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Hedge Funds

This document contains information about the properties of hedge funds and informs you about potential benefits and risks of this class of products. These principles can support you in your investment decisions. Please contact your Client Advisor if you would like further information or have any questions.

General Information

Hedge Fonds are actively managed investment funds that are subject to much lower regulatory requirements than public funds. Consequently, there is a free choice of investment categories, investment instruments, and trading methods. Thus, derivatives can be used for investment and hedging purposes, short sales can be transacted, and significant leverage effects can be obtained.

Hedge funds often require high minimum investment amounts and offer only limited subscription and return options with long notice periods.

Aside from a fixed management fee, hedge fund fee models usually also include a performance-based component.

Strategies of hedge funds

Directional ("long", "short"): Shares that are undervalued from the perspective of the fund manager are purchased (long positions), and overvalued shares are sold short (short positions). The goal is to close the positions sooner or later with a profit.

Arbitrage strategies: Investments that are the same or comparable according to price differences are sought in various markets. The fund manager attempts to exploit these differences to the advantage of the hedge fund.

Event-driven: The goal is to profit from forthcoming events. The events can be changes of a company such as mergers, takeovers, restructurings, or restorations.

Global macro: These strategies aim to recognize macroeconomic developments, such as potential interest rate or exchange rate changes, early and capitalize on them.

Managed futures: In this category, futures and derivatives on financial instruments, currencies, and commodities are traded.

Potential benefits

Diversification: Hedge funds are less dependent on overall market trends than traditional investments. Diversification effects can be achieved by adding hedge funds to a portfolio. The diversification can be enhanced through umbrella funds made up of hedge funds. These funds invest in a variety of hedge funds and distribute the risk to various hedge fund managers, who themselves cover a wide range of investment styles, markets, and instruments.

Access to markets and alternative strategies: Through hedge funds, investment classes, markets, or strategies can be covered that are otherwise difficult for private investors to access.

Potential risks

Risk of loss: Within the framework of your investment strategy, hedge funds may use, among other instruments, derivatives, short sales, and loan-financed investments. These instruments increase the risk considerably and may lead to a total loss of the invested capital.

Market risk: The value of a hedge fund may decrease. The prices of the underlying assets may be subject to fluctuations in value. These fluctuations in value may be considerably strengthened by the use of derivatives and short sales. In such cases, the hedge fund may be confronted with additional security requirements from the counter-parties. The fund manager must then liquidate positions at an unfavorable point, resulting in losses.

Low regulation: There is no protection for investors in the sense of traditional investment funds. Hedge funds and their managers are typically not very regulated.

Lack of transparency: Hedge funds have low requirements with regard to disclosure obligations. Investors often cannot assess relevant characteristics because they have only inadequate, late, or no information at all about changes in strategy or portfolio management. These changes can lead to a considerable increase in risk.

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Limitations in trading: Hedge funds have limited liquidity. Returns are usually possible only once per month, quarter, or year. Typically, investors may invest in a hedge fund only at certain times. In general, long termination periods for returns and long lock-up periods apply. The lock-up period is the period during which the investor must leave the capital in the fund.

Dependence on fund managers: Because hedge funds can involve aggressive strategies, the development in value may depend heavily on the skills and experience of the fund managers.

Credit risk: Hedge funds often work with instruments with high leverage effect and may also assume loans. In the event of an unfavourable development in value of the positions, the hedge fund may encounter liquidity difficulties, through which the investor may incur a partial or total loss.

Foreign currency risk: If the hedge fund or the underlying assets in the hedge fund are listed in a different currency from the local currency of the investor, there is a risk that fluctuations in the exchange rate will decrease the value of the investment from the investor's perspective. It is possible that the price gains of an investment may result in a total loss for the investor due to exchange rate fluctuations. Exchange rates can fluctuate substantially.

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