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State of Connecticut and the Hedge Fund Industry

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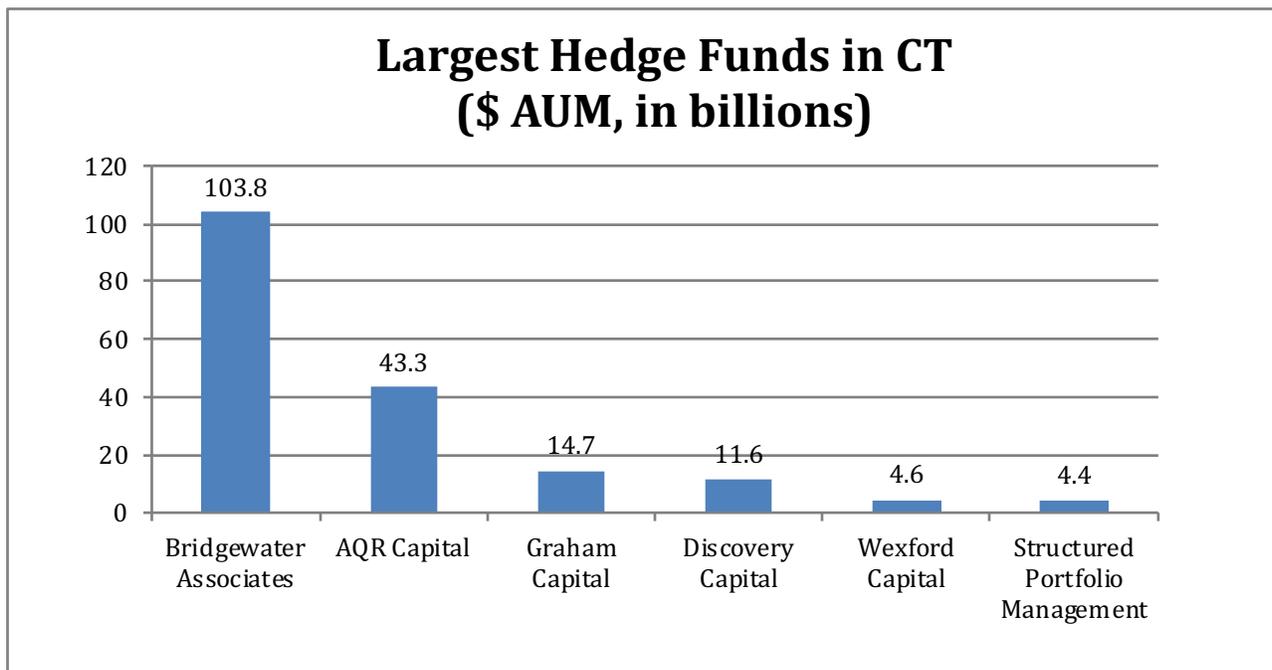
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State of Connecticut and the Hedge Fund Industry

Hedge funds are alternative investment vehicles that employ dynamic trading strategies and have growing both in terms of their numbers and assets under management (AUM). Current estimates place the number of active hedge funds to 10,000 active hedge funds industry-wide. While the hedge fund industry struggled during the financial crisis of 2008, industry-wide AUM has increased by over 50% since January 2009 to an all-time record of \$2.25 trillion at the end of the fourth quarter of 2012. The level of growth in the hedge fund industry is remarkable given the changing dynamics in the relationship between investors and hedge fund managers, as concerns over liquidity, fees, lock-ups, and transparency grow.

There are currently three main global hedge fund hubs: New York, London, and Greenwich, CT. Out of the over \$2 trillion that hedge funds around the world manage, an estimated \$200 billion is managed by Connecticut-based funds. In fact, there are 6 CT hedge funds among the world's largest funds. These six manage about \$180 billion, with over \$100 billion of that managed by Bridgewater Associates in Westport, CT. ¹



¹ "The World's 100 Richest Hedge Funds", Bloomberg Markets, February 2012

According to Bloomberg, four of the best performing hedge funds of 2012 are also located in CT.²

Rank	Firm	Fund	AUM
15	Structured Portfolio Management	Structured Servicing Holdings	\$1.9 billion
33	Structured Portfolio Management	SPM Core	\$1.7 billion
43	Bridgewater Associates	All Weather 12%	\$6.6 billion
83	Discovery Capital Management	Discovery Global Opportunity	\$6.3 billion

While assets under management and performance perhaps measure the success of a fund, they may not be the best way to estimate the industry's economic impact on the state. Based on recent SEC filings, the CT hedge fund industry employs almost 3,000 people directly.³

Top Five Firm	Number of Employees
Bridgewater Associates, Inc.	1256
AQR Capital Management	311
Graham Capital Management	210
Shenkman Capital Management, Inc.	93
Wexford Capital LP.	75

Estimates of employment increase when you include the many support services that financial (e.g. prime broker) and non-financial (e.g. accounting) companies provide. This employment benefits CT in two additional ways. First, the salaries of hedge fund employees contribute to personal income tax receipts. Second, growth in hedge fund related employment supports real estate prices.

While still growing in asset terms, the hedge fund industry is also consolidating. As the business has matured, the largest funds have seen the bulk of the inflows. Many have attributed this to new regulations like Form PF and a focus on risk management that

² "100 Top Performing Large Hedge Funds", Bloomberg Markets, January 2013

³ This data was gathered from recent Form ADV filings (Form 1a, Item 5) made with the SEC.

requires additional infrastructure investment that benefit from economies of scale.⁴ If success begets success and the larger funds get larger, the existing base of hedge funds in CT could benefit as “alternative” investments continue to supplant traditional money management firms. In the end, this will help the Connecticut economy by increasing employment, bringing higher tax receipts, and contributing to a robust real estate market.

⁴ For example, see the April 2013 report by Rothstein Kass “Water, Water Everywhere”, or the May 2012 report by KPMG/AIMA “The Evolution of an Industry”.