HOW HEDGE FUNDS COUNT THEIR ASSETS

MANAGED FUNDS ASSOCIATION

Overview

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The hedge fund industry has grown in recent years to be a leading investment partner for institutions and individuals around the world. While hedge funds have become a popular, often-utilized investment tool, many aspects of the industry are still misunderstood.

This presentation serves as a basic introduction to the methods the hedge fund industry uses to calculate their assets.

Assets Under Management

AUM: The Traditional Calculation

Fund managers calculate their assets under management on a net basis, which is the difference of net assets over shares issued. The calculation is made in accordance with U.S. Generally Accepted Accounting Principles (GAAP).

Regulators required hedge fund managers to use this traditional calculation because it best represents the amount of investor capital at risk.

AUM represents “investors’ equity” (like shareholders’ equity) and is an accurate representation of investors’ capital at risk (i.e., the amount of money that investors actually have invested in a manager’s fund(s)).

RAUM

In 2012, the SEC created a new metric to calculate fund assets for regulatory purposes (Regulatory Assets Under Management). This second metric can cause confusion for those following the industry who know about assets under management (AUM) or investor capital at risk because RAUM it is not consistent with these metrics.

Assets Calculation

The RAUM calculation requires managers to report assets managed without deduction of any offsetting liabilities.

RAUM represents all of the assets managed by a single manager, including assets of separate accounts and separate private funds.

It is important to remember that hedge funds are legally separate entities, often with different investors and can engage in distinct trading activities in different assets and markets.

Any losses of one fund are borne exclusively by the investors in and counterparties to that fund, and do not subject other funds managed by the same adviser to losses.

Assets Reported

In addition to the money a manager and its investors have committed to a fund, and the gains or losses generated, RAUM includes:

- Hedging Techniques used to Offset Portfolio Risk
- Long and Short Positions (on a gross basis)
- Leverage
- Proprietary assets, assets managed without receiving compensation, or assets of foreign clients, all of which an adviser may currently exclude from its AUM
- The value of certain private funds that hold significant assets that are not securities and that can be illiquid and difficult to value
- Uncalled capital commitments (applies mostly to private equity)

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