



## Investigating the determinants of hedge fund success: A comparative analysis

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### Abstract

A hedge fund is a pool of funds, managed by professionals who use a range of sophisticated strategies to try and earn high profits, no matter how the broader market is performing. It is also known as richest funds due to aforesaid nature and species. In India, the SEBI passed a SEBI (Alternative Investment Funds) Regulations in 2012 to regulate the hedge funds. As per sec 2(1)(l) of SEBI's AIF regulations, the hedge fund means an Alternative Investment Fund which employs diverse or complex trading strategies and invests and trades in securities having diverse risks or complex products including- listed and unlisted derivatives. At present, Hedge fund is becoming an important segment of the asset management industry and gaining popularity from the high net worth investors specially in term of endowments and other institutional investors. The regulatory environment for hedge funds varies significantly, largely due to their nature as private investment vehicles typically catering to sophisticated investors. To further boost the fiscal growth of the hedge fund industry both in India and Globally, we need to modify its structural and legal framework. A comparative analysis across different regions often highlights how market maturity, regulatory frameworks, and investor sophistication influence these determinants. This research paper explores the nature, sophisticated strategies, absolute returns & future of it.

**Keywords:** Hedge, alternative investment funds, alternative investment funds, fiscal growth, private investment vehicles

### Introduction

The term "Hedge fund" represents the fund of funds or pool of funds. As per section 2(1)(b) of SEBI (Alternative Investment Funds) Regulations 2012, it is considering as alternative investment funds. It provides the guarantee against the investment in securities markets. The term "hedge fund" refers to an investment instrument with pooled funds that is managed to outperform average market returns. According to SEBI (Alternative Investment Funds) Regulations 2012, the section 2(1) (l): "Hedge fund" means an alternative investment fund which employs diverse or complex trading strategies and invests and trades in securities having diverse risks or complex products including listed and unlisted derivatives. It is also considering as larger investment fund or pool of funds with hedging features <sup>[1]</sup>. Under this type of funds, the professional aim to guarantee returns and protect against market risks by using their skilled strategies. The USP of this funds is to use a wide variety of trading strategies such as Global Macro, Event – Driven, Arbitrage Trading Strategy, Relative Value etc. Hedge funds are also known for their flexible investment strategies and their goal of achieving absolute returns.

### The Regulatory Framework Of Hedge Fund: In India, Us, Uk & Germany

It is highly variable in nature and depends on market conditions, strategies, and manager skills <sup>[2]</sup>.

**India:** The hedge fund market in India is still growing. The SEBI (Securities and Exchange Board of India) regulates hedge funds under the framework of Alternative Investment Funds. Thus the SEBI passed the AIF regulation named as the SEBI (Alternative Investment Funds) Regulations 2012. It has designed to attract foreign investment while also ensuring investor protection against the market risks. GIFT City is actively developing as a financial hub with attractive tax policies and a supportive regulatory framework for

funds, including hedge funds. Recently, the large number of investors invested the huge amount in this emerging concept of hedge fund due to its profitable nature.

**US:** The US, while having a well-developed hedge fund industry, generally exempts hedge funds and their operators from extensive registration and disclosure requirements that apply to mutual funds. This is due to their operation through private placements and restrictions on ownership to high-net-worth individuals and institutions. However, the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC) still have oversight, particularly regarding anti-fraud provisions and reporting for commodity pool operators.

**UK:** The UK, a major financial hub, has a more principles based approach to hedge fund regulation compared to the US. It focuses on the authorization and supervision of fund managers rather than direct regulation of the funds themselves. The Financial Conduct Authority (FCA) is the primary regulator in UK. The UK is also influenced by broader EU regulations like the Alternative Investment Fund Managers Directive (AIFMD), which aims to create a harmonized regulatory framework for AIF managers operating within the EU.

**Germany:** Germany's hedge fund regulation is largely governed by the AIFMD. This directive imposes various requirements on Alternative Investment Fund Managers (AIFMs), including authorization, operational and organizational requirements, conduct of business rules, and transparency obligations. This means a more structured and regulated environment for hedge funds operating in or marketing to Germany.

### Common Strategies

The Hedge funds professionals are using various strategies such as Global Macro, Event – Driven, Arbitrage Trading

Strategy, Relative Value etc. to globally employ but some are more prevalent in certain regions. In this paper, the researcher just focused on some common strategies, those are followed by the various countries regularly [3].

**India:** While Indian hedge funds also use diverse strategies, their evolving market often leads them to focus more on opportunities within India. This includes strategies like long equity and short equity within the Indian securities market. Increased investor interest in India might also lead to a growth in strategies focused on specific sectors or themes within the Indian economy. The professionals are using rapidly these investment strategies to construct the interest of investors.

**US & UK:** Given their mature markets, hedge funds in the US and UK often utilize a wide array of sophisticated strategies, including highly quantitative and arbitrage-focused approaches. The professionals of hedge funds are mostly using the same investment strategies such as long term equity, short equity, global macro, event-driven and all.

**Germany:** Common hedge fund strategies include long/short equity, global macro, event-driven, multi-strategy, long/short credit, and managed futures/CTA. These strategies often involve a broad selection of investments, including debt and equity securities, commodities, currencies, derivatives, and real estate [4].

S.N.	Grounds	India	US	UK	Germany
1	Establishment	1st Domestic Hedge fund established on August, 2012 by Forefront alternative Investment Trust (FAIT)	1st hedge fund established on 1949 by Alfred Winslow Jones	1 <sup>st</sup> hedge fund was established in the UK on 1970 by George Davies	1st Schultze Asset Management, LLC as a hedge fund established by Paul D. Sonz on 1986
2	Regulating Authorities	The Securities and Exchange Board of India (SEBI) regulates as Alternative Investment Funds (AIFs)	The Securities and Exchange Commission (SEC) & the Commodity Futures Trading Commission (CFTC)	The Financial Conduct Authority (FCA)	Alternative Investment Fund Managers (AIFMs)
3	Definition clause	Define under section 2(1)(L) of Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012.	Hedge funds are defined under the Investment Company Act of 1940, and specifically under Section 202(a) of that Act. While the SEC and CFTC oversee and regulate hedge funds.	The Financial Conduct Authority (FCA) doesn't have a specific section that defines hedge funds. Hedge funds, as investment vehicles, are subject to the FCA's rules and regulations.	In the context of Alternative Investment Fund Managers (AIFMs), hedge funds are typically categorized as Category III AIFs.
4	Hedge Funds Investment Strategies	<ul style="list-style-type: none"> <li>Global Macro</li> <li>Event – Driven</li> <li>Arbitrage trading Strategy</li> <li>Relative Value</li> </ul>	The Hedge funds in US to utilize a wide array of sophisticated strategies, including highly quantitative and arbitrage-focused approaches	Hedge funds in UK often utilize a wide array of sophisticated strategies, including highly quantitative and arbitrage-focused approaches	<ul style="list-style-type: none"> <li>Arbitrage strategy</li> <li>Short-Selling Funds</li> </ul>
5	Top Hedge Funds	Motilal Oswal's offshore hedge fund, Munoth Hedge Fund, Quant First Alternative Investment Trust, IIFL Opportunities Fund, and India Zen Fund etc.	Millennium Management, Citadel Advisors, Bridgewater Associates, Balyasny Asset Management etc.	Man Group, The Children's Investment Fund Management, Marshall Wace, Brevan Howard and Ruffer etc.	DWS Group, AssetMetrix GmbH. Munich, HV Capital. Munich, Active Fund Placement. Frankfurt, Scalable Capital. Munich, Fondsdepot Bank GmbH. Hof etc.

**Market Size And Investment Growth**

**India:** India is the fastest-growing hedge fund market in the Asia-Pacific region. Favorable government policies, economic transparency, and a booming stock market are attracting global financial giants. India's rapid economic growth and increasing integration into global financial markets position it as a dynamic and influential hub for hedge fund investments. India presents promising opportunities, especially in Asian credit if the US dollar weakens and oil prices remain low. The booming stock market and economic growth are significant draws. GIFT City is actively promoting itself as a favorable destination for fund establishment due to its appealing tax policies [5].

**US Position:** The US clearly dominates the global hedge fund market in terms of assets under management (AUM). This is attributed to a high concentration of fund managers and investors, a mature financial ecosystem, and a long history of hedge fund operations.

**UK Position:** Europe follows North America, with the UK being a significant contributor to hedge fund activities. London's robust infrastructure and regulatory framework attract global investors.

In US & UK both offer a vast and liquid market with a wide range of sophisticated financial instruments, making them attractive for various hedge fund strategies.

**Germany:** While specific figures for Germany alone are harder to isolate from broader European data, Germany, along with other major European economies, contributes to the overall growth of the European hedge fund market, driven by increasing institutional investor interest and the adoption of ESG strategies. The European market, influenced by fiscal and monetary stimulus, presents opportunities in equities and specific sectors. Institutional investors in Germany and the Nordics are increasingly interested in alternative investments [6].

## Conclusion

Hedge funds has delivered concrete performance in year of 2024, with some segments outperforming traditional benchmarks. Rising interest rates and market uncertainty have created opportunities for strategies that thrive on volatility & price risk. The position for hedge funds is generally positive due to involving factors such as higher risk-free rates, greater and absolute return feature, short and long terms securities. Generally, US focus on manager skill, high-frequency strategy innovation, risk-adjusted returns in a highly competitive and often efficient market. In UK, emphasis on manager skill, global macro and multi-strategy approaches & navigating a principles-based regulatory environment that prioritizes manager authorization or oversight. But in Germany, Success is heavily influenced by compliance with AIFMD, catering to sophisticated institutional investors, and potentially a greater focus on less volatile, more structured strategies. Apart from that in India, the Opportunities in market inefficiencies, domestic growth stories, emerging market specific factors, and depend of multiple Strategies. Success is also tied to navigating evolving regulations, managing liquidity, and leveraging India's economic trajectory. In essence, while the fundamental determinants of hedge fund success remain broadly consistent managerial skill, strategy, risk management, their relative importance and the specific manifestations can differ significantly across diverse financial markets and regulatory environments. Investigating the determinants of hedge fund success is a complex and highly researched area within Law and Finance [7].

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