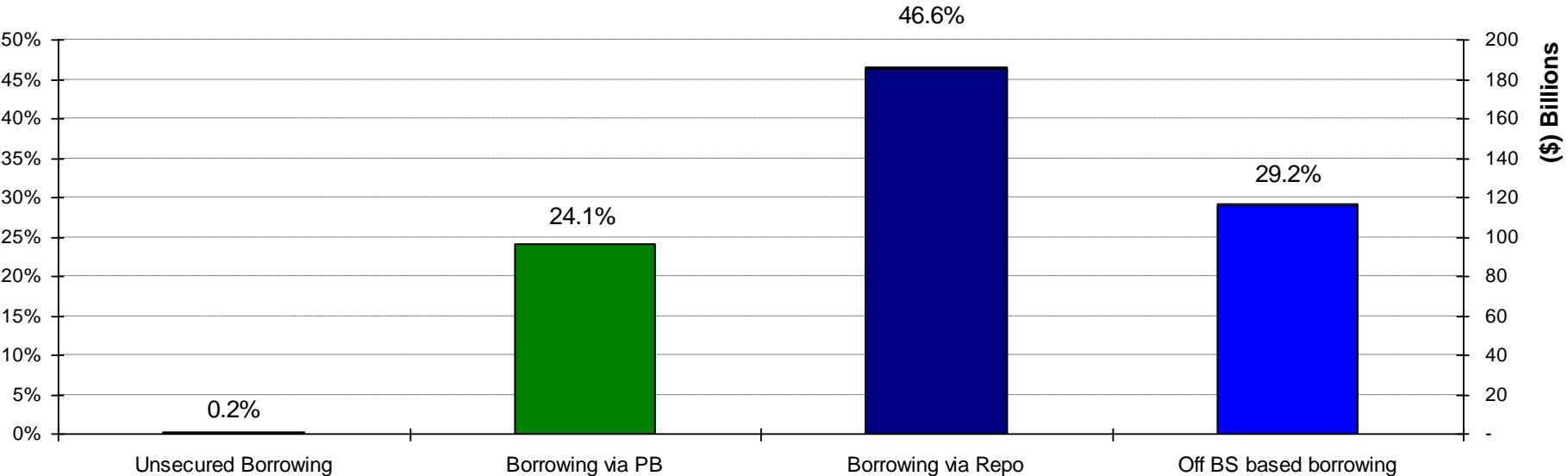
- There are a number of different measures of leverage. The HFS does not ask Managers to calculate their fund's leverage, but rather asks participants for data on their investments and borrowings that allow the FSA to make various calculations of leverage.
- Different leverage measures do not always provide consistent results. Using three different measures – ‘Cash Borrowings’, ‘Cash + Synthetic Borrowings’ and ‘Leverage by Footprint’ - average leverage employed by the Qualifying Funds surveyed was 202%, 244% and 328% respectively.



# October 2009 Results

**Borrowing:**

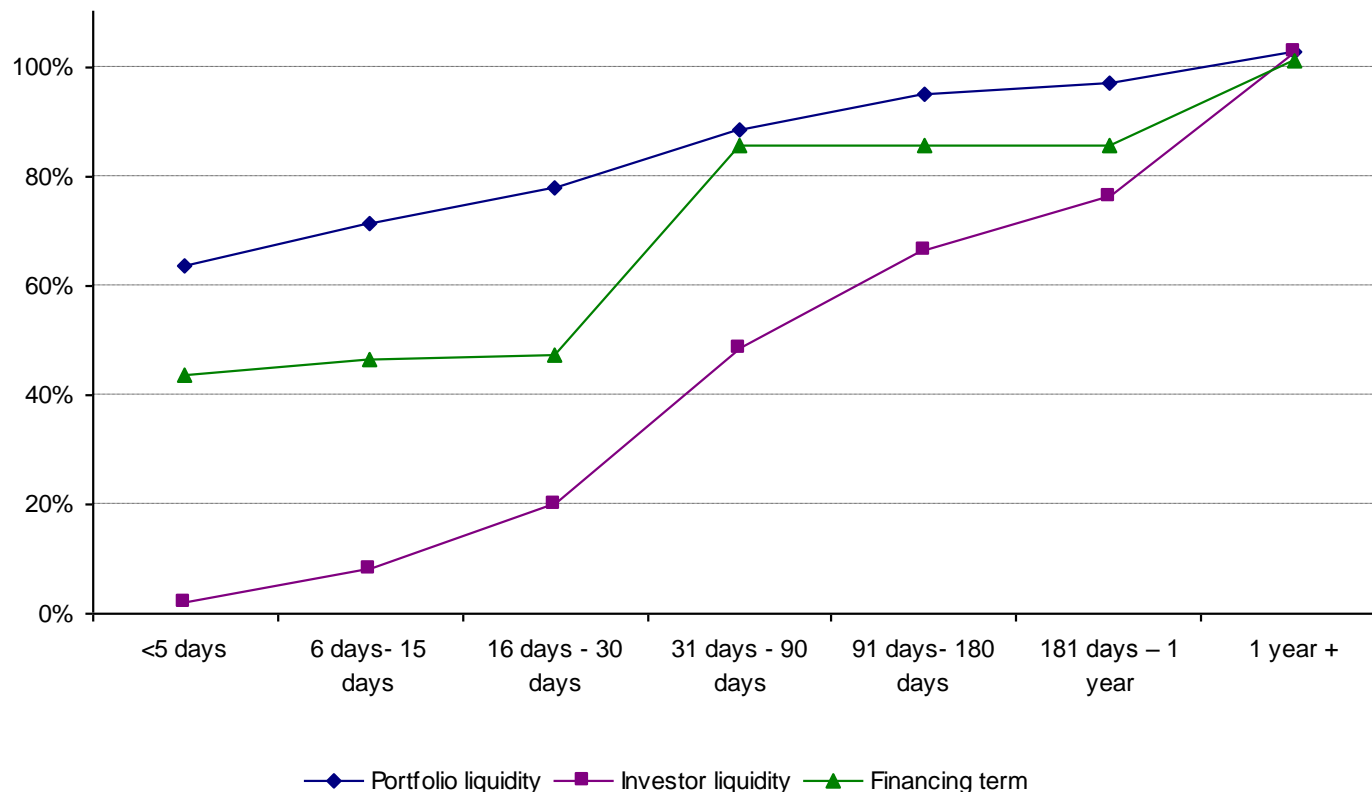
- Borrowing by Repurchase Agreement (repo) was a relatively larger source of financing for the surveyed funds compared to borrowing via prime brokerage.
- Synthetic financing was also an important source of financing for surveyed hedge funds, being provided mostly in the form of CFDs and TRS. It is possible that there has been some growth in this method of financing due to changes to accounting rules.
- There was relatively little unsecured borrowing by the surveyed funds, and that which existed was almost entirely attributable to Equity Long/Short funds.



# October 2009 Results

## Asset/ liability mismatch (*maturity transformation*):

➤ Results suggested that surveyed hedge funds were not systematically engaged in maturity transformation, however it should be noted that this data is often subjective – particularly regarding the liquidity of hedge fund assets – and also not representative of likely liquidity in a distressed environment.

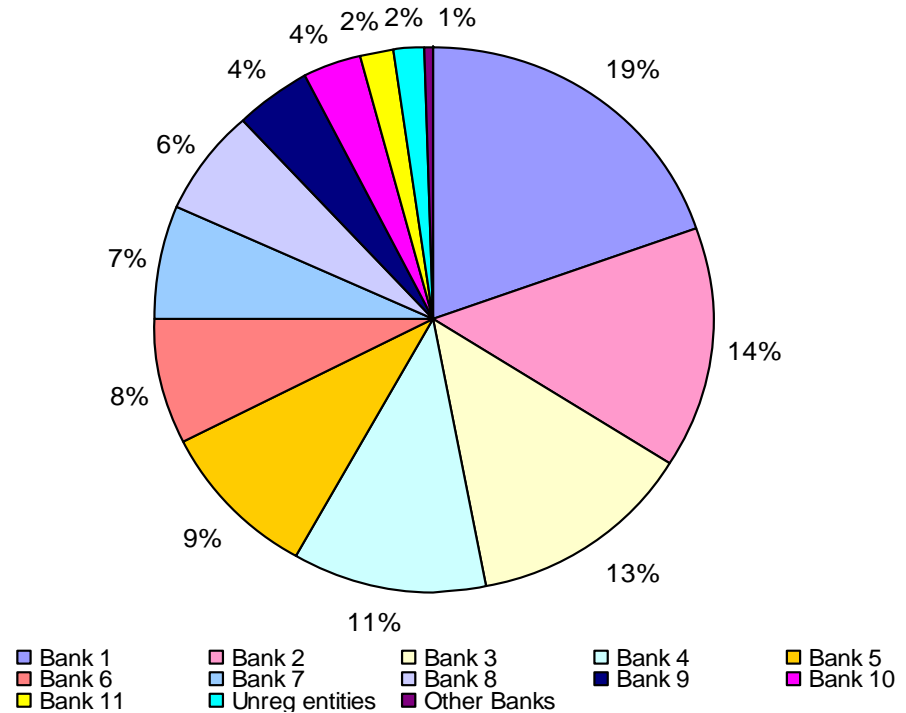


# October 2009 Results

## Credit counterparty risks:

- Participants were asked to report those counterparties to which their Qualifying Funds had the largest credit exposure (almost inverse of question asked by HFACS).
- Post-Lehman there are no longer two or three dominant banks/broker dealers dominating the market for hedge fund finance, but rather several competing providers.
- There is also some evidence of hedge funds having direct counterparty exposure to other unregulated entities (being other hedge funds and also private equity funds).

Net Credit Counterparty Exposure of HFs - % of Total



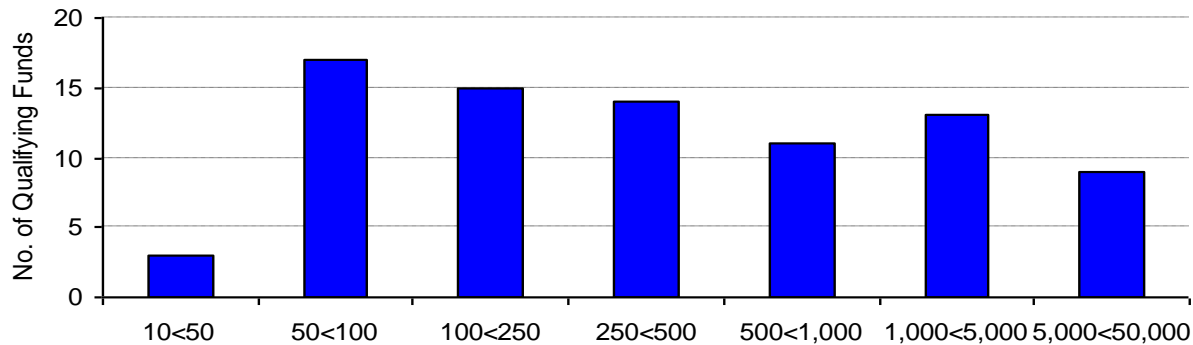


# October 2009 Results

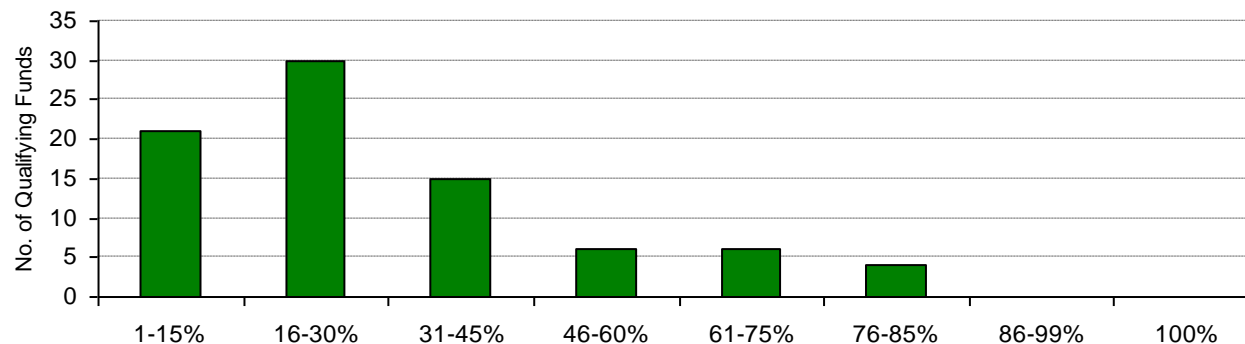
## Operational Measures:

➤ While the total number of open positions varied considerably between surveyed funds, only a few demonstrated a concentration in terms of their Top 10 positions. For the majority, these positions accounted for less than 45% of Qualifying Fund's GMV.

**Total No. of Open Positions**



**Top 10 positions as % of Fund's GMV**



# October 2009 Results

- For more detail please see our published report - *Assessing Possible Sources of Systemic Risk from Hedge Funds – A report on the findings of the hedge fund as counterparty survey and hedge fund survey* (Feb 2010)
- Available at [www.fsa.gov.uk/pubs/other/hedge\\_funds.pdf](http://www.fsa.gov.uk/pubs/other/hedge_funds.pdf)

# April Survey and beyond

- Analysis of April survey in summer 2010. New for April:
  - Amendment of questions in relation to: provision of liquidity, high water mark, unencumbered cash and strategy asset categories
  - New questions added in respect of: additional regulators, funds in run-off and credit exposure to CCPs
- In future, the timing and format of the survey may be affected by developments regarding the AIFMD, IOSCO-led work on the global collection of hedge fund data, and coordination with other regulators on approaches to global regulatory requirements for hedge fund advisors
- FSA supports a coordinated approach with other regulators internationally to collect consistent data