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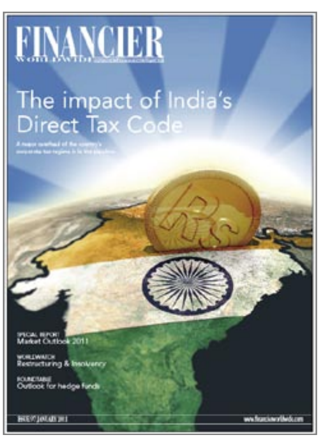
OUTLOOK FOR HEDGE FUNDS



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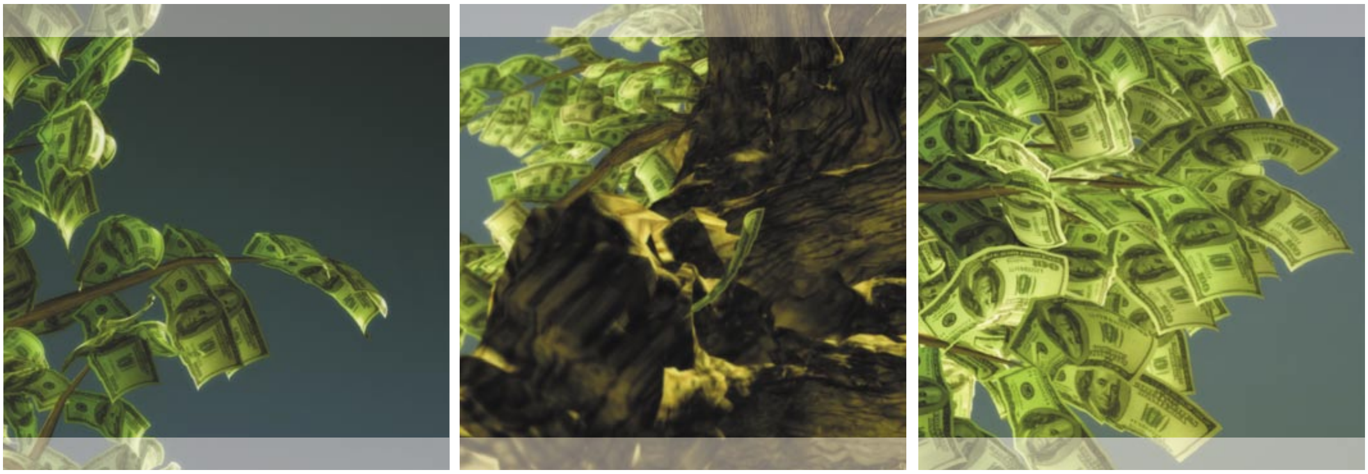
OUTLOOK FOR HEDGE FUNDS

Following a period of high performance, the financial crisis brought difficult conditions for the hedge fund industry. During 2010 the continued fallout from Madoff and other fraud cases, along with the new provisions of the Dodd-Frank Act and the AIFM directive, have had a wide impact on global funds. The balance of power appears to have swung from managers to investors who are demanding greater transparency. Although there is some optimism, there is also newfound realism, and the outlook for 2011 remains difficult to call.



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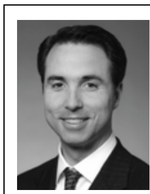

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How would you describe the last 12-18 months for hedge funds, in terms of their overall performance and the returns they have generated? Do you expect to see more of the same through 2011?

Terblanche: Following on from 2009, which showed the best performance figures in a decade with average returns around 20 percent, 2010 has brought mixed results as volatility and high correlation lead to a challenging environment for hedge fund managers. Debt issues in Europe in particular, have lead to further opportunities in distressed assets, but have not done the wider market any favours. Hedge funds have nevertheless outperformed markets over the last 18 months and have, for the most part, provided decent to impressive absolute returns in a challenging environment. Specific sectors like emerging markets and distressed assets have done particularly well over the period.

Devaney: On average, hedge fund performance across a number of strategies has been down over the past 12 months, with the shocks reverberating out of the Euro debt and European banking markets being most directly to blame for the worst of the monthly performance in 2010. Even contrarian strategies – MBS, emerging markets and distressed and credit opportunities – have seen lower returns than the rebound in 2009 produced. The hope for 2011 is that both debt and equity markets become less choppy, but that fundraising for hedge funds as a class will continue an upswing with the return of investors', in particular institutional investors', confidence in hedge strategies.

Dambacher: Although it has been an extremely challenging market, a large number of our clients have performed well. Particularly, a number of funds have recovered earlier losses and are either near or above the high water marks. Generally, the outlook remains difficult to call, although we do see a degree of optimism amongst our clients. That said, there are also those who are very bearish.

Mungovan: We have seen several strong trends among our hedge fund clients, all related to greater liquidity. First, hedge funds have focused on investment strategies that provide substantially greater liquidity. Many funds are still burdened with legacy positions that have remained largely illiquid. As managers continue to reduce these positions, they have been careful to maintain substantial liquidity in the balance of their portfolios. Second, many managers have reduced leverage, which can exacerbate liquidity problems in a volatile market. In 2008, funds that had employed significant leverage were doubly hurt by plunging asset values and declining liquidity. Third, many managers have diversified their prime brokerage relationships. In the wake of Lehman's collapse, many fund managers have added one or more prime brokers to their current roster. The large European banks seem to have been the primary beneficiaries of this diversification in prime brokerage.

Have you noticed any shifts in the investment strategies utilised by hedge funds? To what extent are financing and leverage issues influencing the way they deploy capital?

Dambacher: The strategies prevalent at any particular time tend to reflect actual or perceived opportunities. We have seen a number of credit opportunity funds this year, including funds in the distressed space. Some of the best performance has been seen in the European long/short space – perversely, this sector has also seen some of the poorest performance. A number of new funds are in this space. Emerging markets and event-driven strategies also appear to have performed well. Generally we do not see the majority of managers actually using the financing available to them in its entirety and financing and leverage issues have had little impact on investment strategies. Counterparty exposure has, however, been a concern to a number of managers.

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THOMAS DEVANEY

Terblanche: The global financial crisis has reinforced the maxim that a cobbler should stick to his last and hedge fund managers are not about to buck that trend in the current environment. Market conditions and opportunities dictate where and how a manager invests but also play a significant role in relation to which strategies will produce the better returns. Managers have had to adapt to the environment and find ways, within the limits of their strategy, to generate returns for their investors. Global macro funds have, for example, recently been making the most of their returns from trading currencies, bonds and commodities.

Devaney: 'Hybrid' credit opportunity and special opportunity funds, with longer lock-up periods, appear to be more actively fundraising, with a particular focus on emerging markets. The general lack of availability of leverage over the last 18 months has not been a significant issue for many of the more active hedge fund clients we represent – as opposed to private equity funds, which were as a class more significantly impacted – over the past 24 months, but may present more issues as more active, less risk adverse money re-enters the market.

What recent developments have you seen in fund types and structures? What considerations are fund managers making when establishing new funds?

Niggli: There has been a very strong trend to establish Newcits, for three distinct reasons. First, an increasing number of investors and particularly institutional investors, request the manda tory transparency stipulated by the UCITS directive. Other investors are attracted by the liquidity of Newcits, but it remains to be seen whether Newcits will indeed be able to provide the required liquidity in the event of another crisis. Second, in view of the oft-postponed agreement on the AIFM directive, the establishment of a Newcits has been very attractive to mangers that wanted to avoid the insecurity about the future to access the European institutional market, particularly if the managers are from non-EU countries, since Newcits are not affected by the AIFM directive. Third, the ability to publicly distribute Newcits across Europe and to access the lower end of the private banking clients that has previously been served by fund of hedge funds that have fallen out of favour, has been a strong argument for the establishment and funding of Newcits.

Terblanche: There has been a fair amount of interest in using UCITS funds for alternative strategies and a few of these funds have been launched, but most of the action we've seen has been in the context of Luxembourg SIFs. We have seen a continued increase in interest in European domiciled funds and have set up, in particular, a number of master-feeder structures in Luxembourg. We have also had a number of instructions from managers to set up their first European based funds – sometimes side by side with existing offshore funds – and have also seen growth in the number of requests to migrate existing funds to Luxembourg. While this is certainly not the only factor to be taken into account, these funds have one thing in common: investors or potential investors who require a regulated onshore fund. In addition, we have noted that there is more interest in managed account-type structures for larger investors in particular and structures which can accommodate both traditional pooling of funds and managed account structures are proving to be popular.

Devaney: Clearly, there has been a push by large institutional investors such as sovereign wealth funds and pension plans to invest in managed accounts that provide individualised transparency and liquidity, often pursuing a strategy alongside an existing fund with a track record. Fund managers are finding it very hard to refuse these mandates. This more complex set of client arrangements heightens allocation and balancing issues for the less liquid opportunities, in particular debt and equity of thinly traded issuers. Multi-class fund structures, with differentiated fees calibrated to lock-up terms – typically two to three years – continue to appear popular to investors. As a general matter, start-up funds have had a difficult time getting traction in fundraising over the last few years, with most success being had with smaller family offices and high net worths. Our clients are reporting a definite shift in this area, however, with new funds beginning to experience better reception across a broad range of the investor class.

Mungovan: The balance of power in negotiating terms and conditions has definitely shifted to investors, away from the managers. From a structural point of view, investors continue to be interested in separately managed accounts. Investors are also demanding – and getting – greater transparency into operations and investments. Finally, the biggest investors are demanding enhanced liquidity rights. We have seen investors routinely demand monthly liquidity – and some are getting daily liquidity.

Dambacher: The principal consideration should always be "what do the target investors want and/or need?" There has been a lot of talk in the past year about 'onshore' funds and also UCITS, but the reality is somewhat different. The vast majority of funds follow the well-trodden Cayman master-feeder route. Whilst we are seeing new Irish and Luxembourg funds, these are still relatively few in number as compared to new Cayman funds. Cayman still has around 70 percent of non-UCITS fund launches. As for UCITS, while there has been a lot of interest, there have not been nearly as many launches as might be thought and the majority tend to be complementary products to a hedge fund rather than a replacement. Relatively few have raised significant assets and managers need to understand the regulatory, administrative and operational burden that UCITS gives rise to.

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JOSH DAMBACHER

How would you characterise the relationship between fund managers and their investors over the last year or so? Have there been any significant changes in fund terms, fees or related documentation arising from negotiations?

Devaney: As is most apparent at the time of new fundraising, the balance of power seems to be tipping slightly back in the favour of managers, although much of the ground ceded on transparency and limitations on side pockets, for instance, has not been regained. Lock-ups, key man provisions and succession planning continue to receive the scrutiny of investors. Our macro view of the fee landscape coming out of the credit crisis is that the fee structure of pooled vehicles has not experienced any drastic adjustment.

Niggli: At the lower end of the market, managers of smaller, less known funds, and the few start up managers in particular, have been forced into heavy compromises both on fees – introduction or rising of hurdles – and the liquidity terms. Investors have become much more concerned with the management of counterparty risks in funds.

Mungovan: The credit crisis of 2008 exposed the Achilles heel of most hedge funds: the mismatch between funding liquidity and asset liquidity. Funds need sources of longer term funding, while investors want greater liquidity. Some managers have offered reduced fees in exchange for longer lock-ups. The longer the lock-up, the lower the fees.

Terblanche: Investors are demanding greater transparency and reporting and there has been some talk, especially from larger European institutions, in relation to fees. For the most part, managers have been quick to accede to investor requests for greater transparency, but we have seen limited movement on fee terms in existing funds, with new funds more likely to offer better liquidity terms or slightly lower fees. The interesting thing is that it seems that both investors and managers themselves have come to the realisation that gains are likely to be smaller than what was regarded as normal or necessary just a few short years ago and that correlation assumptions need to be reconsidered. The result is that investor expectations are more realistic, and so are manager claims in relation to performance in variable market conditions. The same goes for liquidity terms: investors now pay more attention to and have a better understanding of the liquidity terms of the funds they invest in and the liquidity of the portfolio and, by and large, tend to appreciate both that there are certain inherent liquidity constraints and that liquidity tools are primarily there in order to protect their interests.

Dambacher: We would say that the relationship is reasonably balanced with neither the managers nor the investors having the upper-hand. Generally, managers are more accommodating to investor requests where they are not problematic to accede to – for example, a degree of transparency. In terms of fees, generally we do not see much change. There has been a lot of talk about multi-year incentive fees and claw-backs but very few have been implemented in practice. The greatest degree of focus is on redemption terms and alignment of these to the nature of the fund portfolio in terms of not restricting redemptions unduly, whilst also protecting the portfolio and the interests of non-redeeming investors.

How important is it for fund managers to select the right location for their hedge fund? Are you seeing a trend in funds relocating to different jurisdictions for tax, regulatory or other reasons?

Niggli: The importance of the hedge funds domicile is often somewhat over-exaggerated by the promoters of the various locations. Tax considerations still drive the choice of manager's, rather than the fund's, domicile. Over the last 18 months or so, not so much the avoidance of stiff regulations, but firm requests of investors and distributors to establish new funds or to transfer existing funds to onshore locations such as Ireland or Luxembourg have been the decisive factor. Possibly, these requests were not made exclusively on rational grounds. Certainly since the decision on the EU's AIFM directive has been made, I observe an increased interest of managers and investors in the Caymans and the BVI. Smaller local Swiss managers, however, are still mostly interested in Luxembourg and Malta. In view of the coming AIFM directive, they believe that, being a third country manager, it will be less complex and demanding to manage an EU based alternative fund than a third country offshore fund.

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GERHARD NIGGLI

Dambacher: There is a very good reason why Cayman is the leading jurisdiction for hedge funds which is simply that it works both in terms of the fund structuring generally, the way the fund operates and invests, and that the majority of investors can invest in it. When funds are established outside of Cayman, it tends to be for a very specific reason such as a regulatory issue or because of the requirements of the lead investors, which may include the tax treatment of their investment in the fund. Where there is a tax issue affecting the fund, this can usually be solved by the inclusion of a trading subsidiary rather than changing the jurisdiction of the fund.

Devaney: The impact of changes brought about by the Dodd-Frank Act in the US on the Advisers Act and the changes that will be brought about by the EU Alternative Investment Fund Managers Directive have yet to be digested by fund managers. We have not witnessed any meaningful change in the preferences of hedge fund managers or investors with respect to fund jurisdiction. There is strong interest in UCITS among larger hedge fund firms interested in stepping up their fundraising in Europe, and that is expected to increase. However, speaking as a funds practitioner, I believe that the Cayman legal constructs worked well even under heavy stress and should still serve as the primary platform for country/region agnostic strategies. Hedge fund managers' personal tax situations may affect the decisions of some firms to adjust their firm's place of operations.

Mungovan: The right location for managers is obviously a highly personal choice. In our experience, the choice of location is still driven by strategy – for instance Asian-focused funds opening offices in Hong Kong – and proximity to the largest capital markets such as London and New York.

Terblanche: It is very important that managers select the appropriate location for their fund. We have noted an increasing interest in European domiciled hedge funds and also in migrations, primarily fuelled by investor demands for regulated funds in an onshore jurisdiction and managers' realisation that they can run their Luxembourg funds in much the same way they would if the fund had been offshore. There isn't only one correct answer, though, and managers need to weigh up a range of often counterbalancing considerations to arrive at the best compromise for them and their investors. Several considerations need to be taken into account, but the most important driver seems to be the target investor group and their specific requirements, priorities and needs.

The US Dodd-Frank Act contains important provisions that will affect hedge funds. Can you provide some insight into the implications of the Act for domestic and foreign hedge funds?

Mungovan: The Dodd-Frank Act provides the basic foundation for the regulation of hedge funds and other types of private investment funds in the United States. The Act, however, leaves the drafting and implementation of the actual regulatory provisions to the Securities and Exchange Commission. The SEC has promulgated proposed regulations and has invited commentary from the public. A principal goal of the Act and the proposed regulations is to manage and mitigate systemic risk. The regulators believe that the hedge fund industry contributes to systemic risk in that hedge funds are a relatively large number of independent actors taking market positions that, in times of stress, can become correlated. The problem for the market regulators – in their view – is that they have little transparency into these funds and their market positions. Hedge funds are like dark matter in the capital markets. As a group, hedge funds are exerting massive gravitational forces on the market that are difficult to discern on a fund-by-fund level. The Act and accompanying regulations are intended to give regulators greater transparency into the fund industry as a whole, by providing greater transparency into individual funds. Most hedge funds will have to register with the SEC and make a variety of disclosures including market positions.

Dambacher: The Dodd-Frank Act will require most US advisers to register with the SEC under the US Advisers Act. Many non-US advisers will also be required to register with the SEC. However, the SEC has proposed rules for two exemptions which will allow many such advisers to avoid registration: an exemption for foreign private advisers – those without a US place of business, less than $25m of assets attributable to US clients or investors and less than 15 US clients or investors – and an exemption for private fund advisers – those that manage less than $150m of assets from a place of business in the US and only manage US clients which are private funds. In addition to registration, many advisers will find the cost of trading derivatives rising due to new rules requiring many derivatives to be exchange traded and requiring financial institutions to push out their derivatives business into fully capitalised subsidiaries. Finally, the Volcker Rule has the potential of pushing talent out of the banks and into the hedge fund industry while restricting the ability of banks to invest in or sponsor certain funds.

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TIMOTHY W. MUNGOVAN

Niggli: It will not be easy for any hedge fund manager to escape the amended US Investment Advisors Act. Managers must request more information about the shareholders and the beneficial owners of the funds they manage, and as a result, funds start to collect information from their investors. I expect that most banks that act as nominees for private investors, trusts, and the like, will struggle to establish the required data until mid-2011 and some might for that reason, and for the claw-back risk, temporarily discontinue offering nominee services to their clients. This would further decrease the market share of private investors in hedge funds. Furthermore, registered funds of hedge funds that typically issue bearer units will hardly be able to positively confirm that no US tax subjects are invested in it, if required to do so. Since most hedge funds have US exposure, the true challenge for funds and nominee banks alike will begin in 2013 with the additional reporting burdens under the US Foreign Account Tax Compliance Act (Fatca).

Terblanche: As far as non-US funds are concerned, the implication is that the managers of these funds need to be aware of the changes and how they may impact their business and, if there is an impact or a potential impact, they need to consult with US counsel on how best to deal with the impact.

In Europe, the Alternative Investment Fund Managers (AIFM) directive looks set to alter the playing field. What sort of impact do you believe it will have on hedge funds in the region?

Niggli: The AIFM directive clearly raises entry barriers into the EU market. Within the EU, London, as the predominant management place, will be fortified rather than weakened by the new regulations, since it will be difficult for new places to attract the required talent and to develop the service industry providing the required support services. Third country managers will not only have to form a clear and positive decision to enter the EU market, but must also obtain authorisation in the EU member state of reference, and be able to pre-finance such an entry. Thus, the still possible and often observed unsystematic approach to European investors will come to an end. It is a high priority for Swiss authorities to bring Swiss regulations in line with the requirements of the AIFM directive, and to negotiate the required cooperation arrangements with the EU member state authorities so that Swiss based managers qualify for authorisation by the EU member state of reference if they intend to manage EU based alternative funds or to market alternative funds in the EU.

Devaney: It is clear the impact of the proposed AIFM Directive will be hugely significant to the EU funds industry. The full effect is, however, still difficult to assess as many detailed rules still have to be developed. The Directive will impose additional capital requirements and administrative burdens on funds, increasing costs, and will introduce new rules on the way managers can remunerate their staff. On the plus side for managers, the Directive introduces a marketing passport that will enable regulated fund managers to market funds across the EU with no additional regulatory burdens, although until 2015 this will be limited to EU funds. Non-EU fund managers will also be able to benefit from the marketing passport but only from 2015 and subject to the manager obtaining authorisation in an appropriate EU jurisdiction and other conditions being met. The debt restrictions will likely have the longest term impact, followed by the restrictions on payment practices of AIFM operating within the EU. More immediately, and less problematic to trading operations themselves, will be the changes to the offering process to EU investors.

It is during the difficult times when one learns most and there will no doubt be some lessons for all of us. The upside, however, is that the lessons learnt will solidify the industry and will hopefully prevent the same mistakes from being made again.

JOHAN TERBLANCHE

Terblanche: It is early days yet and, while market segmentation is likely to gain some momentum now that some of the uncertainty has been removed, the short and medium term impact of the directive is likely to be less pronounced than initially thought. With respect to European hedge funds, and if we fast forward a few years and go beyond implementation through local legislation and assume that the role of ESMA has been fully clarified and ESMA has settled into that role, it is likely that both the cost of compliance and the benefits of passporting will have been quantified and that the market will have segmented into those who play the game in Europe and/or market to European investors and those who play the game outside of Europe and do not market to European investors.

Dambacher: It is not clear that the AIFM directive will alter the playing field, unless the national private placement regimes fall away. Although an EU manager with an EU fund will have access to the passport in 2013, it will also be subject to more onerous requirements and, in the meantime, other managers will still be able to raise capital in the same way as they do now. Non-EU managers, even with EU funds, will not have access to the passport until 2015 at the earliest, when EU managers with non-EU funds may also be able to access the passport. In essence there may only be an advantage in having an EU fund in the first couple of years.

Litigation involving hedge funds has made headlines since the onset of the financial crisis. What are some of the key sources of such conflict? What will be the legacy of all this litigation for the hedge funds industry?

Terblanche: There are many potential sources of conflict and the actual sources will vary on a case by case basis. It is during the difficult times when one learns most and there will no doubt be some lessons for all of us. The upside, however, is that the lessons learnt will solidify the industry and will hopefully prevent the same mistakes from being made again.

Niggli: One of the sources of conflict was the status of investors with redemptions that could not be satisfied in case of a suspension of redemptions and the introduction of side-pockets. As a result of the disputes and the resulting litigation, redemption terms and procedures have been clarified and amended and the clear rules on side-pockets and gates introduced.

Mungovan: Increased litigation typically is a sign of a maturing industry. The growth curve for the industry has flattened dramatically since the early 2000s. Initially, the litigation in the hedge fund industry was focused on pure frauds: managers that operated Ponzi-schemes or that faked their returns. Much of the recent litigation has focused on claims of civil – meaning non-criminal – fraud, breach of contract and breach of fiduciary duty. These more recent disputes have focused on redemptions and valuations – particularly with respect to side-pockets. The litigation is one sign of a transition from an entrepreneurial phase of substantial growth where investors chased hot managers to a more institutionalised industry that focuses on operations, controls and steadier growth.

In some fraud-related cases, attempts have been made to claw-back returns from hedge fund investors. Can you outline the challenges involved in pursuing such claims, and what implications this may have for the hedge funds industry going forward?

Niggli: Since summer 2010, both the Madoff and the Fairfield trustees have raised claw-back claims inter alia against Swiss private banks and their unnamed clients, for which the banks acted as nominees. Since the Swiss bank client secrecy prohibits the disclosure of the identity of their clients, the banks are exposed to the full claw-back risk. To hedge their risks, some banks have blocked the accounts of those clients that made redemptions in Madoff feeder funds during the claw-back period. Investors with blocked accounts, and certainly any investor against which a bank will execute its indemnity claim, will hardly continue any offshore hedge fund investment. Registered funds of hedge funds that had invested in Madoff funds will find themselves in a particularly difficult situation if the ▸▸

claw-back claims are successful. First, their investor base has certainly changed and the claw-back, if charged to the fund, will affect other investors than the ones that have profited from the redemptions in Madoff funds. Second, they typically issue bearer units and accordingly do not know their investors and therefore will be unable to request a pay back from their original investors, even in the unlikely case that applicable law would allow this. There are two main responses to this. First, banks and institutional investors already have and continue to increase their resources and tighten their due diligence requirements upon investment and the ongoing supervision of hedge fund investments. Second, some investors, particularly the less sophisticated pension funds, discontinue investments in offshore type hedge funds.

Mungovan: Typically, investors who redeemed less than 100 percent of their principal had no knowledge of the fraud, meaning they acted in good faith, otherwise they would have redeemed all of their money. The current state of the law in the US suggests that investors who redeemed less than 100 percent of their principal are not obligated to return their redeemed capital. There is, however, an effort to change the accepted approach. A bankruptcy trustee has sued the investors who redeemed principal only in at least one case – International Management Associates, pending in US Bankruptcy Court in Atlanta, Georgia. Claw-back actions are also vulnerable to the 'mere conduit' defence, meaning that the investor in the hedge fund was a mere conduit into the hedge fund for the real party in interest. In addition to these legal hurdles, claw back actions face practical hurdles. They are labour intensive as they require individual suits against each investor. They also carry collection risk, as investors often no longer have the redeemed capital. Claw-back actions are seen as heavy-handed and can be highly inefficient redistribution schemes.

Devaney: The flight to liquidity triggered by the credit crisis made clear to many hedge funds investors the fact that disparate redemption and information rights can create the potential for tangible conflicts of interest. Understandably, following the credit crisis, investors are acting individually and collectively to better ensure that their investments are not locked up or subject to suspension due to other investors' decisions, and that they possess equal, if not heightened, access to information. The use of side letters for these funds presents an issue, particularly in the US where the SEC has for years called for more limited use of individual side letters that are the basis for disparate treatment of comparable investors.

From a regulatory standpoint, do you expect to see an increase in the reporting and disclosure requirements demanded of hedge funds over the years ahead. In your view, is this part of the solution to managing systemic risk in global financial markets?

Devaney: We do expect to see an increase in reporting in the short term, with the impact felt internally at hedge funds. The aspects of operations that are proprietary will stay confidential but improved operational capabilities will lessen the burden of less proprietary data sharing. With the proper third-party service providers engaged, ultimately these increased requirements, in and of themselves, will not change the way hedge funds go about their business. Notably, many of the measures being implemented by regulators have already been developed and adopted by our fund manager client of their own volition, in order to mitigate risks within their operations and to address investor concerns.

Dambacher: It is clear that the reporting and disclosure requirements will only increase. The majority of hedge fund managers are not averse to this provided that sensitive information is kept confidential and not used inappropriately and that the burden remains proportionate. Clearly regulators believe that requiring further information is part of the solution but it remains to be seen whether any sensible use can be made of the information or whether it will be reporting for reporting's sake. It is worth noting that regulators have generally always had the relevant powers and recent regulatory initiatives are merely codifying existing powers.

Niggli: The size and importance of the hedge fund industry has grown to a level where it is certainly relevant in the context of managing systemic risks and accurate and timely information is the fuel on which any management of systemic risks runs. Considering the complexity of the various relations and interdependencies on the global financial markets and the past ability of the hedge fund industry to avoid regulatory oversight, it is no surprise that legislators and regulators on both side of the Atlantic have introduced stringent registration requirements and reporting and disclosure duties. It remains to be seen whether the newly introduced reporting requirements and the resulting information will indeed support the identification and the management of systemic risk. There is certainly a risk that the new regulations will be abused to discipline hedge funds and their managers that engage in economically useful, but politically unpopular activities.

Mungovan: We expect to see substantially increased reporting and disclosure requirements in the hedge fund industry. The Dodd-Frank Act is the proverbial canary in the coal mine with respect to disclosure. That said, I believe that reporting investment positions and other information to a central regulator will not substantially reduce systemic risk. Instead, it will effectively create a central risk regulator – in the US, the Fed – which will have the extraordinary responsibility to detect and manage systemic risk. Putting aside doubts as to whether any institution can effectively detect and manage systemic risk, the current Act and regulations do not seem to provide the tools that might be necessary to manage systemic risk.

Terblanche: It is inevitable that increased regulation will lead to an increase in reporting and disclosure requirements, as we have already seen. While some of the requirements are likely to be positive in a general sense, disclosure requirements in particular reflect best practice standards which a significant portion of hedge funds, especially those who are domiciled onshore, already meet. It is probably too early to say whether these will be effective in helping to address systemic risk, but it is fair to say that there needs to be significant investment in infrastructure to cope with the volume of information which will be produced. If the information cannot be processed in a timely and sensible manner, it will all be for naught and will be a massive waste of resources for no real benefit. ■