REUTERS HEDGEWORLD

HedgeWorld's ALTERNATIVE REALITY

A look behind the hedge fund curtain

Market volatility, UBS shine spotlight on Hedge Fund risk management

by Chris Clair

Sam Won, founder and managing director of Global Risk Management Advisors Inc., spoke at HedgeWorld's Oct. 26 Fall Fund Services Conference on how recent events at UBS and market volatility have combined to give investors fresh reasons to focus on risk management at hedge funds. Sam has been kind enough to let us excerpt some of his comments from the risk management panel on which he spoke, along with Sunil Nair of Investcorp, Andrew Parks of Angelo, Gordon & Co., and moderator Bruce Frumerman of Frumerman & Nemeth Inc.

If you missed this year's ninth annual conference, well, you missed a lot. Close to 400 attendees enjoyed a day of exchanging information and insights about the hedge fund industry, plus hearing from 24 hedge fund managers presenting their funds to a room full of investors. Keynote speaker Darren Spencer of Russell Investments challenged the audience in the morning by telling them the industry is changing with respect to how investors access funds, and if managers don't change with it they'll be left out. Investors, too, have to re-assess how they evaluate emerging managers and new strategies, Spencer said.

But don't worry. We're planning even more events for 2012, all featuring excellent networking opportunities and high-quality speakers. Keep an eye on our events page and on your e-mail inbox for more details.

Here's some of what Sam Won had to say. To read more click here.

The recent events at UBS already have and will continue to affect hedge funds. While there are many differences between the Swiss bank's most recent risk management debacle and how most hedge funds do business, their high profile trading blunder has shone a harsh spotlight of attention from both investors and regulators who have yet another reason to put more focus on risk management. As a result of the blow up at UBS, risk management at all financial institutions will be under greater scrutiny for some time, and that includes hedge funds both big and small.

-more-

Hedge funds that possess some risk measurement (those that calculate some risk statistics on their portfolio), are under pressure to show that they have actual risk management processes and controls rather than just "window dressing" risk reports, which some firms attempt to pass off as being risk management. As for the hedge funds that have no formal processes for risk measurement and management, in today's environment they will stick out like sore thumbs. The owners of these hedge funds will find themselves scrambling to retain their current investors let alone attract new ones.

Then there are the performance hits and drawdowns that hedge funds recently suffered as a result of the third quarter's volatility. This also has brought much attention to how hedge funds are managing, or not managing, their risks.

In the year ahead we predict that hedge funds will find themselves more frequently challenged to persuade investors that they can manage risk as well as produce performance. On this front, many fund managers look like "fair weather" performers who are not able to make the case that they can manage risk.

# # #