

Fund Managers Perception towards Hedge Funds

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by

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APPROVAL OF DISSERTATION

Dissertation entitled 'Fund Managers Perception towards Hedge Funds' by Neeraja Nair, Reg. No 1610011 is approved for the award of the degree of Master of Philosophy in Commerce.

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DECLARATION

I Neeraja Nair hereby declare that the dissertation, titled ‘Fund Managers Perception towards Hedge Funds’ is a record of original research work undertaken by me for the award of the degree of Master of Philosophy in Commerce. I have completed this study under the supervision of Dr. Anuradha P.S, Associate Professor, Department of Commerce.

I also declare that this dissertation has not been submitted for the award of any degree, diploma, associate ship, fellowship or other title. I hereby confirm the originality of the work and that there is no plagiarism in any part of the dissertation.

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CHAPTER 1 - INTRODUCTION

WHAT ARE HEDGE FUNDS?

A Hedge Fund can be typically described as an alternative investment pool available only to high net worth individuals of the society, like individuals who have a very high income, or large institutions. Hedge Funds basically use a wide variety of strategies and can invest their funds in absolutely anything under the sun; be it financial securities like equities and derivatives or even in something absolutely abstract like a golf course in Ireland. The strategies adopted by these Fund Managers are adopted to generate above average returns despite the prevalent market conditions.

Though risk and returns have a direct relationship, i.e. higher the risk, higher the return, a hedge fund manager has to look for means to generate more returns regardless of the risk he/she faces, obviously by adopting 'hedging' strategies. A fund manager is expected to generate above average returns or 'alpha' regardless of the market condition, which is the primary reason why these managers are rewarded handsomely by their clients.

1.1.1 The origin of Hedge Funds

The year was 1949. Sir Alfred Winslow Jones, who graduated from Harvard in the year 1923, was writing an article for Fortune magazine when he came up with the idea of managing his own money and starting his own fund. Jones, who had travelled the world extensively and even worked as a Journalist covering the Civil War, received his doctorate in Sociology from Columbia University in 1941. The article Jones was working on required him to conduct several studies on the current market trends. It was during one of these studies that he came to the conclusion that he had a better way of managing wealth. Jones found that by hedging his long positions or by going short, and by using leveraging to a large extent, he could enhance his potential returns. Hence in the year 1949, he raised \$100,000 to which he himself put \$40,000 of his own cash and started his own fund. Since he used hedging to a large extent, the term 'Hedge Funds' was born.

In 1952, Jones converted his general partnership to a limited partnership and also raised an incentive fee of 20% of profits, being the investment manager. Since Jones was the first person in history to combine all these techniques and bring up the fund, he came to be known as 'The Father of Hedge Funds'.

In 1966, Jones's work came to the limelight when Forbes magazine recognized him and brought out an article about him. The article shed light about how Jones's fund had outperformed the current year's Mutual Fund returns by a behemoth 44% and managed to outperform the best Mutual Fund, which had been performing bullishly from the past 5 years by a whopping 85%.

Needless to say, this article attracted the attention of all wealthy and high net worth individuals as well as investment managers, who was mostly drawn towards the very large incentive fee. By 1968, there were around 200 Hedge Funds in all. **(Gabelli)**

1.1.2 Characteristics of Hedge Funds:

Due to the unique characteristics of Hedge Funds as devised by Winslow, Hedge Funds successfully escaped the regulations of the U.S Securities and Exchange Commission, and can still not be asked to be transparent by the regulatory authority due to which they enjoy a lot of freedom in operations till date and will continue to do so, thanks to Jones. **(Strachman, 2011)**

- a. Due to the high risk involved in investing in Hedge Funds, they are regulated only to the high net worth individuals of the society. This is because, only investors with a high net worth would be able to handle the high amount of risk involved and face the losses which may/ may not be incurred.
- b. In India, Hedge Funds come under the Category 3: Alternative Investment Fund category, Securities and Exchange Board of India. The minimum corpus required per individual as stipulated by SEBI to invest in the Category 3: AIF, is Rs 1 crore.
- c. Contrary to pretty much any other type of fund, a Hedge Fund lets you invest anywhere across the globe, and that too in any investment avenue unlike other traditional funds. It may be in securities, derivatives, currency, real estate, etc.

- d. The typical compensation structure of Hedge Funds is described by the ratio of 2:20; wherein 2% is the asset management structure and 20% is the compensation on any profit generated by the fund.
- e. The main 3 techniques employed by Hedge Funds are the usage of leverage, and using long and short positions to generate above average returns in the market.
- f. Hedge Funds generally have a lock- in period of 1 year. Investors will not get their investment back or will not be allowed to take their funds back for the one year of being illiquid.
- g. Hedge Funds are not required to restrict their investment to their country of origin and thus operate on a global scale.
- h. They are largely subject to infrequent redemption policies, thus it is not advisable for investors looking for regular returns to invest in Hedge Funds
- i. AIF's are strictly advised to not invite the public to subscribe to its funds. Hence they are not allowed to advertise/ market their funds or solicit an invite to the public. They are to raise funds through private placement by way of issuing of information or private memorandum.

1.2 HEDGE FUNDS VS MUTUAL FUNDS

Hedge Funds and Mutual Funds are largely compared with, and majority of the common man feel that they are one and the same. But Hedge Funds and Mutual Funds are completely different to each other.

1.2.1 Similarities:

Both Hedge Funds and Mutual Funds are managed by professional managers who diversify their client's portfolios in investments they think fit. Hence the clients can get a good diversification of funds and can enjoy the benefits of professional management of their investment.

However, the similarity ends here.

1.2.2 Differences:

The major differences between Hedge Funds and Mutual Funds are as follows:

Basis	Hedge Funds	Mutual Funds
Type of investor	Meant for only the high net worth individuals of the society	Meant for all types of investors
Compensation	Typically follows a 2:20 ratio; whereas 2% is charged as commission and 20% on all profits made	Charges a meager 1.5% as compared to Hedge Funds on the first 100 crores of AUM managed
Regulation aspect	They are very largely unregulated	Subject to high regulations
Advertisement	They are not allowed to advertise and market their funds	They have no such restrictions
Portfolio management	They can run highly concentrated portfolios	Diversification is the key principle
Risk	Risk quotient is very high	Risk quotient varies from low to high
Leverage	They use the principle of leverage to a large extent	They can leverage, but within the guidelines as laid down by SEBI
Investment avenues	They can invest in pretty much anything under the sun	They are limited in terms of their investment avenues as compared to Hedge Funds
Returns	They focus on absolute returns	They focus on relative returns

1.3 THE ADVANTAGES AND DISADVANTAGES OF INVESTING IN HEDGE FUNDS:

Investing in hedge funds has been a topic of debate among the financial community since its inception, mainly because of the high risk with which it comes with. There are strongly opposing views on each end of the spectrum, wherein the advocates of hedge funds focus only on the advantages of it, while its critics oppose the very idea of it.

1.3.1 Advantages of Hedge Funds

1. Since the Fund Managers are rewarded handsomely with huge compensations, which are mostly dependent on the profits generated by them, they employ extra care and specialized skills in order to manage the funds well. Also, the investors get the added benefit of professionally managed funds.
2. Hedge Funds employ a lot of complex strategies which can be operated in both domestic as well as international markets like leverage, usage of derivatives, and going long or short.
3. Hedge funds stand to gain a large amount of money by utilizing the same within the portfolio, as the main aim of hedge funds is to maximize returns despite what the market condition is, fund managers employ a lot of strategies to forecast the market and get alpha returns.
4. The ability to diversify funds limits the level of risk that hedge funds can have by reducing the level of exposure to general market movements and only targeting specific market risks.

1.3.2 Disadvantages of Hedge Funds:

1. The risk level of Hedge Funds is so high that lakhs of rupees can be lost at the blink of an eye.
2. The minimum investment requirements for Hedge Funds being so high make it an investible platform for only the wealthiest of individuals and corporations.
3. The use of leverage to a large extent increases the magnitude of losses in such a way that if the investment does not succeed, the losses would be doubled.
4. The high management as well as compensation fee (2:20) in order to simply invest in Hedge funds is a context that is often criticized.

1.4 LIST OF GLOBAL HEDGE FUND DATABASES:

The unique characteristics attributed to Hedge Funds makes reporting about a lot of its aspects less stringent. However, overtime Hedge Funds have come under the purview of

regulatory organizations all over the world (**Tolonenc, 2012**). The 5 major data bases which have been found to be very reliable in terms of Hedge Funds are as follows:

1. Barclay Hedge
2. EurekaHedge
3. Hedge Fund Research (HFR)
4. Morningstar
5. TASS (Lipper Tass Academic Hedge Fund Data)

1.5 HOW DO HEDGE FUNDS INVEST?

While no two funds can be identical, returns are generated by adopting any of the following strategies (**Hara**)

1. **Global Macro:** This strategy is based on the economic and political conditions of countries. This strategy studies the directional and the relative analysis within and between countries.
2. **Event Driven:** Activities like merger Arbitrage, distressed debt, etc usually have a direct impact on the economic front and may create inefficiency in pricing of stock. These Fund Managers seek to bank in on those aspects in an Event Driven Strategy which requires a lot of expertise.
3. **Relative Value:** This strategy involves the usage of both fundamental and technical analysis in making decisions. The investment usually varies across derivatives, equities, fixed income, etc.
4. **Long/ Short Equity Funds:** This strategy basically involves taking long or short positions. These positions are taken in an equity or derivatives market. Both Quantitative and Fundamental techniques are employed by managers to arrive at investment related decisions.
5. **Quantitative Funds:** In Quantitative Hedge Fund strategy, Fund Managers use quantitative techniques to take managerial decisions. In this technique, investors have very limited access to investment strategy details. Due to this reason, the technique is called 'Black Box'. (**Capital Fund Law Blog**)
6. **Multi- Strategy Funds:** As the name suggests, this strategy is not confined to a particular objective or an investment strategy. Fund Managers give more importance to preservation of capital and will not take much risk in investment.

1.6 SEBI: ALTERNATIVE INVESTMENT FUNDS

Hedge Funds in India come under Category 3: SEBI Alternative Investment Fund category. As per SEBI, “Alternative Investment Fund or AIF means any fund established or incorporated in India which is a privately pooled investment vehicle which collects funds from sophisticated investors, whether Indian or foreign, for investing it in accordance with a defined investment policy for the benefit of its investors.”

The AIF Category of SEBI provides exemptions to register themselves as a fund. Hedge Funds were recognized in India in 2012. The data provided here has been retrieved from the Frequently Asked Questions: SEBI Alternative Investment Funds, 2012.

1.6.1 The Different Categories of AIF:

1. Category I AIF:

These are basically those AIF’s which invest primarily in startups like venture capital funds, socially and economically desirable projects like social venture funds, and sectors and areas where the government considers the investment as important like investing in infrastructure are considered as category 1 AIF.

2. Category II AIF

AIF’s which do not come under Category 1 and 3 are included in this sector. This basically included those categories which does not use leverage or does not require borrowing of funds other than to meet the daily fund requirements and which fall under the purview of SEBI (Alternative Investment Funds) Regulations, 2012.

These include Real Estate Funds, Private Equity Funds, and Funds for distressed assets, etc.

3. Category III AIF:

This includes those AIF’s which employ leverage to a great extent and employ extremely complex trading strategies. Their investment includes both listed and unlisted derivatives. These include Hedge Funds, PIPE Funds, etc. AIF’s under SEBI is established in the form of a trust or a body corporate or a limited liability partnership. However, most

of the AIF's which are registered with SEBI are in the form of a Trust. Also, other than for angel investors no scheme is allowed to have a membership of more than 1000 investors.

1.6.2. Fund Specifications for Category 3 AIF:

- Each investor should invest a minimum of 1 crore in investment.
- The sponsor of the AIF must also be an investor so that the interests of the investors and the sponsor are aligned.
- For Category 3 AIF's, an interest of not less than 5% of the corpus or 10 crores, whichever is less.
- Category 3 AIF's may be open ended or close ended.
- Category 3 AIF which do not undertake leverage are required to submit reports on a quarterly basis, whereas the reports should be submitted on a monthly basis to SEBI if leverage is undertaken.
- The leverage taken should also not exceed 2 times the NAV of the fund.
- The registration fee to be paid by Category 3 to SEBI is Rs 15,00,000

1.7 INDIAN FINANCIAL ECONOMY

The Indian Economy is projected to grow at a rapid rate and is coined to be the fastest G20 economy by 2020. With the advent of the landmark Goods and Services Tax of 2017 and other important policy measures, the ease of doing business in India is increasing tremendously. The measures taken by the current government regarding NPA will further boost the economy as bad debts will decline and a steady check on the balance sheets of banks will be maintained.

India is also set to overtake U.S in terms of Purchasing Power Parity (The World in 2050, 2017). The key findings of the report 'The World in 2050 *The long view: how will the global economic order change by 2050?*' And; '*India: Economic Forecast Summary (ECD)*', are as follows:

- PwC predicts that India's economy will grow by 4.9% per year from 2016-2030
- Indian economy is currently the third largest in the world, after U.S and China

- The increase in public wages will support consumption, which is very crucial for the country's economic development.
- Investing in more physical and social infrastructure is very crucial
- With the increasing competition in service sector, trade openness has increased.
- GST has brought in ease of doing business, and is bringing in better growth impetus.
- The increase in pension and wages for the Central Government employees is being followed up the State Government as well.
- Protectionist measures could dampen import and export of goods.
- The halving of global economic oil prices has been a major support for India as it improved the current and fiscal account deficits to a large extent.
- The projection by the World Bank on the Indian GDP has only increased, despite demonetization and cash crunch which followed, as the economy bounced back rapidly.
- As per the Forbes list of world's richest people, the number of billionaires in India has increased to 101 billionaires in 2017.
- As per a study by US Banking Group Citi, India will be the largest economy in the world by 2050 years and is expected to have a GDP of \$85.97 trillion.

CHAPTER 2 - REVIEW OF LITERATURE

2.1 INTRODUCTION TO REVIEW OF LITERATURE

This chapter highlights a review of literature pertaining to the topic under study, which is an integral part of the research work. Research articles, thesis, conference proceedings and articles from relevant sources were taken into consideration for the same. The section has been organized under various relevant themes, issues, and factors relevant to the study. In close relation with the significance of the study, the following classifications were made while reviewing the literature:

1. Global Hedge Fund databases
2. The peculiarities of Hedge Funds
3. The risk and return aspects of Hedge Funds
4. Global Performance of Hedge Funds
5. General awareness and perception of Hedge Funds in India

2.2 GLOBAL HEDGE FUND DATABASES

(Joenväärää, Kosowskib, & Tolonenc, 2016) compares the five commonly used hedge fund databases (Hedge Fund Research (HFR), Barclay Hedge, Morningstar, Lipper TASS and Eureka Hedge). And provides advice to Hedge Fund database users and researchers regarding database selection, construction as well as comparison. The study further finds that there is no performance persistence for certain rebalancing frequencies and databases and advises investors who choose to get a higher return for taking a higher risk to be wary of the different databases and their methodologies of compiling data before investing.

(Agarwal , Daniel , & Naik, 2015) provides readers with comprehensive data covered over the past 10 years through examining time-series and cross-sectional literature and variations in hedge fund performance, and the role of Hedge Funds in the general financial system, risks faced by investors, and also studies cross sectional characteristics of data regarding Hedge Funds and their performance. The study basically focuses on arranging the mammoth data regarding

Hedge Funds in a very comprehensive way. The limitation of the study as stipulated by the researchers is that since the database relating to Hedge Funds is large, they may have overlooked a few.

(Joenväärää, Kosowskib, & Tolonen, 2012) combined the five major hedge fund databases: Hedge Fund Research (HFR), Barclay Hedge, Eureka Hedge, TASS and Morningstar to the aggregate data set available on Hedge Funds to understand why performance results differ across databases. The study proved that one should be careful while taking inferences from one single data base and found a novel way to identify unique Hedge Funds from multiple data bases. The findings suggested that as the method of data collection was different across different data base companies, the quality of each would be different. The study warns Fund Managers to hence be cautious in collecting data while making a decision.

(Ackermann, McEnally, & Ravenscraft, 1999) has Conducted an exploratory study on the literature available for Hedge Funds by studying the secondary data available in an 8 year period from 1988- 1995 and compares it with the performance of Mutual Funds. The study also tries to establish a link between incentive fees and performance. It Found that Hedge Funds earn an average of 9.2- 16.1 in a year and also found that Hedge Funds are more volatile than Mutual Funds. The amount of flexibility which Hedge Fund managers get encourages them to take more risks and adopt different styles, which gives them an advantage over Mutual Funds. The major limitation found in the study was the lack of data pertaining to Hedge Funds since reporting about Hedge Funds is involuntary.

2.3 THE PECULIARITIES OF HEDGE FUNDS

(Rajwade, 2007) in his essay on Hedge Funds explains the structure of hedge funds, the investment strategies used by Fund Managers and the returns generated by them. The study finds that there are 3 important players in the Hedge Fund industry, namely the fund manager, the Prime Broker and a Fund Administrator. The Literature also talks about the different strategies like the Global Macro Strategy and the Relative value strategy, which are the two main strategies

employed by Hedge Fund managers. The author feels that though there are funds which give spectacular returns, the 'fat' fees paid to the managers are not justifiable.

(Brauldi) Opines that the characteristics of Hedge Funds are what makes it unique can have. The fact that it is not regulated gives a way for the managers to never disclose the strategies that they have adopted or where the fund is actually being invested. This is the main reason why Hedge Funds are regarded as a very risky investment avenue by experts.

(Definition of a Hedge Fund and Hedge Fund Background Information) Though Hedge Funds are widely compared to Mutual funds, they are not at all similar. Hedge Funds structured under the Investment Company Act of 1940, but they are not regulated like Mutual Funds are, thanks to its characteristics. The strategies that are employed by managers here are the most dynamic, since they employ them based on the ever changing market structure. Fund managers seek to employ strategies and maximize returns while making sure that the principle fund is not lost. **(Gad, 2013)** Mutual Funds have to stick to two forms of investments, and that is stocks and bonds. Hedge Funds have this unique freedom to invest in absolutely anything; be it currencies, real estate, derivatives, etc. Thus investors are benefitted from wider investment latitude.

(Magnum Funds) Tries to remove the most common misconception about Hedge Fund strategies. There is a popular belief that they use only global macro strategy. However, this is not true. Only a total of less than 5% funds use this and do not take large directional bets or leverage to a great extent. They hardly even use leverage.

(Magnum Funds) The popular methods used by Hedge Funds include short selling, leverage, derivatives including using call option, put option, etc. Though some Hedge Funds do have the ability to generate non- market correlated returns, investors should study the strategies applied before jumping into investing in the same funds. Fund managers mostly have the policy of using those techniques in which they are experts in.

(Benefits of Hedge Funds) The major benefit of Hedge Funds, and the main reason for investors to get attracted towards them are because of its ability to generate returns despite the market conditions. This is mainly because of the diversification benefits it possesses. Traditional

investments have a major cap on the maximum it can diversify its funds, whereas Hedge Funds do not. Many academic researches has shown studies which proves the fact that they can generate higher returns than any other type of portfolio.

(Tibrewal, 2008) Both Hedge Funds and Mutual Funds are institutional investors; and that seems to be the only similarity they have. The major differences between Hedge Funds and Mutual Funds lie in terms the number of owners, regulation, transparency, investment style, managerial remuneration, management ownership etc, among others. Though in the U.S, both are governed by the SEC, the rules regarding regulation vary largely among the two.

(investopedia) The high managerial fee structures of Hedge Funds are always debated upon. The 2:20 structure, as it is called makes sure these managers make a lot of money, even if the fund does not perform well. Even if the fund goes into loss, the manager can pocket 2% of the total assets. Regulations in the form of fee caps have come into picture after investors raising concerns about the same. This basically includes limitations in fee like high- water marks which makes sure the manager does not get paid the same fees twice.

2.4 THE RISK AND RETURN ASPECTS OF HEDGE FUNDS

(James, 2009) says that markets work the best when diverse information from all over the markets are classified and different strategies for securities are developed to hedge risks and reduce volatility. Market irrationalities are a major cause for its volatility, and by playing it smart, these irrationalities disappear. The investing strategies have brought in reduced volatility which is the direct cause for reduced price discovery. This volatility is mainly achieved by going against the current market conditions and taking positions, i.e long and short.

(Calpers , 2009) talks about the reason why liquidity really does matter is because of the root cause of demand and supply. Liquidity is the best attraction for investors as it provides the much needed flexibility to investors in exchanging their securities. Hedge Funds, whatever be the turmoil created by them does bring in the much needed liquidity globally by taking risks and developing industries, providing the much needed finance to new companies, etc

The primary reason for investing in Hedge Funds by majority of investors is to diversify the portfolio and to decrease the volatility. Other reasons are to improve the risk/ return factor in the portfolio, to increase overall returns, and lastly to decrease other areas of the portfolio.

(Overview of the Global Hedge Fund Institutional Investor Universe: Special Report, November 2008)

(Foster & Young, 2008)formulates a study which proves that the fee structure alone cannot distinguish between the skilled and unskilled managers. The study finds that a fee structure that does not analyze penalties for underperformance can be manipulated by underperforming fund managers to generate higher returns. This method is called the ‘mimicry’ method. The study cautions Fund Managers to find ways other than showing their track records to distinguish themselves from the unskilled managers or they would be driven out of the market.

The study found that alternative investment class, particularly Hedge Funds offer greater portfolio diversification and though it involves non- directional risks with zero volatility or low beta, it does involve risk. Thus, to prove hedge funds as a risk free alternative will not be possible.

(Agarwal & Naik, On Taking the 'Alternative' Route: Risk, Reward, Style and Performance Persistence of Hedge Funds)studies the diversification benefits of Hedge Funds by providing a comprehensive analysis of risk- return characteristics and the persistence related to performance of various types of hedge fund strategies. The method of mean variance analysis was used to prove that a combination of alternative investments will bring in a better risk return trade off. The paper finds that including Hedge Funds actually provides more diversification benefits due to the investor investing in various asset classes.

(Brafaldi)mentions that Hedge Funds always look for absolute returns but that is not always possible in the real world. A Hedge Fund looking for absolute returns should, by principle give a consistent performance for a minimum of 12 months but it is not always the case. The two most common forms of measuring returns for Hedge Funds are The Sharpe Ratio and measuring the relative value in comparison with Benchmarks.

The adverse tax consequences, the lock in period, unregistered investments and risky investment strategies are some of the risks of investing in Hedge Funds. **(Financial Industry Regulatory Authority)**. The lock in period of one year post investing is another hurdle for investors. Also, the taxation structure is extremely complicated, as they are not taxed at source.

Hedge Funds are labeled as ‘Private Investment Funds’. The two main characteristics of such funds are that they have an investor base of less than 100 and these investors have a

quantum of funds invested in a diversified manner. If either of these characteristics are fulfilled, it will be called a Private Investment Fund. These two main reasons are why Hedge Funds are exempted from regulations and law. Private Investment Funds can have a maximum of 99 ‘accredited investors’ while some investments may choose to have 35 ‘non- accredited investors’ and can have 499 ‘qualified clients’. **(Private Investment Funds)** A hedge Fund manager by law is not supposed to advertise about the fund, and thus while starting a fund will first look for family and friends and then put in his own. They can have a website but are strictly adhered to not invite investors that way.

(Amenc, Martellini, & Vaissié , 2002)studies the investor psychology of ‘higher the risk, higher the reward’ by investigating the factors of money-flows, managerial incentives and investor behavior, and drivers of performance of the hedge fund industry. The research finds that funds which are employed by providing higher managerial incentives are always correlated with higher future performance, providing justification to investors’ perception that investments with higher managerial remuneration should be more preferred.

(Amenc, Martellini, & Vaissié, Benefits and Risks of Alternative Investment Strategies, 2002)talks about the risk factors involved in alternative investment category and provides a detailed analysis on how alternative investment funds can be used for diversification of investment portfolio. Also, the study analyses the challenges and opportunities that hedge funds provide in the case of risk management for investors.

2.5 GLOBAL PERFORMANCE OF HEDGE FUNDS

2017 seems to be a good year for Hedge Funds as per studies. **(Improved Performance Of Hedge Funds Expected Over 2017)**.As predicted, the Hedge Fund industry experienced a difficulty in performance in 2016 as investors were less keen on investing capital. This was however, not the case in all parts of the world, as the challenges were different by region. Managers believe that the AUM will grow over 2017. The European markets especially remain bullish. However, performance and management fees remain the major concern among majority of investors.

(Bensted, 2016) Investors felt that the biggest challenge in 2016 was going to be in maintaining the performance of Hedge Funds, because of which the Prequin Survey revealed that more and more investors were willing to invest less in Hedge Funds compared to 2015. This would mean difficulty in raising new capital for Fund Managers who have come to the consensus after the study that performance would be the key challenge in 2016. The other challenge for managers is that less confidence in performance would mean less fees. The cost of managing a Hedge Fund has increased over the years, thus 2016 would mean a challenging year ahead for Hedge Funds.

(Bensted, 2016) The global Hedge Fund industry has been growing rapidly over the years. As of November 2015, the global asset under management by hedge funds have reached a total of \$3.197 trillion as on November 2015 and the industry has added close to \$71.5 billion in new capital inflows in just 2015 alone. Over 62% Hedge Funds had posted positive returns in 2015 despite the overall market volatility that has been prevailing. There were however, 40% managers who felt that their objective regarding performance was not met in 2015, but overall they were keen for 2016 and remained positive as a majority said they were planning to start new funds that year.

(2012 Prequin Global Investor Report: Hedge Funds, 2012) Hedge Funds have performed well in 2012, with over 57% of investors reporting positive performance from the industry. This number had outperformed the last two years, thus giving the positive report that the Hedge industry was indeed booming. The share of investors who had reported that the funds had exceeded their expectations had fallen to 11% in 2012. The most popular strategy adopted by these managers were going long/ short, whereas directional strategy had turned out to be the most disappointing.

2011 was not the year for Hedge Funds as most of the returns posted were disappointing. There were more redemption requests as the funds were not doing well. 40% investors had reported that the funds had disappointed them. **(2012 Prequin Global Investor Report: Hedge Funds, 2012)**

(Freed, 2015) studies the Hedge Fund performance from 2001 to 2015. He observes that in 2001, the Hedge Funds began concentrating and specialized in certain areas of fixed income

and equity markets. The strategies used by fund managers escalated as more and more funds had started hitting the markets. The managerial remuneration and profit sharing ratio which was 20:1 had increased to 20: 2 by 2008 as the fees rose stealthily.

2.6 GENERAL AWARENESS AND PERCEPTION TOWARDS HEDGE FUNDS IN INDIA

(N.K. Totala, 2016) examines that though the Hedge Fund industry is playing a vital role in the global financial industry, the major deterrent for growth in India are the stringent regulations and lack of awareness among investors. The high net worth individuals seem to want only high returns, without looking at the risk aspects of Hedge Funds. In such a scenario, it becomes difficult for the Fund Manager because the investor may not consider the need for the lock in period and would want returns ‘whimsically’. This aspect can be a major hindrance to their growth.

(Dr. Narayan Baser, 2012) states that though there are tall claims, which states that Hedge Funds have been demystified, it still remains a fact that Hedge Funds still remain a segment that is unheard of by most investors. The study on the awareness level and perceptions on Hedge Funds in Gujarat state of India revealed that the awareness level is indeed very low for most investors. The preference over traditional investment avenues still remains frenzy among investors, and those willing to take risk prefer investments in real estate, equity market, etc.

2.7 GAP IN LITERATURE:

Hedge Funds have spread its roots in developed countries, and there are innumerable studies regarding the global performance of Hedge Funds, databases, peculiarities, and risk return aspects of Hedge Funds. In India, Hedge Funds were introduced much later and have not gathered momentum yet, though investments in Hedge Funds are slowly mushrooming in different parts of the country. The studies relating to the Hedge Fund industry in India is limited, due to this late advent. The potential of the Indian Hedge Fund industry is yet to be seen, as the stringent regulations and lack of awareness relating to the Hedge Fund industry remains a major growth deterrent.

Though a lot of financial products have been introduced in India in the recent past, investors are not able to enjoy the benefits of the same due to lack of awareness of the products. **(Bhushan, 2014)** Keeping this aspect in mind, a study on the awareness level and perception among Fund Managers with special reference to the city of Bengaluru was considered to understand the nuances of this peculiar type of fund and the awareness level among Fund Managers.

CHAPTER 3 – RESEARCH DESIGN AND METHODOLOGY

3.1 SIGNIFICANCE OF THE STUDY

Going by the rapid increase in the number of Hedge Funds from the year it started to now, it can be safely stated that Hedge Funds provide significant economic value to investors, which are not available in other investment avenues. Hedge Funds provide massive economic significance to every financial market. Attributing to the significant amount of capital they contribute to the economies, it can be concluded that they help in reducing the chances of mispricing, as it is a well-known fact that price discovery happens the best in a stable economy. Thus, Hedge Funds are an important source of liquidity for any economy, be it at calm or a volatile one, as they add significant depth to the financial market and encourage Fund managers and investors to take that leap of faith in taking myriad risks to achieve high returns. They are very active in investing in complex returns and play a massive role in encouraging Financial Engineering in every economy. The unique combination of using leverage to a large extent as well as employing complex strategies to achieve alpha returns is what makes Hedge Funds the most unique.

India, the fastest growing economy in the world and more so, Bengaluru being ‘The Silicon valley of India’ with the potential to improve economy furthermore makes the study of Hedge Funds (awareness among Fund Managers) very imperative.

3.2 STATEMENT OF THE PROBLEM

Though Hedge Funds were recognized by SEBI in the Category3: Alternative Investment Fund Category in 2012, they still remain one of the most underrated investment avenues in India. This can be mainly attributed to the fact that most investors are largely unaware about Hedge Funds. A survey which was conducted by Standard & Poor, published in December 2015 stated that 76% of adults in India were financially illiterate. An investment in Hedge Funds requires Fund Managers to be aware of the funds itself since they are the ones who advice their clients on

where to invest their money. Hence it is necessary to study the Fund Manager's perspective on Hedge Funds and their awareness level on the same.

3.3 SCOPE OF THE STUDY

This study investigates the awareness level and perception towards Hedge Funds as an investment avenue among the Fund Managers in Bengaluru, Karnataka.

3.4 RESEARCH OBJECTIVES

1. To analyze the awareness level about Hedge Funds as an investment avenue among the Fund Managers in Bengaluru.
2. To study the Fund Managers perception towards the benefits of investing in hedge funds.
3. To examine the Fund Managers perception towards the factors the challenge the growth of Hedge Funds.

3.5 DESIGN OF THE STUDY

The study is Quantitative in nature. The Questionnaire method was used for Primary Data collection. The Likert scale was used to study the awareness level among Fund Managers by listing out the different characteristics of Hedge Funds and asking the respondents to mark their response based on the different parameters that were given. The perception towards the 'Benefits of investing in Hedge Funds' and 'Challenges that hinder the growth of Hedge Funds' were studied by asking the respondents to rank the factors.

3.6 SCALES ADOPTED FOR THE STUDY

1. **The Likert Scale:** A Likert Scale is a psychometric scale commonly involved in research that employs questionnaires. It is the most widely used approach to scaling responses in survey research and is used as a rating scale. The rating scale is named after its inventor, psychologist Rensis Likert.

- 2. Ranking:** The Garret Ranking Technique was invented by the American Psychologist Henry Edward Garret. This method identifies the most significant factor which influences the respondent.

The respondents are asked to assign ranks to all factors and the outcome of the rank is converted to a score value with the help of the following formula:

$$\text{Percent position} = 100 (R_{ij} - 0.5) / N_j$$

Where R_{ij} = Rank given for the i th variable by j th respondents

N_j = Number of variable ranked by j th respondents

Using The Garrett's Table (posted in Appendix), the percent position is converted into scores. After that, the scores of each individual are added for each factor, after which the total value of scores and its mean values are calculated. The factors with the highest mean value is considered as the most important factor.

3.7 OPERATIONAL DEFINITIONS

- 1. Awareness:** According to Cambridge Dictionary, The term awareness refers to the knowledge that something exists, or understanding of the present time based on information or experience.
- 2. Perception:** Perception refers to the way something is regarded, understood or interpreted.
- 3. Leverage:** Leverage refers to the usage of borrowed capital for investment purposes with the expectation to earn more profits.
- 4. Lock in period:** It refers to the period of time wherein the principal amount invested cannot be claimed back by the investor.
- 5. Fund Manager:** An individual who guides a pool of investments and sets valuation based on expertise in the field and assessment of risk. The valuation made by Fund Managers is not based less on market valuation and more on individual control. They are subject to less disclosure agreements by SEBI.

3.8 VARIABLES UNDER INVESTIGATION

1. Dependent Variable:

- Awareness Level

2. Independent Variables:

- Gender
- Age Group
- Qualification
- Income Annually

3.9 SAMPLING TECHNIQUE AND POPULATION

The technique of Convenient and Snowball Sampling was used for data collection from the respondents, i.e. Fund Managers. Since there is no definite source of the total number of Fund Managers in India as per the records of SEBI or any other associations, getting the right respondents was a challenge. The research study undertaken by **(Bornstein, Jager, & Putnick, 2017)** stated that convenience sampling offers clearer generalizability. The respondents were contacted purely on the basis of Snowball sampling wherein each respondent were requested to give contacts of other Fund Managers they knew, and the data was collected hence over a period of 4 months. Hence, the questionnaire was personally administered to 53 Fund Managers. Out of the total, 3 were found to be erroneous and hence not taken into consideration. This brought the total number of respondents to 50.

3.10 QUESTIONNAIRE DEVELOPMENT AND VALIDITY:

The questionnaire was designed after detailed literature review keeping in mind the research objectives. It is posted in Appendix A. The Questionnaire had 3 sections: the demographic aspects, ratings based on Likert Scale, and ranking questions.

The validity of the Questionnaire was assessed through Face Validity. A total of 4 professionals (2 University Professors with a core specialization in the area of Finance and

2Industry professionals- the CEO of a company, and a Senior Manager the area of Hedge Funds) were consulted in order to get their expert opinion and in order to establish content validity. The expertises of the individuals were ascertained on the basis of their knowledge and experience on the subject of Hedge Funds. Their feedback established that the Questionnaire had face validity. Thus a total of 25 questions (excluding demographic details) were thus considered apt to study the awareness level and perception of Fund Managers in Bengaluru.

3.11 PILOT STUDY

The reliability and the validity of the Questionnaire were established through a Pilot Study prior to the main research. A total of 15 Questionnaires were personally administered to Fund Managers. The respondents were further asked to give their opinions on the Questionnaire as well as suggestions for its improvement.

3.12 RELIABILITY

The Chronbach's Alpha, formulated by Lee Chronbach's in 1951 measures the reliability or the internal consistency of the Questionnaire. Generally, an alpha coefficient greater than 0.5 is considered to be a good indication of validity.

The Chronbach's Alpha reliability test for the study showed a value of .721. A Chronbach's Alpha value between $0.8 > \alpha > \text{or} = 0.7$ is considered as 'Acceptable' for measuring internal consistency. Hence the Questionnaire adopted for the present study was considered reliable.

3.13 DATA COLLECTION

The period of data collection was from April to July 2017. The Questionnaire was personally administered to all the respondents by distributing hard copies of the same and the data was collected hence.

3.14 STATISTICAL TECHNIQUES ADOPTED IN THE STUDY

- **Descriptive Statistics:** Used to summarize the data using the measures of Central Tendency- Mean, Median, Mode and summarizing of data using percentages and frequencies.
- **Cronbach's Alpha Reliability Analysis:** Used to measure internal consistency between variables.
- **Shapiro-Wilk's Normality test:** Used to assess whether the distribution of data is normal or not.
- **Kruskal Wallis test:** The non-parametric test adopted to test whether samples were originating from the same data set, and to compare two or more independent samples of same or different sample sizes.
- **Mann Whitney test** was further used as the mathematical basis for Kruskal Wallis test.
- **Garret Ranking Method** was used to assess the ranking questions and to find out the ranks allotted by the respondents.

3.15 SOFTWARE USED FOR ANALYSIS

- IBM SPSS Statistics Version 21
- Microsoft Excel 2011

3.16 LIMITATIONS OF THE STUDY

1. The study has been carried out using Snowball and Judgment sampling, which is not devoid of its demerits.
2. The study could be affected by respondent bias.
3. The variables used for the study are limited as compared to the total number of variables that can affect the awareness level and perception about Hedge Funds.
4. The research gap is not properly aligned with the literature.
5. Construct validity is not performed for the questionnaire.

CHAPTER 4 – ANALYSIS AND INTERPRETATION

4.1 TEST OF NORMALITY

The Normality of data is checked through Shapiro – Wilk Test. The Shapiro-Wilk’s test is used when the sample size is small (< 50 samples), but it can be used to test the normality as large as 2000 samples as well.

Table 4.1: Shapiro Wilk Test of Normality

	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Gender	.529	50	.000	.344	50	.000
Age	.260	50	.000	.737	50	.000
Qualification	.267	50	.000	.829	50	.000
Income	.306	50	.000	.765	50	.000
Category_3	.168	50	.001	.901	50	.001
Minimum corpus	.178	50	.000	.879	50	.000
Mutual funds	.260	50	.000	.792	50	.000
Less regulations	.232	50	.000	.849	50	.000
Inflexible redemption policies	.264	50	.000	.873	50	.000
Invest- any avenue	.266	50	.000	.833	50	.000
Invest-across globe	.220	50	.000	.883	50	.000
Leveraging technique	.271	50	.000	.825	50	.000
High management fee	.203	50	.000	.864	50	.000
Unique characteristics-less restrictions	.168	50	.001	.901	50	.001

	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Complex redemption policies	.272	50	.000	.877	50	.000
Aim-high returns despite market conditions	.268	50	.000	.831	50	.000
Complex tax structure	.226	50	.000	.853	50	.000
Need not be transparent-strategies	.220	50	.000	.856	50	.000
Superior info-knowledge	.199	50	.000	.880	50	.000
Beat market-hedge against inflation	.166	50	.001	.916	50	.002
Variety avenues -globally	.167	50	.001	.881	50	.000
Variety-strategies	.187	50	.000	.875	50	.000
Innovation- financial products	.213	50	.000	.816	50	.000
Remuneration high	.251	50	.000	.807	50	.000
Not comfortable-secretive manager	.226	50	.000	.893	50	.000
High risk	.235	50	.000	.882	50	.000
Lack of investor knowledge	.149	50	.007	.906	50	.001
Minimum corpus-inaccessible	.222	50	.000	.810	50	.000
Rank of Innovation-financial products	.232	50	.000	.835	50	.000
Rank of Superior info-knowledge	.193	50	.000	.870	50	.000
Rank of Beat market-hedge against inflation	.191	50	.000	.901	50	.001
Rank of Variety avenues-globally	.163	50	.002	.881	50	.000
Rank of Variety-strategies	.205	50	.000	.867	50	.000
Rank of Innovation-financial products	.232	50	.000	.835	50	.000
Rank of Superior info-knowledge	.193	50	.000	.870	50	.000
Rank of Beat market-hedge against inflation	.191	50	.000	.901	50	.001
Rank of Variety avenues-globally	.163	50	.002	.881	50	.000

	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Rank of Innovation-financial products	.232	50	.000	.835	50	.000
Rank of Superior info-knowledge	.193	50	.000	.870	50	.000
Rank of Beat market-hedge against inflation	.191	50	.000	.901	50	.001
Rank of Variety avenues-globally	.163	50	.002	.881	50	.000
Rank of Variety-strategies	.205	50	.000	.867	50	.000
Rank of Innovation-financial products	.232	50	.000	.835	50	.000

Interpretation: As per the Shapiro Wilk Test of Normality if the p-values are less than 0.05, it can be inferred that the data is not normal. If the data is distributed normally, parametric tests can be adopted for further analysis. If not, non- parametric tests are adopted for the study.

Here, all the p values are less than 0.05 for all the factors. It is inferred that the distribution of data is not normal. Hence non-parametric tests are adopted for further analysis

4.2 TEST FOR RELIABILITY OF DATA:

The reliability test of the given data is assessed using the Cronbach's Alpha Test. This test helps to measures internal consistency and shows how closely the given data set is related to each other.

A Chronbach's Alpha value between $0.8 > \alpha > \text{or} = 0.7$ is considered as 'Acceptable' for measuring internal consistency.

Table 4.2: Cronbach's Alpha Reliability Test

Reliability Statistics

Cronbach's Alpha	
.721	

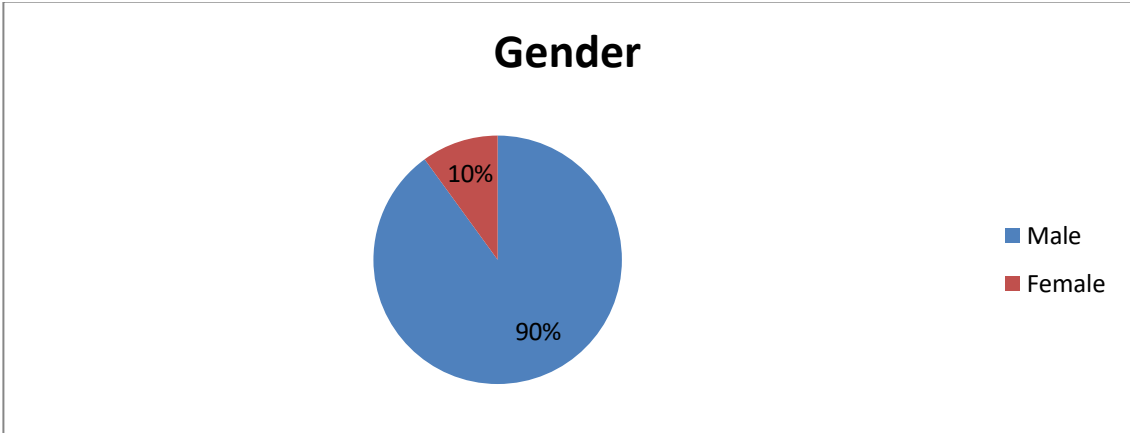
Interpretation: Here, we find that the alpha coefficient of items is 0.721. This value is considered 'Acceptable', and hence suggests that the items have relatively high internal consistency and has shared covariance in measuring the underlying concept.

4.3 DEMOGRAPHIC PROFILE OF RESPONDENTS:

4.3.1 Gender:

The sample population was 50 respondents. Out of the total number of respondents, male respondents were the majority, with 90% population male respondents and 10% female respondents.

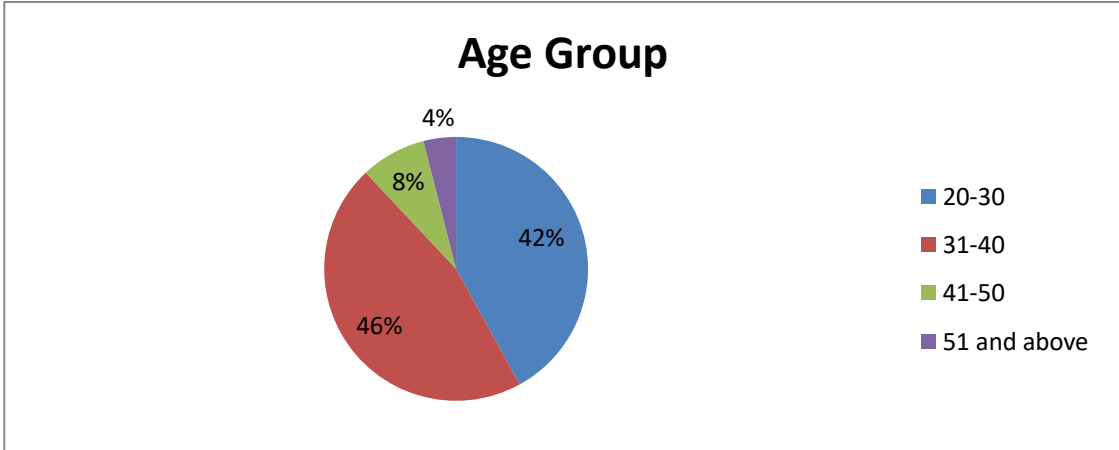
Figure 4.3.1 Gender



4.3.2 Age Group:

The Age of respondents were classified in the following categories: 20-30, 31-40, 41-50, and 50 above. Out of the total population, 46% of respondents were from the age group 31-40 occupying the highest majority, 42% from the age group 21-30, 8% from the age group 41-50 and a meager 4% from the age group of 51 and above.

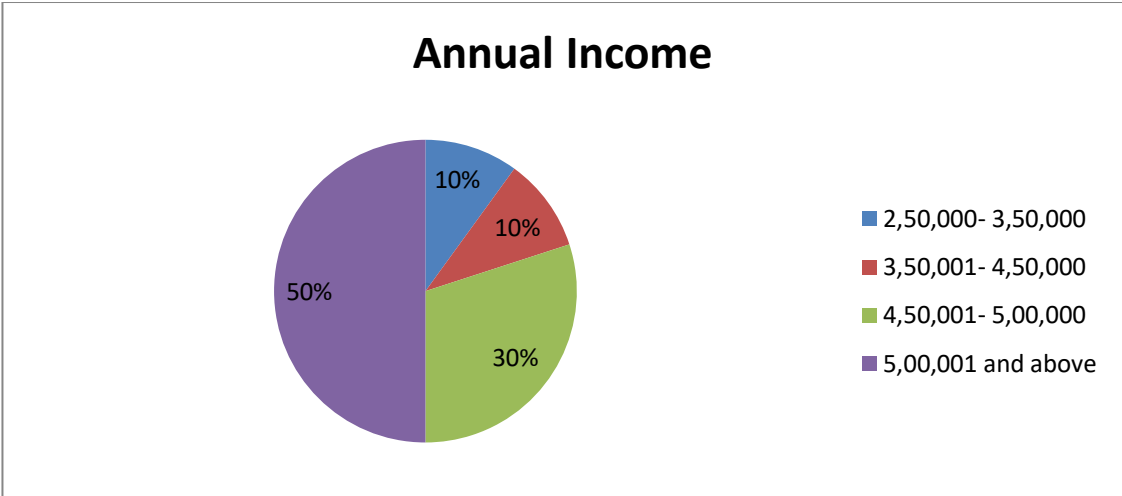
Figure 4.3.2 – Age Group



4.3.3 Annual Income:

Half of the population had an annual income of 50,00,001 and above, followed by 30% with an income of 4,50,001- 5,50,000, and 10% of population each earning an annual income of 2,50,001- 3,50,000 and 3,50,001- 4,50,000.

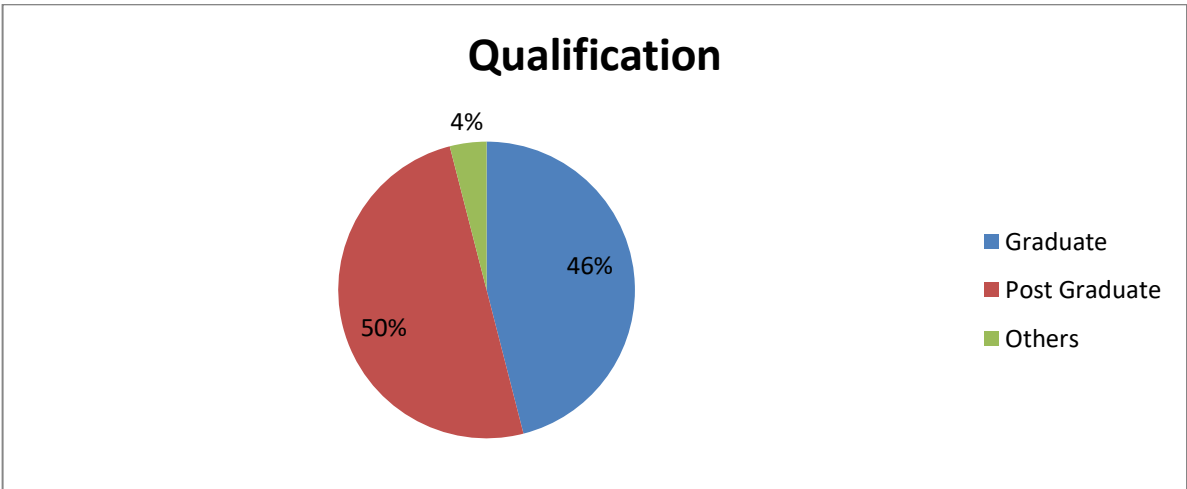
Figure 4.3.3 – Annual Income



4.3.4 Qualification:

Fund Managers are required to have a minimum qualification of having done their undergraduate, so 50% of the population was post graduates followed by 46% who were Graduates. 4% of the population had done higher qualifications like CA and CFA.

Figure 4.3.4



4.4 KRUSKAL-WALLIS TEST

The Kruskal Wallis Test was performed in order to find out if there are statistically significant differences among the groups. Here, the relationship between the four dependent variables: 'Gender', 'Age Group', 'Annual Income', and 'Qualification' are studied with the independent variable 'Awareness Level' to find out the level of awareness level among groups.

The variables are listed below. The keywords taken for the study are highlighted for reference.

1. Hedge Funds come under **Category 3** of SEBI: Alternate Investment Fund regulation, 2012
2. The **minimum corpus** required to invest in Hedge Funds is **1 crore** in India as per SEBI Regulations
3. Hedge Funds and **Mutual Funds** are completely different from each other.
4. SEBI lays down very **less regulations** for Hedge Funds, which gives the Fund Managers a lot more flexibility to handle the funds the way they like.
5. Hedge Funds have **inflexible redemption policies** with longer lock- in periods (The invested fund will not be returned to the investor for a minimum period of 1 year)
6. Hedge Fund managers can **invest** the client's funds in **any avenue** they prefer to; be it derivatives, equities, real estate, etc.
7. Hedge Funds do not restrict their **investment** to their country of origin, they are free to invest their funds anywhere **across the globe**.
8. Hedge Fund Managers use **leveraging technique** to a large extent to achieve above average returns
9. Fund Managers typically charge a very **high management fee**, wherein 2% of the Assets Under Management (AUM) is charged as management fees, and 20% as performance fees.
10. Hedge Funds, because of its **unique characteristics** cannot be as strictly regulated as Mutual Funds
11. The Fund Manager **may/ may not disclose** the exact avenues where they have invested the client's funds.

12. The returns for Hedge Funds are mostly not at fixed intervals, thus its **redemption policies are complex**.
13. The **main aim** of Hedge Funds is to obtain **high returns despite market conditions** for any given period.
14. The **tax structure** for Hedge Funds in India is cumbersome, as they are not taxed at source.
15. Hedge Fund managers **need not be transparent** in terms of the **strategies** adopted to invest their client's funds

4.5 KRUSKAL-WALLIS TEST ON GENDER

The relationship between the Gender of respondents and their Awareness level was studied through the Kruskal Wallis test as given below:

Table 4.5.1: Kruskal Wallis Test for Gender

Ranks			
	Gender	N	Mean Rank
Category_3	Male	45	25.24
	Female	5	27.80
	Total	50	
Minimum corpus	Male	45	26.22
	Female	5	19.00
	Total	50	
Mutual funds	Male	45	25.68
	Female	5	23.90
	Total	50	
Less regulations	Male	45	25.70
	Female	5	23.70
	Total	50	
Inflexible redemption policies	Male	45	25.19
	Female	5	28.30
	Total	50	

Ranks			
	Gender	N	Mean Rank
Invest-any avenue	Male	45	25.58
	Female	5	24.80
	Total	50	
Invest-across globe	Male	45	25.81
	Female	5	22.70
	Total	50	
Leveraging technique	Male	45	25.07
	Female	5	29.40
	Total	50	
High management fee	Male	45	25.20
	Female	5	28.20
	Total	50	
Unique characteristics-less restrictions	Male	45	25.31
	Female	5	27.20
	Total	50	
May-ma-not disclose avenues	Male	45	25.36
	Female	5	26.80
	Total	50	
Complex redemption policies	Male	45	24.79
	Female	5	31.90
	Total	50	
Aim-high returns despite market conditions	Male	45	24.66
	Female	5	33.10
	Total	50	
Complex tax structure	Male	45	24.77
	Female	5	32.10
	Total	50	
Need not be transparent-strategies	Male	45	24.82
	Female	5	31.60
	Total	50	

Table 4.5.2: Test Statistics Table for Gender

Test Statistics^{a,b}					
	Category_3	Minimum corpus	Mutual funds	Less regulations	Inflexible redemption policies
Chi-Square	.146	1.156	.074	.090	.221
df	1	1	1	1	1
Asymp. Sig.	.703	.282	.785	.765	.638

Test Statistics^{a,b}					
	Invest-any avenue	Invest-across globe	Leveraging technique	High management fee	Unique characteristics-less restrictions
Chi-Square	.014	.216	.432	.202	.080
df	1	1	1	1	1
Asymp. Sig.	.906	.642	.511	.653	.778

Test Statistics^{a,b}					
	May-may not disclose avenues	Complex redemption policies	Aim-high returns despite market conditions	Complex tax structure	Need not be transparent-strategies
Chi-Square	.047	1.175	1.628	1.214	1.038
df	1	1	1	1	1
Asymp. Sig.	.828	.278	.202	.270	.308

Interpretation:

It is observed from the **Table 4.5.2** that none of the variables in this construct were statistically significant as $p \geq 0.05$. Thus, from the demographic variable ‘Gender’, the factors varied significantly in terms of their awareness level towards Hedge Funds.

Thus, it is interpreted that within each Gender, i.e. Male and Female, there is a high degree of mixed response with regards to the characteristics listed and hence it is observed that **Gender does not play a significant role in terms of the awareness level of Hedge Funds.**

4.6: KRUSKAL-WALLIS TEST ON AGE

The relationship between the Age of respondents and their Awareness level was studied through the Kruskal Wallis test as given below:

Table 4.6.1: Kruskal Wallis Test for Age

Ranks			
	Age	N	Mean Rank
Category_3	20-30	21	22.24
	31-40	24	28.00
	41-50	4	21.50
	Total	49	
Minimum corpus	20-30	21	22.38
	31-40	24	27.04
	41-50	4	26.50
	Total	49	
Mutual funds	20-30	21	24.14
	31-40	24	26.73
	41-50	4	19.13
	Total	49	

Ranks			
	Age	N	Mean Rank
Less regulations	20-30	21	26.57
	31-40	24	25.02
	41-50	4	16.63
	Total	49	
Inflexible redemption policies	20-30	21	23.36
	31-40	24	25.25
	41-50	4	32.13
	Total	49	
Invest-any avenue	20-30	21	23.29
	31-40	24	27.69
	41-50	4	17.88
	Total	49	
Invest-across globe	20-30	21	25.90
	31-40	24	24.83
	41-50	4	21.25
	Total	49	
Leveraging technique	20-30	21	24.19
	31-40	24	26.88
	41-50	4	18.00
	Total	49	
High management fee	20-30	21	25.67
	31-40	24	23.48
	41-50	4	30.63
	Total	49	
Unique characteristics-less Restrictions	20-30	21	22.88
	31-40	24	27.90
	41-50	4	18.75
	Total	49	

Ranks			
	Age	N	Mean Rank
May-may not disclose avenues	20-30	21	27.98
	31-40	24	22.77
	41-50	4	22.75
	Total	49	
Complex redemption Policies	20-30	21	26.33
	31-40	24	24.75
	41-50	4	19.50
	Total	49	
Aim-high Returns Despite Market conditions	20-30	21	28.19
	31-40	24	22.52
	41-50	4	23.13
	Total	49	
Complex Tax structure	20-30	21	25.67
	31-40	24	24.75
	41-50	4	23.00
	Total	49	
Need not be transparent-strategies	20-30	21	28.17
	31-40	24	22.48
	41-50	4	23.50
	Total	49	

Table 4.6.2 Test Statistics table for Age

Test Statistics^{a,b}					
	Category_3	Minimum corpus	Mutual funds	Less regulations	Inflexible redemption policies
Chi-Square	2.198	1.297	1.233	1.723	1.387
df	2	2	2	2	2
Asymp. Sig.	.333	.523	.540	.422	.500

Test Statistics^{a,b}					
	Invest-any avenue	Invest-across globe	Leveraging technique	High Management fee	Unique characteristics-less restrictions
Chi-Square	2.342	.383	1.571	.996	2.334
df	2	2	2	2	2
Asymp. Sig.	.310	.826	.456	.608	.311

Test Statistics^{a,b}					
	May-may not disclose avenues	Complex redemption policies	Aim-high returns despite market conditions	Complex tax structure	Need not be transparent-strategies
Chi-Square	1.708	.864	1.988	.140	1.949
df	2	2	2	2	2
Asymp. Sig.	.426	.649	.370	.932	.377

Interpretation: It is observed from the **Table 4.6.2** that none of the variables in this construct were statistically significant as $p \geq 0.05$. From the demographic variable ‘Age’, the factors varied significantly in terms of their awareness level towards Hedge Funds.

Thus, it is interpreted that within each categories of Age, i.e. 20-30, 31-40, 41-50 and 50 above, there is a high degree of mixed response with regards to the characteristics listed and hence it is observed that **Age does not play a significant role in determining the awareness level of Hedge Funds.**

4.7. KRUSKAL-WALLIS TEST ON QUALIFICATION

The relationship between the Qualification of respondents and their Awareness level was studied through the Kruskal Wallis test as given below:

Table 4.7.1: Kruskal Wallis Test for Qualification

Ranks			
	Qualification	N	Mean Rank
Category_3	Graduates	22	22.68
	Post Graduates	26	29.46
	Others	2	5.00
	Total	50	
Minimum corpus	Graduates	22	28.16
	Post Graduates	26	23.44
	Others	2	23.00
	Total	50	
Mutual funds	Graduates	22	24.00
	Post Graduates	26	26.23
	Others	2	32.50
	Total	50	

Ranks			
	Qualification	N	Mean Rank
Less regulations	Graduates	22	24.55
	Post Graduates	26	26.77
	Others	2	19.50
	Total	50	
Inflexible redemption policies	Graduates	22	27.57
	Post Graduates	26	23.25
	Others	2	32.00
	Total	50	
Invest-any avenue	Graduates	22	22.30
	Post Graduates	26	27.40
	Others	2	36.00
	Total	50	
Invest-across globe	Graduates	22	27.05
	Post Graduates	26	25.21
	Others	2	12.25
	Total	50	
Leveraging technique	Graduates	22	21.66
	Post Graduates	26	28.04
	Others	2	34.75
	Total	50	
High management fee	Graduates	22	27.16
	Post Graduates	26	24.17
	Others	2	24.50
	Total	50	
Unique characteristics-less restrictions	Graduates	22	24.05
	Post Graduates	26	26.88
	Others	2	23.50
	Total	50	

Ranks			
	Qualification	N	Mean Rank
May-may not disclose avenues	Undergraduate	22	23.25
	Graduate	26	27.69
	Post Graduate	2	21.75
	Total	50	
Complex redemption policies	Undergraduate	22	27.05
	Graduate	26	23.69
	Post Graduate	2	32.00
	Total	50	
Aim-high returns despite market conditions	Undergraduate	22	23.34
	Graduate	26	25.90
	Post Graduate	2	44.00
	Total	50	
Complex tax structure	Undergraduate	22	31.52
	Graduate	26	20.10
	Post Graduate	2	29.50
	Total	50	
Need not be transparent-strategies	Undergraduate	22	26.14
	Graduate	26	25.52
	Post Graduate	2	18.25
	Total	50	

4.7.2: Test Statistics table for Qualification:

Test Statistics^{a,b}					
	Category_3	Minimum corpus	Mutual funds	Less regulations	Inflexible redemption policies
Chi-Square	7.054	1.370	.844	.667	1.575
df	2	2	2	2	2
Asymp. Sig.	.029	.504	.656	.716	.455

Test Statistics^{a,b}					
	Invest-any avenue	Invest-across globe	Leveraging technique	High management fee	Unique characteristics-less restrictions
Chi-Square	2.768	2.010	3.389	.542	.517
df	2	2	2	2	2
Asymp. Sig.	.251	.366	.184	.763	.772

Test Statistics^{a,b}					
	May-may not disclose avenues	Complex redemption policies	Aim-high returns despite market conditions	Complex tax structure	Need not be transparent-strategies
Chi-Square	1.329	1.146	4.015	7.975	.573
df	2	2	2	2	2
Asymp. Sig.	.514	.564	.134	.019	.751

Interpretation: Thus we observe from the **Table 4.7.2** that the variables ‘**The minimum corpus required to invest in Hedge Funds is 1 crore in India as per SEBI Regulations**’ and ‘**The tax structure for Hedge Funds in India are cumbersome, as they are not taxed at source**’ were statistically significant for the variable ‘Qualification’ at $p \leq .05$.

The rest of the factors varied significantly on their awareness level towards Hedge Funds as for those factors, $p \geq 0.05$. It is interpreted that these factors are not statistically significant and hence did not play a significant role in determining the awareness level of Hedge Funds.

The Mann-Whitney test was done to analyze which factors among the variable ‘Qualification’ were more aware in terms of ‘The minimum corpus required to invest in Hedge Funds is 1 crore in India as per SEBI Regulations’ and ‘The tax structure for Hedge Funds in India are cumbersome, as they are not taxed at source’.

4.8 MANN-WHITNEY TEST ON QUALIFICATION

Post-Hoc analysis among the variables ‘Category 3’ and ‘Complex tax structure’ was done to analyze the awareness level towards Hedge Funds using the Mann-Whitney Test.

Table 4.8.1 Mean Rank Table - Qualification level (Graduates and Post Graduates)

	Qualification	N	Mean Rank	Sum of Ranks
Category_3	Graduate	22	20.86	459.00
	Post Graduate	26	27.58	717.00
	Total	48		
Complex tax structure	Graduate	22	19.56	667.50
	Post Graduate	26	30.34	508.50
	Total	48		

Table 4.8.2 Test StatisticsTable - Qualification level (Graduates and Post Graduates)

	Category_3	Complex tax structure
Mann-Whitney U	206.000	157.500
Wilcoxon W	459.000	508.500
Z	-1.702	-2.746
Asymp. Sig. (2-tailed)	.089	.006

Interpretation: The Asymp. Significance level for the Variable ‘Complex tax Structure’ and ‘Category_3’ is tested for the categories ‘Graduates and Post Graduates’ in **Table 4.8.2**, which shows a value of .006 and 0.89 respectively. The value 0.089 is more than the statistically significant value 0.05 and hence is rejected.

The value for ‘Complex tax Structure’ is .006 is less than the statistical significant value of 0.05. Hence, for further analysis, Mean Rank Table 4.8.1 is analyzed. Here the mean ranking of Post Graduates showed a level of 30.34 which is more than Graduates with a mean ranking of 19.56. This shows that **Post Graduates are more aware about the aspect ‘Complex tax Structure’ than Graduates.**

The awareness level between and within each group has been tested further using Mann Whitney as follows:

Table 4.8.3: Mean Rank Table - Qualification (Post Graduates, Others)

	Qualification	N	Mean Rank	Sum of Ranks
Category_3	Post Graduate	26	15.38	400.00
	Others(Specify)	2	3.00	6.00
	Total	28		
Complex tax structure	Post Graduate	26	14.04	365.00
	Others(Specify)	2	20.50	41.00
	Total	28		

Table 4.8.4: Test Statistics Table - Qualification level (Post Graduates, Others)

	Category_3	Complex tax structure
Mann-Whitney U	3.000	14.000
Wilcoxon W	6.000	365.000
Z	-2.118	-1.116
Asymp. Sig. (2-tailed)	.034	.264
Exact Sig. [2*(1-tailed Sig.)]	.032 ^b	.339 ^b

Interpretation: The Asymp. Significance level for the Variable ‘Complex tax Structure’ and ‘Category_3’ is tested for the categories ‘Post Graduates and Others’ in **Table 4.8.4**, which shows a value of .264 and 0.034 respectively. The value 0.264 is more than the statistically significant value 0.05 and hence is rejected.

The value for ‘Category_3’ is .034 which is less than the statistical significant value of 0.05. Hence, for further analysis, Mean Rank Table 4.8.3 is analyzed. Here the mean ranking of Post Graduates showed a level of 15.38 which is more than the category ‘Others’ with a mean ranking of 3.00. **This shows that Post Graduates are more aware about the aspect ‘Category_3’ than the category ‘Others’.**

4.9 KRUSKAL WALLIS TEST ON INCOME LEVEL:

The relationship between the Income level of respondents and their Awareness level was studied through the Kruskal Wallis test as given below:

Table 4.9.1 Kruskal Wallis Test for Income Level

Ranks			
	Income	N	Mean Rank
Category_3	2,50,000- 3,50,000	15	20.23
	3,50,001- 4, 50,000	5	18.70
	4,50,001- 5,00,000	5	34.00
	5,00,000 above	24	27.42
	Total	49	
Minimum corpus	2,50,000- 3,50,000	15	18.00
	3,50,001- 4, 50,000	5	18.90
	4,50,001- 5,00,000	5	38.50
	5,00,000 above	24	27.83
	Total	49	
Mutual funds	2,50,000- 3,50,000	15	24.17
	3,50,001- 4, 50,000	5	16.40
	4,50,001- 5,00,000	5	23.90
	5,00,000 above	24	27.54
	Total	49	
Less regulations	2,50,000- 3,50,000	15	24.87
	3,50,001- 4, 50,000	5	20.30
	4,50,001- 5,00,000	5	23.40
	5,00,000 above	24	26.40
	Total	49	

Ranks			
	Income	N	Mean Rank
Inflexible redemption policies	2,50,000- 3,50,000	15	25.87
	3,50,001- 4, 50,000	5	20.20
	4,50,001- 5,00,000	5	24.20
	5,00,000 above	24	25.63
	Total	49	
Invest-any avenue	2,50,000- 3,50,000	15	25.20
	3,50,001- 4, 50,000	5	22.40
	4,50,001- 5,00,000	5	26.30
	5,00,000 above	24	25.15
	Total	49	
Invest-across globe	2,50,000- 3,50,000	15	20.13
	3,50,001- 4, 50,000	5	20.30
	4,50,001- 5,00,000	5	30.70
	5,00,000 above	24	27.83
	Total	49	
Leveraging technique	2,50,000- 3,50,000	15	20.53
	3,50,001- 4, 50,000	5	22.40
	4,50,001- 5,00,000	5	28.00
	5,00,000 above	24	27.71
	Total	49	
High management fee	2,50,000- 3,50,000	15	29.47
	3,50,001- 4, 50,000	5	18.10
	4,50,001- 5,00,000	5	30.00
	5,00,000 above	24	22.60
	Total	49	

Ranks			
	Income	N	Mean Rank
Unique characteristics-less restrictions	2,50,000- 3,50,000	15	24.60
	3,50,001- 4, 50,000	5	18.70
	4,50,001- 5,00,000	5	28.50
	5,00,000 above	24	25.83
	Total	49	
May-may not disclose avenues	2,50,000- 3,50,000	15	29.67
	3,50,001- 4, 50,000	5	18.10
	4,50,001- 5,00,000	5	34.10
	5,00,000 above	24	21.63
	Total	49	
Complex redemption policies	2,50,000- 3,50,000	15	26.00
	3,50,001- 4, 50,000	5	20.10
	4,50,001- 5,00,000	5	24.00
	5,00,000 above	24	25.60
	Total	49	
Aim-high returns despite market conditions	2,50,000- 3,50,000	15	28.10
	3,50,001- 4, 50,000	5	20.60
	4,50,001- 5,00,000	5	26.10
	5,00,000 above	24	23.75
	Total	49	
Complex tax structure	2,50,000- 3,50,000	15	27.10
	3,50,001- 4, 50,000	5	18.10
	4,50,001- 5,00,000	5	29.10
	5,00,000 above	24	24.27
	Total	49	
Need not be transparent-strategies	2,50,000- 3,50,000	15	30.43
	3,50,001- 4, 50,000	5	20.50
	4,50,001- 5,00,000	5	24.20
	5,00,000 above	24	22.71
	Total	49	

Table 4.9.2: Test Statistics table for Income Level

	Category_3	Minimum corpus	Mutual funds	Less regulations	Inflexible redemption policies
Chi-Square	5.589	10.385	2.940	.881	.732
df	3	3	3	3	3
Asymp. Sig.	.133	.016	.401	.830	.866

Test Statistics^{a,b}					
	Invest-any avenue	Invest-across globe	Leveraging technique	High management fee	Unique characteristics-less restrictions
Chi-Square	.231	4.233	2.938	4.155	1.437
df	3	3	3	3	3
Asymp. Sig.	.972	.237	.401	.245	.697

Test Statistics^{a,b}					
	May-may not disclose avenues	Complex redemption policies	Aim-high returns despite market conditions	Complex tax structure	Need not be transparent-strategies
Chi-Square	6.524	.795	1.508	2.089	3.510
df	3	3	3	3	3
Asymp. Sig.	.089	.851	.680	.554	.319

Interpretation: Thus we observe from the **Table 4.9.2** that the variable ‘**Minimum corpus**’ is statistically significant as $p \leq .05$. The rest of the factors varied significantly on their awareness level towards Hedge Funds. It is interpreted that these factors are not statistically significant and hence did not play a significant role in determining the awareness level of Hedge Funds.

The Mann-Whitney test was done to analyze which factors among the variable ‘Income level’ was more aware about ‘Minimum corpus’.

4.10 MANN-WHITNEY TEST ON INCOME LEVEL

Post-Hoc analysis for the variable ‘Minimum corpus’ in terms of Income level was done to analyze the awareness level towards Hedge Funds using the Mann-Whitney Test.

4.10.1 Mean Rank Table – Income Level (2,50,000- 5,00,000)

Ranks				
	Income	N	Mean Rank	Sum of Ranks
Minimum corpus	2,50,000- 3,50,000	15	8.60	129.00
	4,50,001- 5,00,000	5	16.20	81.00
	Total	20		

4.10.2 Test Statistics Table- Income Level (2,50,000-5,00,000)

	Minimum corpus
Mann-Whitney U	9.000
Wilcoxon W	129.000
Z	-2.556
Asymp. Sig. (2-tailed)	.011
Exact Sig. [2*(1-tailed Sig.)]	.011 ^b

Interpretation: The Asymp. Significance level for the Variable ‘Minimum Corpus’ is tested for the income categories 2,50,000- 3,50,000 and 4,50,001- 5,00,000 in **Table 4.10.1**, which shows a value of .011. The value 0.011 is less than the statistically significant value 0.05 and hence is accepted.

Hence, for further analysis, Mean Rank **Table 4.10.2** is analyzed. Here the mean ranking of the income category 4,50,001- 5,00,000 showed a level of 16.20 which is more than the category ‘2,50,000- 3,50,000’ with a mean ranking of 8.60. This shows that **respondents with the higher salary of 4,50,001- 5,00,000 more aware about the aspect ‘Minimum corpus’ than the category ‘2,50,000- 3,50,000’.**

4.10.3 Mean Rank Table – Income Level (2,50,000-5,00,000 above)

Ranks				
	Income	N	Mean Rank	Sum of Ranks
Minimum corpus	2,50,000- 3,50,000	15	14.87	223.00
	5,00,000 above	24	23.21	557.00
	Total	39		

4.10.4: Test Statistics Table Income Level (2,50,000-5,00,000 above)

Test Statistics ^a	
	Minimum corpus
Mann-Whitney U	103.000
Wilcoxon W	223.000
Z	-2.281
Asymp. Sig. (2-tailed)	.023
Exact Sig. [2*(1-tailed Sig.)]	.026 ^b

Interpretation: The Asymp. Significance level for the Variable ‘Minimum Corpus’ is tested for the income categories 2,50,000- 5,00,000 in **Table 4.10.4**, which shows a value of.023. The value 0.023 is less than the statistically significant value 0.05 and hence is accepted.

Hence, for further analysis, Mean Rank **Table 4.10.3** is analyzed. Here the mean ranking of the income category 5,00,000 above showed a value of 23.21 which is more than the category ‘2,50,000- 3,50,000’ with a mean ranking of 14.87. This shows that **respondents with the higher salary of 5,00,000 above is are more aware about the aspect ‘Minimum corpus’ than the category ‘2,50,000- 3,50,000’.**

4.10.5 Mean Rank Table – Income Level (3,50,001-5,00,000)

Ranks				
	Income	N	Mean Rank	Sum of Ranks
Minimum corpus	3,50,001- 4, 50,000	5	3.80	19.00
	4,50,001- 5,00,000	5	7.20	36.00
	Total	10		

4.10.6 Test Statistics Table- Income Level (2,50,000-5,00,000 above)

Test Statistics ^a	
	Minimum corpus
Mann-Whitney U	4.000
Wilcoxon W	19.000
Z	-1.844
Asymp. Sig. (2-tailed)	.065
Exact Sig. [2*(1-tailed Sig.)]	.095 ^b

Interpretation: The Asymp. Significance level for the Variable ‘Minimum Corpus’ is tested for the income categories 2,50,000- 5,00,000 above in **Table 4.10.6** which shows a value of.065. The value 0.065 is more than the statistically significant value 0.05 and hence is rejected. Hence, in this case the Mean Ranking Table holds no value.

4.10.7: Mean Rank Table – Income Level (3,50,001- 5,00,000 above)

Ranks				
	Income	N	Mean Rank	Sum of Ranks
Minimum corpus	3,50,001- 4, 50,000	5	10.70	53.50
	5,00,000 above	24	15.90	381.50
	Total	29		

4.10.8: Test Statistics Table- Income Level (3,50,001- 5,00,000 above)

Test Statistics ^a	
	Minimum corpus
Mann-Whitney U	38.500
Wilcoxon W	53.500
Z	-1.290
Asymp. Sig. (2-tailed)	.197
Exact Sig. [2*(1-tailed Sig.)]	.222 ^b

Interpretation: The Asymp. Significance level for the Variable ‘Minimum Corpus’ is tested for the income categories 3,50,001- 5,00,000 above in **Table 4.10.8** which shows a value of 0.197. The value 0.197 is more than the statistically significant value 0.05 and hence is rejected. Hence, in this case the Mean Ranking Table holds no value.

4.10.9: Mean Rank Table – Income Level (4,50,001- 5,00,000 above)

Ranks				
	Income	N	Mean Rank	Sum of Ranks
Minimum corpus	4,50,001- 5,00,000	5	21.10	105.50
	5,00,000 above	24	13.73	329.50
	Total	29		

4.10.10: Test Statistics Table – Income Level (4,50,001- 5,00,000 above)

Test Statistics ^a	
	Minimum corpus
Mann-Whitney U	29.500
Wilcoxon W	329.500
Z	-1.846
Asymp. Sig. (2-tailed)	.065
Exact Sig. [2*(1-tailed Sig.)]	.078 ^b

Interpretation: The Asymp. Significance level for the Variable ‘Minimum Corpus’ is tested for the income categories 4,50,001- 5,00,000 above in **Table 4.10.10**, which shows a value of 0.065. The value 0.065 is more than the statistically significant value 0.05 and hence is rejected. Hence, in this case the Mean Ranking Table holds no value.

4.11 GARRET RANKING ANALYSIS

4.11.1 Analysis for Benefits of investing in Hedge Funds

To find out by order of ranking the factors which respondents considered as the challenges that hinder the growth of Hedge Funds and what they perceive as the benefits of Hedge Funds, The Garrett's Ranking technique was used.

Table 4.11.1: Description for factors: Benefits of investing in Hedge Funds

Factors	Description
F1	Hedge Fund managers have superior knowledge and information which can generate above average returns for their clients.
F2	Fund Managers invest the client's money in alternative investments to either beat the market or to provide a hedge against inflation.
F3	The investors get the opportunity to invest in a variety of other avenues across the globe through Hedge Fund investment
F4	Hedge Funds use a variety of strategies which are not used much by other Fund Managers to gain above average returns irrespective of the market condition.
F5	The ability to invest in different securities simultaneously in several markets spurs innovation in financial products, services and strategies.

Table 4.11.2: Garret Value Table- Benefits

Factors	Rank	1	2	3	4	5	Percent Position	Garret Value
F1		9	2	12	16	11	5	82
F2		2	8	11	14	15	15	70
F3		5	14	15	10	6	25	63
F4		8	12	6	11	13	35	58
F5		16	11	12	7	4	45	52

Calculation: As per this method, respondents were asked to assign the ranks for all factors and the outcomes of such ranks were converted into score value with the help of the following formula:

$$\text{Formula for Calculating Percent Position} = N(R_{ij}-0.5)/N_j$$

Where,

N= 50 (Number of Respondents)

R_{ij}= 1st, 2nd, 3rd, 4th and 5th Ranks

N_j= Total Rank given by 50 respondents = 5

With the help of Garrett's Table (given in Appendix) the percent position estimated is converted into scores and the final ranking is allotted after the calculations shown.

For each rank the Garret value is multiplied with the given value as shown in below:

Table 4.11.3: Calculation of Garret Ranking Table- Benefits

Factors	1 (1*82)	2 (2*70)	3 (3*63)	4 (4*58)	5 (5*52)	Total	Total/n	Average Score	Rank
F1	738	140	432	928	572	2810	2810/50	56.2	5
F2	164	560	693	812	780	3009	3009/50	60.18	4
F3	410	980	945	580	348	3263	3263/50	65.26	3
F4	656	840	756	638	676	3566	3566/50	71.32	1
F5	1312	770	693	406	208	3389	3389/50	67.78	2

Hence, the result showed that Fund managers perceived the following as benefits of Hedge Funds in the given order:

Interpretation:

Table 4.11.4: Results: Benefits of Hedge Funds by rank

Ranks	Statements
1	Hedge Funds use a variety of strategies which are not used much by other Fund Managers to gain above average returns irrespective of the market condition
2	The ability to invest in different securities simultaneously in several markets spurs innovation in financial products, services and strategies.
3	The investors get the opportunity to invest in a variety of other avenues across the globe through Hedge Fund investment
4	Fund Managers invest the client's money in alternative investments to either beat the market or to provide a hedge against inflation.
5	Hedge Fund managers have superior knowledge and information which can generate above average returns for their clients.

From the Results **Table 4.11.4** it can be interpreted that the most important benefit of Hedge Funds as perceived by Fund Managers is the usage of strategies to gain above average market returns despite the market conditions with an average score of 71.32; followed by the huge diversification benefits that Hedge Funds offer enabling investors to invest their money in any part of the globe .However, the least score of 56.2, the respondents have ranked the benefits of superiority in knowledge which fund managers have as the last rank while with an average score of 60.18, the fact that Fund Managers can invest the money in alternative investments to either beat the market or to provide a hedge against inflation comes fourth in terms of ranking. Also, looking at the Average Ranks provided by Fund Managers, it can be also be drawn that there was a high variation in mean ranking among the factors provided.

4.12: Analysis for Challenges That Hinder the Growth of Hedge Funds:

The factors which challenge the growth of Hedge Funds is calculated with the help of The Garret Ranking Technique in the same way as above:

Table 4.12.1: Description for factors: Challenges of investing in Hedge Funds

Factors	Description
F1	The managerial remuneration is very high.
F2	The investors may not be comfortable with Fund Managers being secretive about their strategies.
F3	There is a very high amount of risk involved in investing in Hedge Funds compared to other investment avenues.
F4	The lack of investor knowledge about Hedge Funds poses a great challenge thus hindering their growth.
F5	The minimum investment corpus of Rs 1 crore makes it an inaccessible forum for ordinary investors.

Table 4.12.2: Garret Value Table- Challenges

Factors	Rank	1	2	3	4	5	Percent Position	Garret Value
F1		18	9	4	8	11	5	82
F2		6	16	8	14	6	15	70
F3		9	3	20	12	6	25	63
F4		10	10	13	9	8	35	58
F5		18	10	4	8	10	45	52

Calculating Percent Position = $50(R_{ij}-0.5)/N_j$

N= 50(Number of Respondents)

R_{ij}=1st, 2nd, 3rd, 4th and 5th Ranks

N_j=Total Rank given by respondents = 5

Table 4.12.3: Calculation of Garret Ranking Table- Challenges

Factors	1 (1*82)	2 (2*70)	3 (3*63)	4 (4*58)	5 (5*52)	Total	Total/n	Average Score	Rank
F1	1476	630	252	464	572	3394	3394/50	67.88	2
F2	492	1120	504	812	312	3240	3240/50	64.8	4
F3	738	210	1260	696	312	3216	3216/50	64.32	5
F4	820	700	819	522	416	3277	3277/50	65.54	3
F5	1476	700	252	464	520	3412	3412/50	68.24	1

After tabulating the results, the factors that challenge the growth of Hedge Funds as perceived by the Fund Managers were identified. The results are given below:

Interpretation:

Table 4.12.4: Ranking order- Challenges of Hedge Funds

Ranks	Statements
1	The minimum investment corpus of Rs 1 crore makes it an inaccessible forum for ordinary investors.
2	The managerial remuneration is very high.
3	The lack of investor knowledge about Hedge Funds poses a great challenge thus hindering their growth.
4	The investors may not be comfortable with Fund Managers being secretive about their strategies.
5	There is a very high amount of risk involved in investing in Hedge Funds compared to other investment avenues.

From the results it is interpreted that Fund managers perceived as the biggest challenge of investing in Hedge Funds as the minimum investment corpus of 1 crore, with an Average ranking of 68.24. Looking at **Table 4.12.3**, it is found that the ranking provided for the challenges that hinder the growth of Hedge Funds are all closely related with only a few variations in average ranks. The variations differed only marginally among each factor. Thus, it can be observed that the opinions of the respondents in this case are more varied, as compared to the average ranks given for the Benefits of Hedge Funds.

5. FINDINGS, SUGGESTIONS AND CONCLUSION

5.1 Findings and Discussion

The Findings of the study are presented below:

- It was found that the variable ‘Gender’ does not play a role in determining the awareness level of Hedge Funds as there was a high degree of mixed response among both the variables, i.e. Male and Female.
- For the variable ‘Age’, among the 4 categories 20-30 31-40, 41-50 and 50 above, the factors varied significantly in terms of their awareness level towards Hedge Funds.
- It factors ‘The minimum corpus required to invest in Hedge Funds is 1 crore in India as per SEBI Regulations’ and ‘The tax structure for Hedge Funds in India are cumbersome, as they are not taxed at source’ were statistically significant for the variable ‘Qualification’. The Qualification criteria were ‘Graduates’, ‘Post Graduates’ and ‘Others’. On further analysis, it was further affirmed that for the variable ‘Complex tax structure’, Post Graduates were more about the tax structures in India than Graduates. However, for the variable ‘Category 3’, Post Graduates had a higher Mean ranking than the category ‘Others’. This was because most of the Post Graduates had a specialization in the area of Finance.
- For ‘Income level’, the variable ‘Minimum corpus’ was found to be statistically significant $\text{asp} \leq .05$. The rest of the factors varied significantly on their awareness level towards Hedge Funds. It is interpreted that these factors are not statistically significant and hence did not play a significant role in determining the awareness level of Hedge Funds. On further analysis, it was found that the mean ranking of the income category 4,50,001- 5,00,000 was more than the category ‘2,50,000- 3,50,000’. This shows that respondents with the higher salary are more aware about the aspect ‘Minimum corpus’ than the category with the lower income level. On comparison of the income category

5,00,000above with the category '2,50,000- 3,50,000' it was again found that the category with the higher salary were more aware about the minimum investment criteria needed to invest in Hedge Funds. Thus, a higher salary indicated a higher awareness level.

- On analyzing the ranks provided by the respondents towards the Benefits of Hedge Funds, it was found that there was a good variation difference among the ranks. The diversification benefits using different strategies were ranked higher as compared to the superior knowledge of Fund Managers and their ability to invest their clients' money in any part of the globe.
- The ranking response given on the Challenges that hinder the growth of Hedge Funds had only a very marginal variation in terms of the factors provided. The high investment needed for investing as well as the high managerial remuneration were given the higher rank, followed by the lack of investor knowledge, secretive strategies adopted and the higher amount of risk involved.

5.2 SUGGESTIONS

Based on the study conducted and upon close discussions with Industry Professionals and Fund Managers, the suggestions to Managers, Policy Makers and Investors are listed below:

5.2.1 Suggestions to the Managers:

- The number of billionaires in India is only increasing by the year. Investment in Hedge Funds can increase only if more Fund Managers suggest the benefits of investing in Hedge Funds to its clients. Though the awareness level among Fund Managers is good about Hedge Funds, they are still apprehensive about investing in Hedge Funds

- The tax authorities have instructed Fund Managers to deduct tax and distribute profits, but a lot of cases are reported wherein the Fund Managers are giving the onus to their clients to pay the taxes.

5.2.2 Suggestions to the Policy Makers:

- Though Hedge Funds were introduced in the year 2012 in the Indian market, the policy makers still see Hedge Funds as an investment avenue not fit for long term. Due to this reason, the tax reforms relating to Hedge Funds are still not investor friendly.
- There is still a lot of ambiguity on how domestic Hedge Funds would be taxed. Profits from Hedge Funds are taxed at 30% every year, if it is deducted by the manager. If tax is deducted before distribution of money, it can come under business income and attract higher taxes. Such uncertainty in tax reforms is the major reason why Indian hedge Funds are not thriving in India as compared to the global markets.
- The regulations in India are still not consistent with its global peers. Hedge Funds have the freedom to invest the money in absolutely anything and anywhere. And for the Hedge Fund market in India to grow, it is an absolute necessity that there be clarity regarding its tax regulations and the reforms are made more investor friendly for foreign investors. If this is achieved, there would be a lot more investments in Hedge Funds in India.
- Allowing more investments in Hedge Funds would bring in a lot of Funds to the market due to the minimum investment requirement criteria, and also because investors are investing more and speculating less.
- Large investments would mean less volatility in the market and better price discovery.

5.2.4 Suggestions to the Investors:

- The investment in Hedge Fund is a complex task, as huge amount of funds are required to start investing. Hence it is very important that the Fund Manager chosen has a good track record and is very knowledgeable about the market.
- It is also suggested that the investor acquires information about the market and the pros and cons of investing in Hedge Funds before taking the leap to invest.
- The risks posed by Hedge Funds are very high as compared to other investment avenues. Thus, only risk taking investors are suggested to start investing in Hedge Funds.

5.3 CONCLUSION

The Hedge Fund industry is indeed mushrooming in India, with more and more investors coming forward and investing their funds in avenues barring from the traditional investment avenues. For any financial market to gain impetus, it is necessary that the regulatory authorities constantly take measures to reform the market to have a level playing field with the global financial economy. More steps needs to be taken to promote awareness on the new financial products available by conducting more workshops, researches, magazines and journals to educate the investor base regarding new investment avenues. Also, constant financial engineering in terms of products and reforms are needed to keep the economy aligned with the global economic market.

5.4 SUGGESTIONS FOR FUTURE RESEARCH:

The findings above provide the following insights for further research:

1. Studies can be undertaken to analyze the perception and awareness level among investors and Fund Managers in other regions by considering different variables.
2. Research can be undertaken on the current policies and tax structure existing in India and its implications on the Alternative Investments Funds Category. This way, suggestions for developing in India in par with the global peers can be ascertained.

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CERTIFICATE

This is to certify that the dissertation submitted by Neeraja Nair, Reg. No. 1610011 titled 'Fund Managers Perception towards Hedge Funds' is a record of research work done by her during the academic year 2017- 2018 under my supervision in partial fulfillment for the award of Master of Philosophy in Commerce.

This dissertation has not been submitted for the award of any degree, diploma, associate ship, fellowship or other title. I hereby confirm the originality of the work and that there is no plagiarism in any part of the dissertation.

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ABSTRACT

The concept of Hedge Funds have been introduced in India only in 2012 when SEBI promulgated the concept of Alternative Investment Fund category and brought about regulations in this sector in the form of 3 categories. Hedge Funds were brought under the 4th category after brining about this regulation.

According to one of the largest databases of Hedge Funds- Eureka Hedge, it is reported that Hedge Funds have been increasingly mushrooming in India. As on May 2017, the investments in Hedge Funds have crossed over \$603 million in India. The reason for the slow growth has been linked to the regulations in the Indian Financial Market which are not consistent with the global market and the cumbersome tax structure of India.

Due to its late advent in India, the fact still remains that the awareness level about this unique investment avenue is less among Managers as well as investors. Any investment in Hedge Funds requires the special expertise and thorough knowledge of a Fund Manager.

An attempt is made here to identify the awareness level and perception of Fund Managers with special reference to the city of Bengaluru. Primary data was collected through a Questionnaire from 50 Fund Managers. Non- Parametric method of analysis was adopted to study the research objectives. The results from the study have provided vital implications for Fund Managers as well as Policy Makers towards the development and the improvement of Hedge Fund market in India.

The study showed that though the awareness level about the concept of Hedge Funds is good, investors are apprehensive to invest in Hedge Funds due to the practicality of the same. The fact that the regulations regarding Hedge Funds in India are not in par with the global peers, as well as the cumbersome tax rules in India for Hedge Funds makes it a complex investment avenue for investors. If these key aspects are worked upon, the Hedge Fund industry will see a massive growth in the coming years. The results from the study provide vital implications for Fund Managers as well as Policy Makers towards the development and the improvement of Hedge Fund market in India.

Key Words: Awareness, Perception, Leverage, Lock in period, Fund Manager

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QUESTIONNAIRE

Dear respondents, I am an Mphil student at Christ University. The purpose of this questionnaire is to study the awareness level and perception towards Hedge Funds as an investment avenue in Bengaluru. I would be very grateful if you could take a few minutes to fill this questionnaire. Your feedback will add a lot of relevance to my work, and your answers will be kept strictly confidential.

Thank you for your assistance.

NEERAJA NAIR

Personal Details

GENDER	Male	<input type="checkbox"/>	Female	<input type="checkbox"/>	Transgender	<input type="checkbox"/>		
AGE GROUP	20-30	<input type="checkbox"/>	31-40	<input type="checkbox"/>	41-50	<input type="checkbox"/>	ABOVE 51	<input type="checkbox"/>
QUALIFICATION	Graduate	<input type="checkbox"/>	Post Graduate	<input type="checkbox"/>	Others(Specify)	<input type="checkbox"/>	<input type="checkbox"/>	
INCOME ANNUALLY	2,50,000- 3,50,000	<input type="checkbox"/>	3,50,001- 4,50,000	<input type="checkbox"/>	4,50,001- 5,00,000	<input type="checkbox"/>	5,00,001 above	<input type="checkbox"/>

Q1-Q15:

Please indicate your level of awareness in terms of the following questions. Kindly indicate a tick (✓) against your answer. Do not omit any statement.

Not at all aware Slightly aware Somewhat aware Moderately aware Extremely aware
 1-----2-----3-----4-----5

	STATEMENTS	1	2	3	4	5
1	Hedge Funds come under Category 3 of SEBI: Alternate Investment Fund regulation, 2012					
2	The minimum corpus required to invest in Hedge Funds is 1 crore in India as per SEBI Regulations					
3	Hedge Funds and Mutual Funds are completely different from each other.					
4	SEBI lays down very less regulations for Hedge Funds, which gives the Fund Managers a lot more flexibility to handle the funds the way they like.					
5	Hedge Funds have inflexible redemption policies with longer lock- in periods (The invested fund will not be returned to the investor for a minimum period of 1 year)					
6	Hedge Fund managers can invest the client’s funds in any avenue they prefer to; be it derivatives, equities, real estate, etc.					
7	Hedge Funds do not restrict their investment to their country of origin, they are free to invest their funds anywhere across the globe.					
8	Hedge Fund Managers use leveraging technique to a large extent to achieve above average returns					
9	Fund Managers typically charge a very high management fee, wherein 2% of the Assets Under Management(AUM) is charged as management fees, and 20% as performance fees.					

10	Hedge Funds, because of its unique characteristics cannot be as strictly regulated as Mutual Funds					
11	The Fund Manager may/ may not disclose the exact avenues where they have invested the client's funds.					
12	The returns for Hedge Funds are mostly not at fixed intervals, thus its redemption policies are complex.					
13	The main aim of Hedge Funds is to obtain high returns despite market conditions for any given period.					
14	The tax structure for Hedge Funds in India are cumbersome, as they are not taxed at source.					
15	Hedge Fund managers need not be transparent in terms of the strategies adopted to invest their client's funds					

Q16-Q20:

On a scale of 1-5, **RANK** the following statements on what you perceive as the **BENEFIT** of Hedge Funds, where 1 being the least and 5 the highest

Hedge Fund managers have superior knowledge and information which can generate above average returns for their clients.	
Fund Managers invest the client's money in alternative investments to either beat the market or to provide a hedge against inflation.	
The investors get the opportunity to invest in a variety of other avenues across the globe through Hedge Fund investment	
Hedge Funds use a variety of strategies which are not used much by other Fund Managers to gain above average returns irrespective of the market condition.	
The ability to invest in different securities simultaneously in several markets spurs innovation in financial products, services and strategies.	

Q20-Q25:

On a scale of 1-5, **RANK** the following statements on which you perceive as the **CHALLENGES** that hinder the growth of Hedge Fund in India, where 1 being the least and 5 the highest.

The managerial remuneration is very high.	
The investors may not be comfortable with Fund Managers being secretive about their strategies.	
There is a very high amount of risk involved in investing in Hedge Funds compared to other investment avenues.	
The lack of investor knowledge about Hedge Funds poses a great challenge thus hindering their growth.	
The minimum investment corpus of Rs 1 crore makes it an inaccessible forum for ordinary investors.	

THANK YOU FOR YOUR SUPPORT

APPENDIX – ii

GARRETT’S RANKING TABLE

Percentage	Score	Percentage	Score	Percentage	Score
0.09	99	20.93	66	80.61	33
0.2	98	22.32	65	81.99	32
0.32	97	23.88	64	83.31	31
0.45	96	25.48	63	84.56	30
0.61	95	27.15	62	85.75	29
0.78	94	28.86	61	86.89	28
0.97	93	30.61	60	87.96	27
1.18	92	32.42	59	88.97	26
1.42	91	34.25	58	89.94	25
1.68	90	36.15	57	90.83	24
1.96	89	38.06	56	91.67	23
2.28	88	40.01	55	92.45	22
2.63	87	41.97	54	93.19	21
3.01	86	43.97	53	93.86	20
3.43	85	45.97	52	94.49	19
3.89	84	47.98	51	95.08	18
4.38	83	50	50	95.62	17
4.92	82	52.02	49	96.11	16
5.51	81	54.03	48	96.57	15
6.14	80	56.03	47	96.99	14
6.81	79	58.03	46	97.37	13
7.55	78	59.99	45	98.72	12
8.33	77	61.94	44	98.04	11
9.17	76	63.85	43	98.32	10
10.16	75	65.75	42	98.58	9
11.03	74	67.48	41	99.82	8
12.04	73	69.39	40	99.30	7
13.11	72	71.14	39	99.22	6
14.25	71	72.85	38	99.39	5
15.44	70	74.52	37	99.55	4
18.69	69	76.12	36	99.68	3
18.01	68	77.68	35	99.80	2
19.39	67	79.12	34	99.91	1
				100	0

E.Garrett’s statistics in Psychology and Education, Feffer and Simans Private Limited, 21969, p.329.



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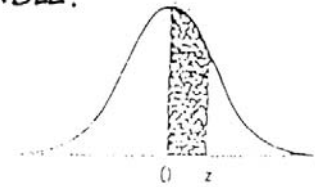
Faculty of Commerce & Management

Fr. Josekutty P. D.

Principal

Areas of a Standard Normal Distribution - **FOR RANKING**
SCALE CONVERSION TABLE.

An entry in the table is the proportion under the entire curve which is between $z = 0$ and a positive value of z . Areas for negative values of z are obtained by symmetry.



z	.00	.01	.02	.03	.04	.05	.06	.07	.08	.09
0.0	.0000	.0040	.0080	.0120	.0160	.0199	.0239	.0279	.0319	.0359
0.1	.0398	.0438	.0478	.0517	.0557	.0596	.0636	.0675	.0714	.0753
0.2	.0793	.0832	.0871	.0910	.0948	.0987	.1026	.1064	.1103	.1141
0.3	.1179	.1217	.1255	.1293	.1331	.1368	.1406	.1443	.1480	.1517
0.4	.1554	.1591	.1628	.1664	.1700	.1736	.1772	.1808	.1844	.1879
0.5	.1915	.1950	.1985	.2019	.2054	.2088	.2123	.2157	.2190	.2224
0.6	.2257	.2291	.2324	.2357	.2389	.2422	.2454	.2486	.2517	.2549
0.7	.2580	.2611	.2642	.2673	.2703	.2734	.2764	.2794	.2823	.2852
0.8	.2881	.2910	.2939	.2967	.2995	.3023	.3051	.3078	.3106	.3133
0.9	.3159	.3186	.3212	.3238	.3264	.3289	.3315	.3340	.3365	.3389
1.0	.3413	.3438	.3461	.3485	.3508	.3531	.3554	.3577	.3599	.3621
1.1	.3643	.3665	.3686	.3708	.3729	.3749	.3770	.3790	.3810	.3830
1.2	.3849	.3869	.3888	.3907	.3925	.3944	.3962	.3980	.3997	.4015
1.3	.4032	.4049	.4066	.4082	.4099	.4115	.4131	.4147	.4162	.4177
1.4	.4192	.4207	.4222	.4236	.4251	.4265	.4279	.4292	.4306	.4319
1.5	.4332	.4345	.4357	.4370	.4382	.4394	.4406	.4418	.4429	.4441
1.6	.4452	.4463	.4474	.4484	.4495	.4505	.4515	.4525	.4535	.4545
1.7	.4554	.4564	.4573	.4582	.4591	.4599	.4608	.4616	.4625	.4633
1.8	.4641	.4649	.4656	.4664	.4671	.4678	.4686	.4693	.4699	.4706
1.9	.4713	.4719	.4726	.4732	.4738	.4744	.4750	.4756	.4761	.4767
2.0	.4772	.4778	.4783	.4788	.4793	.4798	.4803	.4808	.4812	.4817
2.1	.4821	.4826	.4830	.4834	.4838	.4842	.4846	.4850	.4854	.4857
2.2	.4861	.4864	.4868	.4871	.4875	.4878	.4881	.4884	.4887	.4890
2.3	.4893	.4896	.4898	.4901	.4904	.4906	.4909	.4911	.4913	.4916
2.4	.4918	.4920	.4922	.4925	.4927	.4929	.4931	.4932	.4934	.4936
2.5	.4938	.4940	.4941	.4943	.4945	.4946	.4948	.4949	.4951	.4952
2.6	.4953	.4955	.4956	.4957	.4959	.4960	.4961	.4962	.4963	.4964
2.7	.4965	.4966	.4967	.4968	.4969	.4970	.4971	.4972	.4973	.4974
2.8	.4974	.4975	.4976	.4977	.4977	.4978	.4979	.4979	.4980	.4981
2.9	.4981	.4982	.4982	.4983	.4984	.4984	.4985	.4985	.4986	.4986
3.0	.4987	.4987	.4987	.4988	.4988	.4989	.4989	.4989	.4990	.4990



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