HUMAN RESOURCES IN HEDGE FUNDS

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Abstract

In the current situation on the financial markets, which are very volatile and react to every negative information to hedge funds show as one of the best investment instruments, as it allows them thanks to a wide range of instruments and a lower level of regulation, to respond promptly to the unfavorable situation on the financial markets. Human resources in hedge funds are subject to slightly different approach in their management than is usual in other corporate structures. The financial industry in the last ten years, under great pressure from the public, political elites and regulatory authorities, therefore, reinforces hierarchy and emphasis on good corporate governance in hedge funds. The corporate structure of hedge fund puts emphasis on risk management, the implementation of the code of commerce and compliance with all legal standards that govern trading assets. Recruitment is not entirely standard way, so it is very important that every aspiring fund had prepared its strategy to manage and educate its new recruits. These strategies are fundamentally different because of the diversity of the investment focus of the fund.

Key words: hedge funds, human resources, people management

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Introduction

The corporate structure of hedge fund puts emphasis on risk management, the implementation of the code of commerce and compliance with all legal standards that govern trading assets. Recruitment is not entirely standard way, so it is very important that every aspiring fund had prepared its strategy to manage and educate its new recruits. These strategies are fundamentally different because of the diversity of the investment focus of the fund. Steady definition of a hedge fund in the literature exist. The aim of hedge fund is an absolute return regardless of the development trend in global markets. This investment strategy is known as Alpha, see Branine, M., & Dvorakova, Z. (2000), Kleibl, J., & Dvorakova, Z. (1993), Stritesky, M. (2012). The basic definition of the valuation of investments using the Alfa strategy is that this game is zero-sum. Investor must be more skilled than any of the other market participants. Its profit for the second loss. Hedge fund managers are therefore seeks the help of well-known investment techniques and strategies to achieve absolute returns. Its active management and its low regulatory oversight are able to capitalize on the investment is profitable even at decreasing trends in the world economy. The most common paradigm, which manages hedge fund managers, as trust in the theory of efficient markets and modern portfolio theory.

1 - Hedge Funds

Hedge funds can use a wide range of investment strategies from short-selling, through leverage, lending, not mandatory diversify, may buy unlisted shares and change strategies and markets, according to the will and the current situation. This is in direct contrast to traditional mutual funds, which have a well-defined strategy and are heavily regulated. Hedge funds that represent a greater risk to investors, on the other hand, provide greater flexibility and ability to adapt to unexpected changes in the financial markets. This can also unprofitable markets is profit, while traditional mutual funds can only monitor the progress and hope for improvement.

1.1 - Hedge funds have limited liquidity

The advantage of traditional mutual funds is that copartner may at any time enter and exit. Investors perceive it as a comparative advantage, but they forget the fact that liquidity is priced expensive. Therefore, mutual funds must follow a different strategy to hold a substantial portion of the funds in cash. This money can not therefore continue to appreciate. Common inputs and outputs are expensive and limited to mutual funds to invest in a few liquid assets that have a decent return over the longer term. Hedge funds therefore, for the above reasons significantly reduce the liquidity and conditions are set as follows:

• Limited terms of inputs - when closed funds at the beginning of their activities. Open-ended funds, these inputs are set periodically - monthly, quarterly, annually.
• Mandatory residence time in the pool - lock-up period - after entering the investment fund can withdraw the funds until after this time. Standard is set for a period of one to three years.

• Limited terms of outputs - it is possible to stand up after the lock-up period, and only in exactly the agreed terms, which are limited notice, usually 30 to 90 days. Some funds are limited one-time choice of fund.

1.2 - Hedge funds charge performance fees and strive for absolute returns

Hedge funds have like mutual funds charge management fees, usually as a percentage of invested assets - typically 1-3%. Besides, they charge fees for performance - Incentive fee - as a percent of revenue, which are common in the range of 15-30%, and serves as an incentive for hedge fund managers to maximize profits fund. Fuse in the event of inadvertent risk-taking by the fund manager are defined standards:

• Hurdle rate - minimum height of revenue, which will overcome the charge a performance fee.
• Higher water mark - if the fund at a loss, is not entitled to payment of the fee, it starts counting up again at a profit.
• Proportional adjustment clause - if it gets into the hedge fund losses and some investors choose their assets, the fund manager has the right to reduce losses, which should be replaced in order to start charging fees on the percentage of assets that have been withdrawn from the fund.

1.3 - Hedge funds use to protect information of unusual structures

In order to hedge funds to protect against the impacts of regulation applicable to financial intermediaries and minimize tax liabilities are generally designed as a partnership with limited liability (limited partnerships) and are based in other jurisdictions. This will avoid the legal jurisdiction of the country of the investor and thanks headquarters in a tax haven is cleared and tax obligations that are in the countries of investors for such types of investment units too expensive.

1.4 - Hedge funds are targeted to specific investors

Unlike mutual funds are not targeted at retail, but mainly to the rich individual investors. For example it is due to the fact that the legal structure (limited partnerships) can not have many clients, and therefore the height of the base of the deposit is set too high, the fund could function effectively. The minimum deposit is usually set at 1 million dollars. Another reason is regulation, which in the case of individual permits investment in this type of funds to invest only sophisticated investors.

1.5 - Hedge fund managers are not employees, but partners

Managers invest their own resources together with the shareholders of the Fund. These include stray morality, the manager usually evaluates all of its available assets by the Fund and where he managed their performance continue to leave these assets in its fund. It is a guarantee to investors that the manager will act in the best interest of all possible and will try to maximize their efforts to achieve positive results.

1.6 - Size hedge fund may be limited

Unlike mutual funds, the success and performance of the Fund is determined by the height of the volume of assets. Success means is dependent on two variables - the ability of a manager and investment opportunities that can not be increased indefinitely. Therefore, hedge funds have their size limited strategies used by managers and decide not to receive further contributions if the fund is large enough. It depends on the type of fund, but recently has become a rule that funds through turbulent economic times maintain a rather smaller amount of assets in circulation, when occurring problems could quickly exekuovat their positions.

1.7 - Hedge funds have low transparency

Hedge fund managers are accountable for results only to their investors. As a rule, we never publish their results, only some of them provide their results with special databases that monitor this sector of the financial markets. Securities and Exchange Commission in the USA introduced the Form 13F, which must fill in all funds, which manage assets in the minimum amount of at least $ 100 million. This is a quarterly survey of investment positions of trust that is publicly available. Funds are marked with the code number and the information is provided is delayed to avoid at least a little competitive struggle - copying positions.

Hedge funds are very specific areas of financial markets. Responsibility for managing the investment processes is usually the main manager of hedge fund risk management consults with the Board or the Board of Directors of the Fund. Here is the main problem in their organization. Board of Directors or the Board is not usually the executive body of the fund are more advisory body, with which the main fund manager consults new business strategy or risk that the fund when trading willing to take. Clients of hedge funds are most familiar in advance with the fact that these funds are very risky and clients may lose all invested capital, which is currently a big problem, especially since the United States is common practice in hedge funds may invest national pension funds, although to a limited extent, but they can. The task of the regulatory authority is to set rules of the game so as to minimize moral hazard on the part of the funds and banks in order to protect especially pension funds that seek to allocate capital vested in the financial market.

2 - Human resources in hedge funds

Most hedge funds are small businesses, typically employing a team, in total, several dozen people, only the largest funds in the field have more than one hundred employees. This situation is mainly due to the type of business model of these funds. Typically, investors allocate their assets into funds by type of investment strategy and major personalities of the Fund Manager. Another reason for the relatively low number of employees is the pursuit of the highest possible outsourcing of services (of course, there is a statutory restrictions on providers of other services when funds are required to outsource these services into the hands of independent experts). At the beginning, it is likely that they will use various services, primarily brokers, managers, administrators, depositaries, IT systems administrator, tax advisors, auditors and lawyers. There are a number of reasons that principles of hedge funds differ from other types of business. Among them:

- finding market opportunities, which often define the business opportunity for clients;
- investment strategy;
- Marketing strategies;
- Business strategy and its short, medium and long-term goals;
- management team and personnel requirements;
- ownership and financing entity;
- legal and tax structure and budget needs;
- regulatory requirements;
- operational infrastructure and IT systems;
- the risks and volatility of the capital markets;

It is important to start hedge funds were well-treated control risks, enabling them to establish themselves in the market and gradually get sufficient investment capital by type of strategies they will need. Many sub-problems are not able to start managers identify them because professional counselors can help to start a hedge fund right direction.

2.1 - Management of the Fund

Business management includes a set of competencies and responsibilities, which are generally different from trading or portfolio management. Business management, sales, trading and skills in the management of the investment portfolio are rarely fully the responsibility of a single person. Therefore, in the context of hedge funds, there are classic staffing structure, the two leaders of the Fund - the main investment manager and risk manager, delegate tasks, build investment strategy, monitor progress and execution of the business plan. Model of how hedge fund is based on responsible risk monitoring and continual innovation business plan according to the situation on the financial markets. The main responsibility of the risk manager, who supervises the dealers and their execution of the approved investment strategy. Parameter is set by the minimum and maximum amount of merchant account - the estimated level of risk per trade is 3-5% of the total amount allocated to the account. Fund Board meets regularly each week, which assesses the overall situation on the financial markets, the course of their own investment strategy and risk level open positions. It also reacts to the current market situation modifications in business models and strategies.

Every hedge fund, regardless of size, should organize its internal affairs responsible manner that ensures that it has adequate systems, procedures and controls to reduce and manage the risks to which it is exposed. Management should implement a business risk management process to assess all non-investment risks associated with the business, although the degree of formality of the process will vary depending on the regulatory environment and the complexity of the business. Risk management processes typically include:

• Identify key risks facing the business in all areas, including risks such as dependence on key customers or investors, reliance on key personnel and access to sufficient capital. Risk analysis should also consider scenarios for business and work plans in response to market crises.

• Implementation of controls to mitigate these risks. For each risk, the Fund shall determine whether to accept the risk and mitigate the checks. Checks will be a natural part of the fund.
• Reporting on the effectiveness of controls and the changing risk profile of the Fund
• Effective controls to ensure that any serious deficiencies are reported to senior management, Jamila will be detected.

If outsourced key services must be for them to set strict controls. The assumption is that businesses will be part of the internal control system, therefore the data will be made available in real time, so that management could have an instant overview of their activities. Hedge funds are extremely sensitive information and everything that affects the investment environment of the capital markets. Therefore, external data are not recent enough used and most successful funds have their own "research" teams that evaluate individual securities based on their own investigation and tries to disregard available data from information sources. Outsourcing service includes a thorough analysis of the products offered in the market, and based on pre-agreed criteria are selected companies that take care of the critical points in the start-up phase of the Fund. This process includes:

• Performance based contracting or agreed service levels cutting enshrined in the service level agreement (agreement on posyktovaných services).
• Regular meetings and performance evaluation.
• Compare actual performance to agreed criteria. The company should ensure that the audit supervision of a third party to guarantee that services will be performed in accordance with service level agreements.

Management hedge fund must ensure that it has appropriate systems and procedures capable of:

• develop an appropriate budget (to attract investment capital);
• monitoring of open trading positions in the market;
• producing timely and accurate accounting and financial information;
• provide the necessary regulatory and statutory financial reports in a common format;

In the first case, they should be prepared budgets annually updated. This should include monthly income, expenses, money, and where applicable regulatory capital and future cash flow analysis. Client, which may be small institutions with the same company headquarters, such as the seat of the Fund is to be included in the balance sheet. Financial regulation in the European Union often dictate the method of calculation of funds that can be allocated a minimum and maximum of the individual investment positions. If necessary, the hedge fund manager should respond to meet the minimum regulatory capital requirement (most managers will have a surplus of at least 10-20% of the funds are required to hold), with regard to future changes and unexpected developments. In some jurisdictions, regulators also require regular information on the financial managers of hedge funds and hedge fund manager, including information on the capital adequacy of a master feeder fund structure.

2.2 – Compliance

Manager hedge fund must have for your business license or permit by local regulatory authorities. This can be time-consuming and complex process of obtaining and maintaining the license for trading of hedge funds is essential. If the hedge fund manager has the experience, professional advice should be sought to ensure that all information provided during the registration process. Consequently, we assume that every novice Fund will be established compliance function manager who will be responsible for monitoring all legislative and regulatory initiatives and future changes. Hedge fund manager in cooperation with the Compliance Manager develops procedures in accordance with these rules. In addition, the administrator should ensure that all staff fully understand the procedures and rules for their specific area of activity. This can be achieved by adopting a written agreement in the form of a code of fund trading in key areas such as investment and trade policy, ethical code of personal conduct, market abuse (including insider trading), conflict of interest and use of the conciliation commission in internal disputes. When hedge funds introducing change in corporate policy, the Code is updated accordingly. A copy of the Code is then available to any staff member.

Management appoints individuals who would take responsibility for overseeing compliance with compliance management. Fund Manager shall ensure that the individual has enough time to devote to the task and the repetitive tasks, such as record keeping and monitoring compliance with internal regulations are completed on time. Have the necessary powers to ensure a compliance and internal processes. Board of hedge fund must be connected to the key issues relating to business culture in this field. In some jurisdictions, it is possible to outsource this function, empowerment oversight of the ethical principles of the Fund shall be authorized by a person who is appropriately licensed to provide these services and to cooperate with authorities who oversee the operations of the Fund. It should be pointed out that if the external compliance management functions, remains the responsibility of the company.

Management of the Fund should establish arrangements for regular monitoring of business risks and to comply with all requirements of the compliance management. The frequency and scope of inspections should be determined by the size and complexity of the business, focusing on compliance in areas with the highest risk. In most cases, the focus is on the process of investment and associated risks. Manager hedge fund need for formal monitoring of risky activities at least once a year, this process can be divided into monthly intervals, with a focus on individual processes. The monitoring results should be documented and communicated to the entire Board of Directors / Management Board. The system is set up so that in the event of the shortcomings identified were immediately solved, as well as processes to ensure that changes in the regulation are properly considered and implemented into operation hedge fund. Management must strive to ensure open and operational dialogue with the regulator, either directly or through trade associations and specialist associations. Hedge fund managers employ small teams of dedicated professionals who are highly valued and have a different business focus. Management Fund provides employees so that:

• will have the necessary skills and experience to the operations and investment strategy, the Fund will pay;
• will have sufficient capacity to manage risk and be motivated by long-term performance;
• Their expertise will be continuously monitored;

Senior management must be aware depending on the key figures of the Fund, which may develop due to the relatively small over the executive team that will manage the fund at the beginning (we assume the next three years). It is not uncommon when a leading figure of the fund manages on your trading account up to 50% of the funds. If possible, they should have the circuit managers identified any substitutes for individual positions. Hedge funds are the financial sector with relatively high staff turnover. Due to repeated cycles of the economy and the emergence of various bubbles in the financial markets, it is very important to have adequate insurance for liability.

2.3 - Personnel management

In order to ensure the suitability of new employees, management sets the conditions of the tender due to their vision and investment strategy. Typically, these procedures include: analysis of the specific role, interview given to the future use (long / short, distressed debt, event driven, global macro, etc.) and due diligence checks for new employees. Checking due dilligance involves finding formal links with selection procedures should include relevant employment law, such as equal opportunities and anti-discrimination law. Employment may be subject to approval by the regulatory authorities. It depends on the jurisdiction and the future of employee in relation to the controller. Established hedge funds have developed their own specific standards of employment and working conditions. All employees receive training in practice and are interested in continuing their professional development. Such training programs should be designed to bring employees into corporate systems, procedures and compliance management, and to ensure that employees remain until the end of his employment contract part of the corporate culture. In some jurisdictions, education is required for all relevant staff, primarily related to the issue of money laundering and terrorist financing. It is important that the management of a hedge fund to meet its legal obligations and maintain evidence of completion of required training.

2.4 - Investment Process

Investment strategies that are preferred by the fund manager must be clearly documented and understood by all employees of the hedge fund. Investment strategies are also available to investors; such communication usually occurs in marketing materials for prospective clients and includes an explanation of how their funds are managed, what factors will affect investment performance and the risks associated with a particular investment strategies. Hedge Manager is required to:

- determine the investment objectives of the strategy;
- Identify constraints strategy, such as asset classes traded, size, amount of speculation;
- geographic and market constraints;
- Identify key risks and assess how such risks should be managed (Ie, avoidance, ensuring decisions or accept the risk);
- in accordance with the applicable investment, legal, tax or regulatory restrictions, including local market regulations and determine how these restrictions affect the performance of investment strategies;

• due regard to the offer document issued in connection with the hedge funds and fulfillment of legal and / or regulatory requirements;
• ensure that additional restrictions based on marketing materials were monitored;
• communicate significant changes in investment strategy in time;
• ensure that the investment strategy is documented and regularly updated;

2.5 - Management of the investment process

Manager hedge typically have a defined investment decisions. There are many reasons:

• provides an important control function in relation to investment management;
• provides investors with the opportunity to understand how the investment management;
• applicable regulations may require adequately control the investment process;

Hedge funds are often small organizations dealing with dynamic and opportunistic markets. As a result of this investment process must be in investment management introduced strict rules, but must also be sufficiently flexible to reflect the resource manager and hedge fund markets in which it operates. Typology of the investment process:

• define the high-level steps to be carried out before the investment decision;
• identify investment restrictions, such as investment type, size, position, concentration limits, short / long balance amount of speculation, geographic, market, regulatory restrictions, limitations and risks;
• consider whether the investment decision would result in a conflict of interest, and if so, how such conflicts can be properly managed;
• ensure that investment decisions are taken in accordance with the provisions of the Regulations relating to market abuse or insider dealing;
• determine who has the real power to make investment decisions;
• Determine who is responsible for overseeing the investment decision-making and monitoring of investment decisions against internally or externally defined boundaries;
• determine who has the authority to place orders on the market;
• design procedures and accountability for identifying and ensuring compliance with local market regulations;

This process is regularly reviewed and updated.

2.6 - Investments in risky instruments

The increasing use of tools not listed, call the valuation and liquidity, the complexity of OTC derivatives represent at present considerable challenges and risks to hedge fund managers. There are also significant risks associated with unlisted instruments, which can lead to sudden and significant losses. If hedge fund managers intend to invest in these instruments, they should:

• inform investors about their intentions typology marketingovýcm materials or tender document to ensure that all necessary legal information is clear and smooth them that hedge funds may enter into such contracts and transactions;
• have the necessary expertise and experience to properly understand the factors that will change the risk profile or price of financial instruments;
• fully understand the impact of any guarantees and commitments contained in the documentation process and track record;

2.7 - Codes of conduct in the market

Hedge fund managers should behave in a manner that is generally perceived as reasonable, honest and reputable. Different jurisdictions have different laws and regulations concerning the market behavior of hedge funds, even if they operate within the European Economic Area, hedge fund managers routinely subject to local laws and regulím. Performs the provisions of the Market Abuse Directive. Management should ensure that all marketers understand the consequences of such regulation. Many of these laws and regulations can be complex and their use can be tricky. Managers should seek appropriate professional advice if you are unsure of their use.

2.8 - Incentive fees and management fees

A huge amount of hedge funds offers its clients no fees from assets under management in the first five years of the fund. If the fund closes business year in profit, the total fee is set at 20% of the profits of investors. Since the beginning Funds assumes a significant increase in assets under management in the third year of the fund, initially they are therefore their own money invested fund management.

2.9 - Procedure for monitoring systemic risks

Hedge fund managers should adjust the frequency of monitoring risk to the portfolio needs. Portfolio monitoring and reporting progress to investors on a monthly basis, the rule in the hedge fund, but he became a quarterly interval, the main fund manager shall draw up a letter to investors. It is the overall analysis of the past three months, where the manager seeks to assess the overall situation of the global economy, the opportunities that have been used and, of course, mention the investments that the fund failed. The end of the letter then provides an overall view of the next quarter and the real performance data for the fund. Risk management is under constant development, as well as the overall economy. The main risk manager should review the strategic risk management every six months, and if necessary, apply new knowledge in portfolio management. Examination of the overall process performed at least annually and more often in emergency situations on the market, or from structural changes in the portfolio. At least once a year is required to complete a stress test.

2.10 - Market Risk

Market risk includes all types of assets and liabilities: changes in prices, liquidity, volatility, and non-linear correlation, foreign exchange, credit and political risk. Hedge fund should:

- try to identify each of the main categories of market risk and regularly measure and manage these risks;
- methods for measuring market risk are different and produce different results, management must choose the right method very cautious, any strategy must have different input variables;
- seek to manage the risk exposure of the portfolio within pre-defined internal or external strategy, excesses should be identified and corrected by locking or reduction of positions;

Many hedge fund managers are using leverage, which can multiply the impact of the risks of investing in portfolios. Management must be fully aware of the impact of leverage, in all its forms, the overall risk of the portfolio. Careful attention should be paid to defining and counting the impact of all types of tools to leverage calculations. In many cases, the daily monitoring appropriate. The maximum amount of leverage that can be used may be limited by contractual terms and equity providers. The maximum amount of leverage must be an information made available to investors.

2.11 – Liquidity

The liquidity of the positions and overall portfolio will be actively monitored, with a particular focus on the average daily trading volume and concentration of positions in the portfolio. It is important that there is a significant investor flows (ie, input or buy) an investor to monitor the liquidity profile of hedge funds and told him obhdoníkům time that those who are responsible for investment decisions, to ensure that the new capital will be invested appropriately and positions will be disposed to allow investors to withdraw from hedge funds in accordance with agreed terms and conditions. Market liquidity (ie the ability to turn back the trading assets in cash) is usually an important risk factor, and therefore should be measured and monitored:

• funding liquidity (ie the financial resources available to fund positions and redemptions) is a significant risk, highly correlated with other risks;
• position, portfolio, financial market and liquidity will be managed by the strictly follow the business plan, to oversee the major risk manager, who will have the power to stop and get out of the negative trades that could endanger the overall stability of the Fund;

2.12 - Portfolio management and investment management kontrol

Hedge funds must think when they start to systemize operative management: good practices for business records, settlement of trades, movement of cash, portfolio valuation, valuation of the net assets of the client and maintenance of appropriate information systems. Fund managers often operate separately managed accounts. Almost all hedge funds domiciled in the European Union must have an independent administrator according to the legislation that controls the activity of management, as well as many separate managed accounts. Pressure on the regulation of alternative investments intensified after the outbreak of the financial crisis in recent years. This provides an element of independent expertise included in the calculation of the net asset value of the process. For many portfolios is an important prime broker service provider for ensuring the efficient clearing and settlement. Compliance Manager is responsible for monitoring the flow of information and the subsequent distribution of new messages between themselves, administrator and prime broker. The appointment and subsequent management of service providers creates a high level of internal control framework for the Fund.

Conclusion

Hedge funds are actively managed investment funds that seek attractive absolute returns. In pursuit of this Decree use a wide variety of investment strategies and nástrojůManageři these funds receive a percentage of the profits earned by the Fund. Hedge funds thus belongs to the world of active management, where managers try to use their ability to produce higher returns for their investors. World of active management stands in stark contrast to passive investing, where managers use index funds to pursue different markets, instead of trying to beat the market. The difference between hedge funds and other investment possibilities is active mainly in the different objectives and strategies. Traditional active managers trying to beat a passive benchmark (index stock market, etc.), while hedge funds are trying to achieve a positive return, regardless of the performance of different standard markets. In pursuit of this goal using a broad array of investment strategies and techniques (eg, financial leverage, short sales and other hedge strategies.) Human resources and their management is currently the most important areas in which the management of hedge funds focused. This topic is further discussed in my doctoral research.

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