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# Hedge Fund Management in India

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**Abstract:** *The study evaluates the performance of Indian Hedge Funds in comparison to the hedge fund of Asia, Emerging market, Australia, China, Japan and global hedge funds. It also examines the interrelationship between the return of Indian Hedge Funds in comparison to the return from Indian Equity market. The data were analysed by using annualized standard deviation, Sharpe ratio, correlation, ANOVA, and regression analysis. The study revealed that performance of Indian Hedge Funds is significantly behind the performance of the above listed seven hedge funds regions. It is also observed that there exists a positive correlation between Indian Hedge Funds and Indian Equity Market.*

**Keywords:** *Equity market, hedge fund, Analysis, Performance*

## I. INTRODUCTION

Hedge funds in India with the notification of SEBI (mutual fund) regulations 1993, the asset management business under private sector took its root in India. In the same year SEBI, also notified regulations and rules governing portfolio managers who pursuant to a contract or arrangement with clients, advise clients or undertake the management of portfolio of securities or funds of the client. We have however, no information about any hedge funds domiciled in India. Further, on account of limited convertibility, offshore hedge funds have yet to offer their products to Indian investors within India. Recently, RBI through liberalized remittance scheme, allowed resident individuals to remit up to US \$ 25,000 per year for any current or capital account transaction. The liberalized scheme will allow Indian individual investors to explore the possibility of investing in offshore financial products. Considering the existing limit being only US \$ 25,000 per year, Indian market may not be attractive to hedge fund product marketing. As long as there will be restriction on capital account convertibility, foreign hedge funds, by virtue of their minimum investment limit being \$ 100,000 or higher, do not seem to be excited to access investment from Indian investors in India. It may be clearly understood that the suggestions put forth in the following paragraphs are in no way aimed at allowing foreign hedge funds to mobilise investment from India by offering their products to Indian investors. Therefore, regulatory issues related to investor protection have not been considered for this report.

Some hedge funds have invested in offshore derivative instruments (PNs) issued by FIIs against underlying Indian securities. Through this route hedge funds can derive economic benefit of investing in Indian securities without directly entering the Indian market as FIIs or their sub-accounts. Through recent amendments to the FII Regulations (Regulation 15A and 20 A), the regulatory regime has been further strengthened and periodic disclosures regime has been introduced. As at the end of March, 2004, 37 total investment by hedge funds. In the offshore derivative instruments (PNs) against Indian equity, are Rs. 8050 crores which represents about 8% total net equity investments of all FIIs. On the basis of market value, the hedge funds account for about 5% of the market value of the total assets held by the FIIs in India.

The current fiscal year (2003-2004) has seen a spectacular increase in FII activities in Indian market. Till this report is filed FIIs have already invested US \$ 10 bn. during this year alone which is a record. Robust economic fundamentals, strong corporate earnings and improvement in market micro structure are driving the FII interest in India. Investors all over the world are keen to come to Indian market. From informal discussions with institutional investors including some reputed and well-established hedge funds, one could gauge the extent of interest they have about Indian markets. During the discussions they have requested whether India, like other Asian emerging markets, can provide a regulatory framework that will allow them to directly invest in Indian market in a transparent manner. In this context, the following approach may be considered for allowing the well-established hedge funds to invest in Indian markets as a registered entity under the SEBI (Foreign Institutional Investors) Regulations, 1995.

## II. OBJECTIVE OF THE STUDY

This study has two broad objectives such as

- 1) To evaluate the performance of Indian Hedge Funds and hedge funds of Asia, Emerging market, Australia, China, Japan and Global hedge Funds.
- 2) To study the interrelationship that exists between the return of Indian Hedge Funds in comparison to Indian Equity Market.

### III. LITERATURE REVIEW

Hodder, james e.; jack werth, jens carsten:

We investigate incentive effects of a typical hedge fund contract for a manager with power utility. The article highlights the “world hedge fund forum” of the connecticut hedge fund association held in greenwich connecticut in 2007. It is said that participants in a panel on international regulation have agreed that accurate valuation of assets is the most pressing issue facing hedge funds.

Goltz, felix, schroder, david:

Unlike mutual fund, hedge funds are reluctant to provide detailed information on their investment portfolios. Investor even risk fraudulent behaviour, since the action of hedge fund management may be detected only when a fund has failed. They find that investors are especially dissatisfied with the quality of information on liquidity and operational risk exposures.

Green, jeremiah; hand, john r.m.; soliman, mark t.

We measured by the magnitude of extreme decile accruals and the magnitude of extreme decile accruals and the relative persistence of cash flows and accruals, may also play a (weaker) role.

Bali, turin g.; brown, stephen j.; demetra's, k. Ogura

Hedge funds' extensive use of derivatives, short selling, and leverage and their dynamic trading strategies create significant nonnormalities in their return distributions.

Gupta ashish, sawhney, anil, deepak agarwal, sunil

Private equity real estate (pere) in developing markets has limited reliable publicly available data. In this paper we analyse the transaction data of pere in india for the 2005-2015 period. Investment during this period divided into three phases depending on major policy, economic, and political events that shaped these investment phases.

### IV. RESEARCH METHODOLOGY

Research design is the framework of research methods and techniques chosen by us to conduct a study.

#### A. Descriptive Research

Descriptive research is defined as a research method that describes the characteristics of the population or phenomenon studied. This descriptive methodology focuses more on the “what” of the research subject than the “why” of the research subject.

#### B. Primary Data

The investigator supervises and controls the data collection process directly. The data is mostly collected through observations, physical testing, mailed questionnaires, surveys, personal interviews, telephonic interviews, case studies, and focus groups, etc. Questionnaire:

A questionnaire is a research instrument that consists of a set of questions or other types of prompts that aims to collect information from a respondent.

A research questionnaire is typically a mix of close-ended questions and open-ended questions

Open-ended, long-form questions offer the respondent the ability to elaborate on their thoughts. Research questionnaires were developed in 1838 by the Statistical Society of London.

The data collected from a data collection questionnaire can be both qualitative as well as quantitative in nature. A questionnaire may or may not be delivered in the form of survey but a survey always consists of a questionnaire.

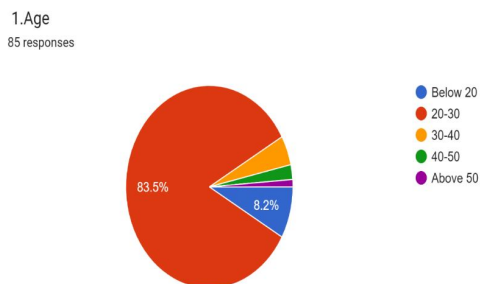
#### C. Secondary Data

Secondary data is a second-hand data that is already collected and recorded by some researchers for their purpose, and not for the current research problem. It is accessible in the form of data collected from different sources such as government publications, censuses, internal records of the organisation, books, journal articles, websites and reports, etc.

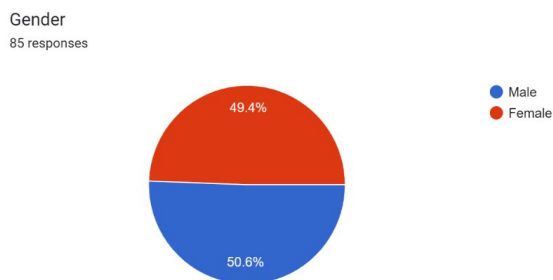
This method of gathering data is affordable, readily available, and saves cost and time. However, the one disadvantage is that the information assembled is for some other purpose and may not meet the present research purpose or may not be accurate.

### V. DATA INTERPRETATION

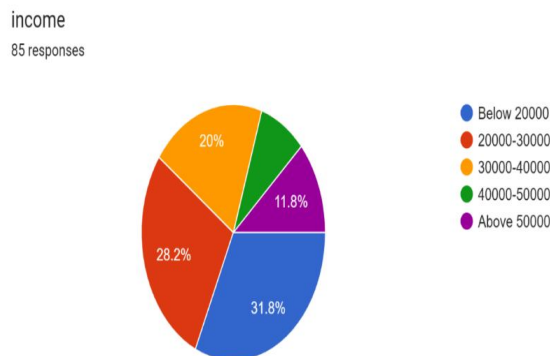
From the above chart and figure it shows that us of 85 respondents. that 8.2% respondents are below 20 years age, 83.5% respondents are range of 20-30 years.



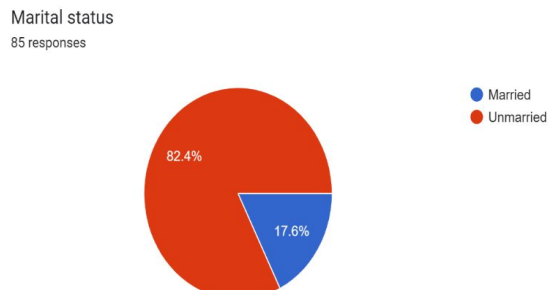
From the above chart and figure it shows that our 85 respondents. 49.4% respondents are male and 50.6% respondents are female.



From the above chart and figure it shows that our 85 respondents. 11.8% respondents are above 50000 income, 20% respondents are range of 30000-40000 of income, 28.2 respondents are range of 20000-30000 of income, 31.8% respondents are range of below 20000 of income.



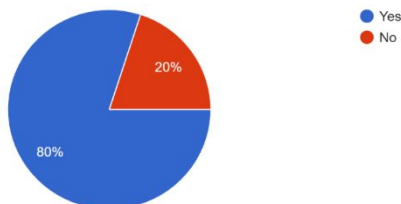
From the above chart and figure it shows that our 85 respondents. 17.6% respondents are married, 82.4% respondents are unmarried.





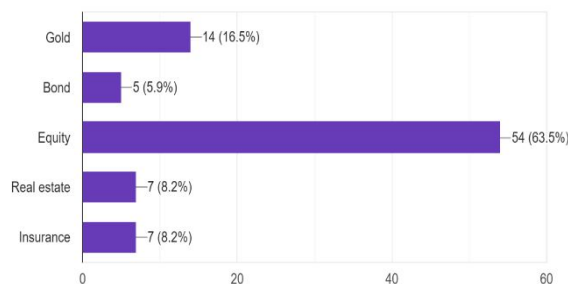
From the above chart and figure it shows that our 85 respondents. 20% respondents are not invested yet, 80% respondents are investing in any sector.

1. Do you invest?  
85 responses



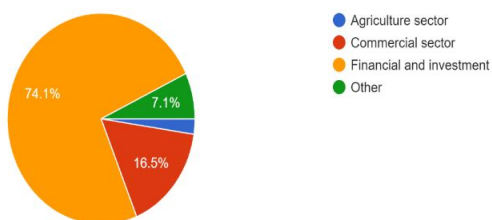
From the above chart and figure it shows that our 85 respondents. 5.9% respondents are invested in bond, 8.2% respondents are invested in real estate, 8.2% respondents are invested in insurance, 16.5% respondents are invested in gold and thereafter other 63.5% respondents are invested in equity.

2. Where do you invest?  
85 responses



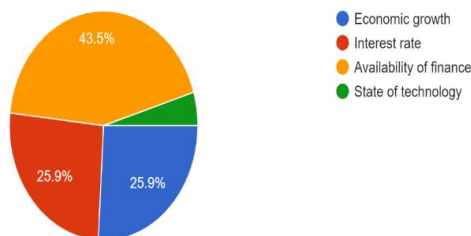
From the above chart and figure it shows that our 85 respondents. 7.1% respondents are other market participants, 16.5% respondents are commercial sector participants and 74.1% respondents are financial and investment sector participants.

3. Which market do you usually participate in?  
85 responses



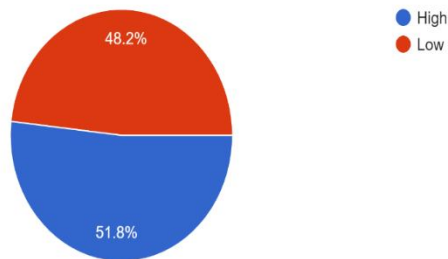
From the above chart and figure it shows that our 85 respondents. 25.9% respondents are affecting economic growth factor, 25.9% respondents are affecting interest rate factor and 43.5% respondents are affecting availability of finance factor.

4. Which of the following factor are affecting you while making investment?  
85 responses



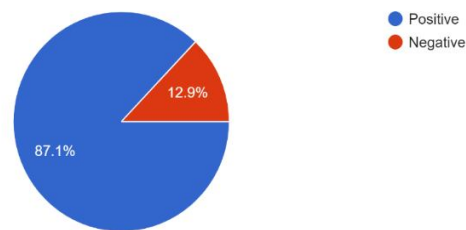
From the above chart and figure it shows that our 85 respondents. 48.2% respondents are low return earn by hedge; 51.8% respondents are high return earn by hedge.

5. How much return earn by hedges?  
85 responses



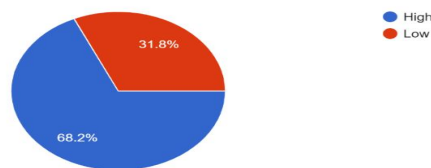
From the above chart and figure it shows that our 85 respondents. 12.9% respondents are negative perception is built in the hedge mind; 87.1% respondents are positive perception is built in the hedge mind.

6. What perceptions is build in the hedger mind?  
85 responses



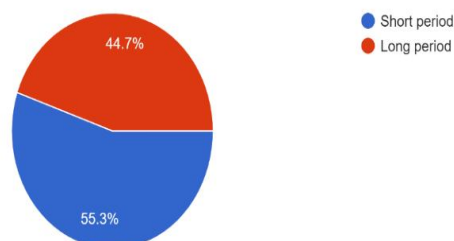
From the above chart and figure it shows that our 85 respondents. 31.8% respondents are low risk capacity of hedge fund manager, 68.2% respondents are high risk capacity of hedge fund manager.

7. Risk capacity of hedge fund manager  
85 responses



From the above chart and figure it shows that our 85 respondents. 44.7% respondents are long period aside the money, 55.3% respondents are short period aside the money.

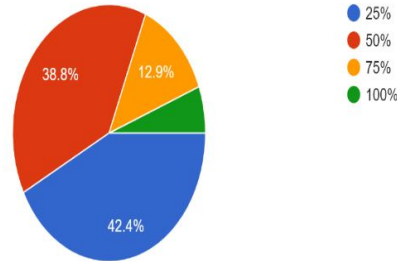
8. How long can you put aside the money?  
85 responses



From the above chart and figure it shows that our 85 respondents. 12.9% respondents are 75% allocate to hedge fund, 38.8% respondents are 25% allocate to hedge fund, 42.4% respondents are 25% allocate to hedge fund.

9. What percentage of your liquid assets do you plan to allocate to hedge fund?

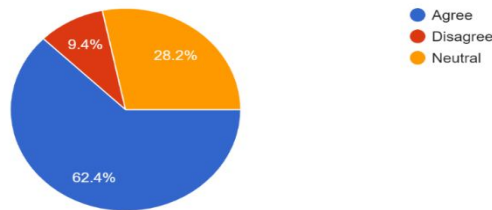
85 responses



From the above the chart and figure it shows that our 85 respondents. 9.4% respondents are disagree investing in his/her own fund, 28.2% respondents are investing in his/her own fund and 62.4% respondents are investing in his/her own fund.

10. Is the investor investing in his /her own fund?

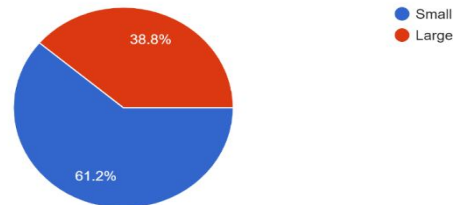
85 responses



From the above chart and figure it shows that our 85 respondents. 38.8% respondents are large fund, 61.2% respondents are small fund.

11. How large is the fund maybe?

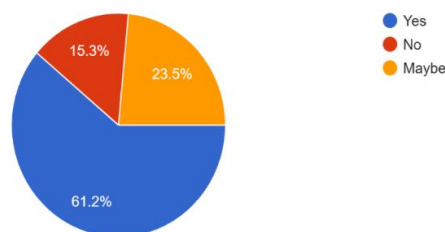
85 responses



From the above chart and figure it shows that our 85 respondents. 15.3% respondents are yes, the money manager believe in the theory of effective markets, 23.5% respondents are not the money manager believe in the theory of effective markets and 61.2% respondents are maybe the money manager believe in the theory of effective markets.

12. Does the money manager believe in the theory of effective markets?

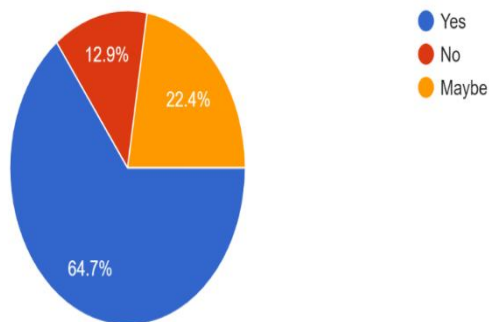
85 responses



From the above chart and figure it shows that our 85 respondents. 12.9% respondents are not have global perspective , 22.4% respondents are global perspective and 64.7% respondents maybe global perspective.

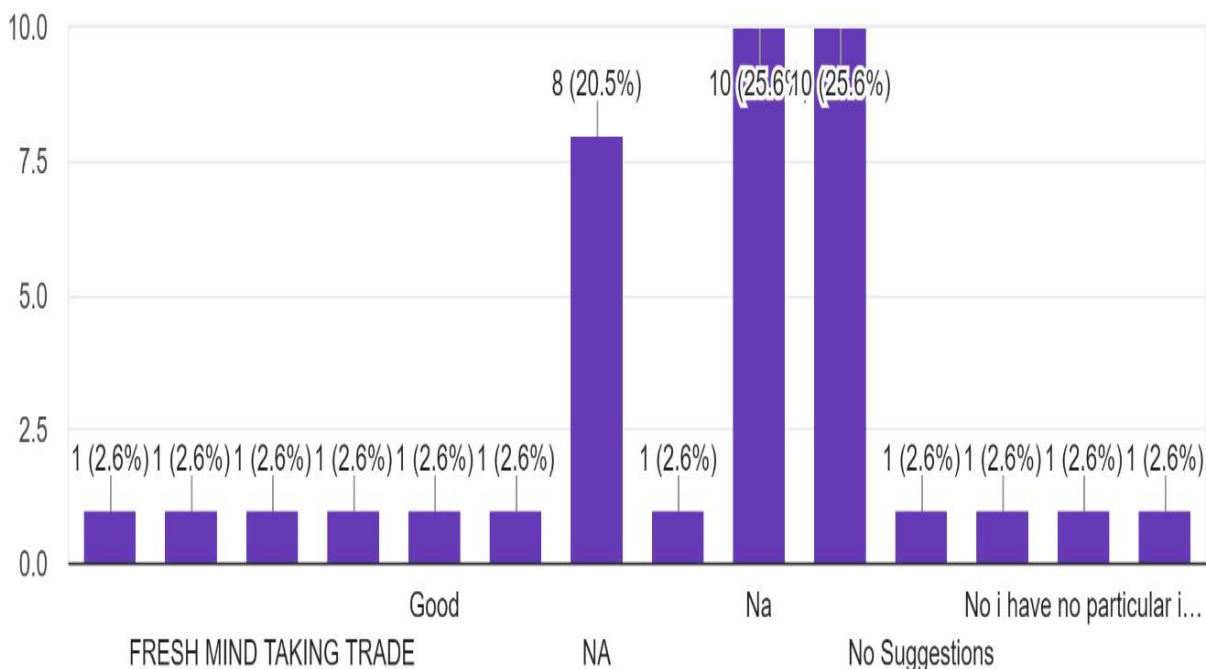
13. Do the fund manager have global perspective?

85 responses



Any suggestions

39 responses



From the above chart and figure it shows that our 85 respondents. 20.5% respondents are any suggestion is giving to good, 25.6% respondents are fresh mind taking trade, 2.6% no have particular suggestion.

Secondary data

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Performance Statistics of Hedge Funds of selected regions as on May, 2020

	India	Asia	Emerging Market	Australia	China	Japan	global
No. of constituents	14	269	94	34	69	47	2278
Annualised Return (%)	5.99	7.14	10.69	9.63	13.31	4.87	7.93
Best Monthly Return (%)	25.37	7.54	8.18	6.33	16.60	6.46	5.29
Worst Monthly Return (%) (	(17.86)	(7.77)	(9.94)	(12.20)	(9.45)	(4.98)	(6.49)
Return Since Inception (%)	227.75	308.94	694.65	5553.36	1181.22	163.99	375.00
Last 3 Months (%) (	(2.40)	(0.25)	(2.67)	(1.03)	(0.36)	0.86	(0.91)
2020 Returns (%) (	(2.92)	(2.15)	(3.73)	(4.27)	0.23	(5.15)	(2.73)
2019 Returns (%)	2.01	9.69	12.63	13.17	16.65	6.53	8.73
Sharpe Ratio	0.21	0.70	1.02	1.08	0.81	0.45	1.19
Annualised Standard Deviation (%)	19.01	7.37	8.53	7.06	13.99	6.33	5.00
Downside Deviation (%)	12.72	4.86	5.40	4.57	8.26	3.97	2.96
Sortino ratio	0.31	1.06	1.61	1.67	1.37	0.72	2.00
Maximum Drawdown (%)	(60.43)	(24.83)	(25.12)	(18.87)	(33.93)	(17.13)	(12.25)
Percentage of Positive Months (%)	57.97	65.31	68.57	69.80	65.71	59.59	70.20

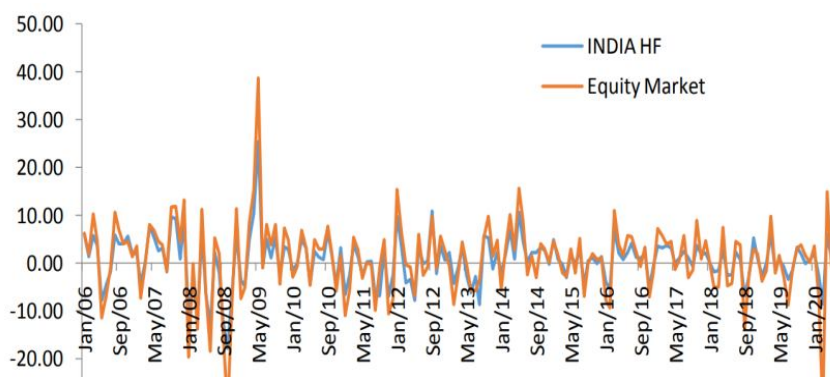
It is evident from Table 1 that the detailed risk and returns statistics of 7 selected regions indices namely, India, Asia, Emerging Market, Australia, China, Japan, and Global Hedge Funds Index. Eureka hedge India hedge funds index is only 14 constituent equally weighted funds. The India Hedge Funds constitutions are only 0.61% of the Global Hedge Funds index. This evident that India Hedge Fund is still in its emerging stage. It is also observed from table 1 that China Hedge Funds has recorded highest annualized returns with the value of 13.31% out of all seven hedge funds regions. This is followed by Emerging Market, Australia, Global, Asia, India, and Japan Hedge Funds Index with the annualised returns value of 10.69%, 9.63%, 7.93%, 7.14%, 5.99% and 4.87% respectively.

In the case of best monthly return and worst monthly returns India hedge funds has both highest return as well as lowest returns with the value of 25.37% and (17.86%) among all the seven hedge funds regions. It shows that India focused hedge funds are very volatile among the all seven regions of hedge funds focused area. Further, India hedge funds show a profit of 2.01% in 2019. It is the lowest profit among the all seven regions.

China hedge funds show the highest profit with the value of 16.65% among all the seven regions. This is followed by Australia, Emerging Market, Asia, Global, and Japan Hedge funds index with the profit value of 13.17%, 12.63%, 9.69%, 8.73% and 6.53% respectively.

In the first quarter of 2020 shows that only China hedge funds index earn profit and rest regions shows the loss including the India hedge fund index with the value of (2.92). It is also evident from the Table 1 that risk or annualised standard deviation of the India hedge fund index is highest JOURNAL OF CRITICAL REVIEWS ISSN- 2394-5125VOL 7, ISSUE 14, 2020 625 with the value of 19.01% among all the seven regions. It is followed by China, Emerging Market, Asia, Australia, Japan and global hedge funds index with the value of 13.99%, 8.53%, 7.37%, 7.06%, 6.33%, and 5% respectively.

In this view we can say that the return of Indian hedge funds come at a huge risk. Further, Sharpe ratio shows the excess returns from risk free rate generated per unit of risk taken. Sharpe ratio is significant low with the value of 0.21% in Indian hedge funds. The Global hedge fund has recorded highest and India hedge funds has recorded lowest Sharpe ratio with the value of 1.19% and 0.21% respectively among all the seven hedge funds regions. Maximum drawdown of India hedge funds is (60.43%), which is highly alarming stage of hedge funds considering with other hedge funds regions. India focused hedge fund is significantly behind among the all the seven hedge funds regions. The accredited managers of Indian hedge funds have to make major changes in their techniques to come close to the Global hedge funds.



Graphical representation of the return of Indian Equity Market and Indian Equity market over the period from Jan 2006 to May 2020 under study has been made for a quick comprehension. The graph has been drawn for the overall performance of Indian Equity Market and Indian Hedge funds. Fig. 1 depicts the overall return of Indian Equity Market and Indian Hedge funds. The X-axis represents time period and the Y-axis represents „return“ of Indian Equity Market and Indian Hedge Funds. F

## VI. CONCLUSION

The overall study was based on comparison between equity, bond, real state all financial products. Where the data were taken in two format secondary database and primary database. secondary data was done by analysis of the all products and primary data considered by the traders’ responses almost 85 respondents gave their response to this survey.

In current research, researcher take financial company to analysis its financial statements. A company which operating in diverse businesses it is difficult to analysis its financials. The financial sector has five divisions i.e., real state, equity, derivative, etc. all these branches contribute effectiveness and efficient.

The study discovered the impact of the investing this type of financial investments. study shows that use of financial products by most of people. This study describes the most of the people invest in the financial markets and many youngsters doing investment and making trading strategy.

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