



## Business impact

“As of March 2007, there was a staggering \$2 trillion invested in hedge funds worldwide, up nearly tenfold from 1999.”\*

## Challenges

- **Growing pains.** Funds management is growing rapidly; keeping pace with the needs of the business – specifically the traders – is difficult, particularly where technology is concerned.
- **Incompatible niche systems.** Typically, each type of fund – credit derivative, convertible bond arbitrage funds, long/short, etc. – is managed via a different niche solution, and there is much inconsistency among systems.
- **Increasing regulations.** Concerns over the impact hedge funds can have on financial markets, as well as the growing influence of institutional investors, are sparking increased regulatory attention and interest.
- **Conflicting priorities.** Balancing the demands of traders with strategic risk management efforts can result in conflicting priorities.
- **Marketplace pressures.** Investors are more involved in their investment decisions and are more likely to ask about a fund’s risk profile and monitor its management both before investing and while it’s in their portfolio.

\* Source: McDonald, Duff. “The Running of the Hedgehogs,” *New York Magazine*, 2007.



**THE  
POWER  
TO KNOW®**

## How can we effectively manage our portfolio risk in a way that will appeal to prospective clients?

### YOUR GOAL: Attract more investors

The phenomenal growth of hedge funds has been fast and relatively unchecked, but regulatory attention is slowly increasing. Still, while new compliance mandates such as MiFID and FAS 157 will bring heightened awareness to the pricing and valuation of securities, hedge funds remain somewhat immune to regulatory oversight—for now. Of more immediate concern is the growing scrutiny of investors themselves. Once the domain of wealthy individuals, hedge funds now attract more institutional investors. The bear market of 2000 to 2002 is far from forgotten, and institutional investors favor, if not tighter regulation, at least greater transparency and accountability on the part of any manager with whom they invest. The very nature of hedge funds forces them to take on more risk in order to reap good returns, amplifying their exposure to risky investments that increase the chance of widespread marketplace panic over the long term.

As their popularity grows, hedge funds face fierce competition to attract new investors—institutional or otherwise. For investors, measuring and evaluating hedge fund risk beyond purely qualitative methods is critical. And hedge fund analysts are realizing that risk management is essential to attracting new investors and safeguarding their firm’s reputation.

### OUR APPROACH

No matter what regulatory requirements emerge, hedge funds should adopt a “culture of compliance” and offer investors the transparency they demand. Those with weak cultures—i.e., high risk—will face more intense scrutiny by regulatory bodies and investors alike. We approach the problem by delivering software and services that help you:

- **Ensure accurate information, regardless of application, source or format** by accessing and managing disparate data—even third-party data from trading and market data systems—and automatically applying embedded data quality techniques.
- **Establish a fully customizable risk modeling environment** that integrates seamlessly with third-party pricing and function libraries.
- **Evaluate your portfolio accurately and confidently** with SAS’ unrivaled portfolio analysis risk engine, which puts powerful analytic capabilities at your fingertips.
- **Employ stress testing to determine the potential impact** of sudden and dramatic changes in market circumstances on portfolio values using the powerful analytic capabilities of SAS’ unrivaled portfolio analysis risk engine.
- **Empower decision makers with self-service business intelligence** that lets all users—from traders to analysts to senior management—access the information they need, when they need it, in the format and level of detail they require.
- **Ease regulatory compliance and appeal to new investors** with unmatched transparency and traceability, made possible by self-documenting processes and visual workflows that let you track data from final reports all the way back to the source.

Bottom line, SAS lets you perform smarter analysis faster than other market participants, and you can use that ability to attract—and keep—investors.

