# Hedge Fund Mirage – Revisiting the Arguments

Stockholm (HedgeNordic) – Regulators and data gatherers estimate the global hedge fund industry to be worth more than $3 trillion in assets under management, but London-based asset manager Winton Group puts that figure at only $850 billion. The renowned firm challenges widely-accepted industry figures by questioning the definition of a hedge fund.

As previously reported by HedgeNordic, Winton executives launched a review into the collective assets managed by the hedge fund industry early in the fourth quarter, in an attempt to confirm or deny their initial suspicion that the industry was much smaller than people believed. For instance, the U.S. Securities and Exchange Commission estimated that hedge fund industry capital totaled $3.6 trillion at the end of March. Additionally, hedge fund data provider Preqin recently issued a report showing that the industry's assets stand at $3.4 trillion as of the end of September, while data collected by data provider HFR shows that total hedge fund capital reached $3.2 trillion at the beginning of the fourth quarter.

According to Jonathan Levy, the head of product research at Winton who led the review, a $3 trillion-plus industry "characterised by a two and 20 fee model, low transparency, light regulation, high leverage and extensive use of shorting" does not exist. The review found that the estimates above $3 trillion include funds managed by traditional active managers. They consider absolute return and risk premia funds, as well as any investment firms charging higher fees than stipulated under the 1-and-10 structure.

The perception that hedge funds exist in "sharp distinction to the wider investment management industry has never been more dubious than it is today," Levy told news provider Financial News. "This misconception is potentially dangerous, particularly when it creeps into asset allocation decisions. Many institutions have a discrete allocation bucket for hedge funds and judge the performance of that allocation against an inevitably arbitrary benchmark. This approach of treating hedge funds as an asset class feels increasingly illogical," added Levy.

Meanwhile, Amy Benstead, head of hedge fund products at Preqin, defended her firm's estimates by saying: "While there are undoubtedly grey areas when it comes to what constitutes a hedge fund, with consensus likely to be impossible, we are guided by what investors themselves consider to be hedge funds, and therefore what they expect to see on our data and intelligence products."

Indeed, there are no universally-accepted definitions of a hedge fund and, perhaps, there will never be one. Hedge funds come in so many different shapes, flavours and sizes that it may be imprudent to say that the funds not using the already-forgotten 2-and-20 fee structure, for instance, cannot be classified as hedge funds. After all, only ten out of the 155 funds included in the Nordic Hedge Index (NHX) use the 2-and-20 fee model (or a slightly more expensive version), and that does not mean the remaining funds are not hedge funds.