

The logo for Capco, consisting of the word "capco" in a white, lowercase, sans-serif font, centered within a solid black square.

**PRESS RELEASE**

## **HEDGE FUNDS FAIL DUE TO OPERATIONAL RISK**

London, 10 March 2003 - As concern continues to mount over hedge fund failures, regulation and transparency, a study of 100 hedge fund failures over the past 20 years, by Capco, the financial services consultancy and solutions provider, shows that an alarmingly high number (50 per cent) of hedge funds fail due to operational risk alone rather than bad investment decisions.

It is estimated that there are some €600 billion invested in approximately 6,000 hedge funds worldwide. At the same time 700 hedge funds around the world closed in 2002 and 800 are predicted to close this year according to hedge fund consultants, Tremont Advisers.

While all large hedge fund investors (fund of fund managers, pension funds) conduct due diligence on hedge funds prior to making an investment, most focus on the investment side (who the managers are, track records, etc) and pay little, if any attention, to the operational side which accounted for half of all failures

Even more alarming was that of the 'operational failures', misrepresentation (reports and valuations with false or misleading information), misappropriation of funds (fraud) and unauthorised trading was implicit in 85% of cases. Other operational risks included staff processing errors), technology failure, and poor data.

A surprisingly low 38% of hedge funds failed as a result of investment risk alone.

Christopher Kundro and Stuart Feffer, partners at Capco and co-authors of the research study, said:

“Structural problems with hedge funds have contributed to substantial investor losses. These could have been prevented or avoided with more comprehensive due diligence and monitoring.

“As the hedge fund industry continues to grow, the market will demand better structures, increased performance, expansion of investment strategies and new forms of regulation. For the hedge fund investor, reducing the potential of catastrophic losses will be key to improving long term investment results.”

**-Ends-**

### **Notes to Editors**

The study is based on a proprietary database of hedge fund failures over the past 20 years that looks at losses, litigation and root causes. For this study, failed funds have been defined as those that have been forced to cease investment operations for reasons outside of management’s control as distinguished from discretionary fund closures that are more frequent and driven by the business or market expectations of the fund manager. The study is ongoing; the initial findings are not expected to change significantly as it progresses.

### **About Capco:**

**Capco** ([www.capco.com](http://www.capco.com)) is the first services and technology solutions provider exclusively focused on forming the future of finance. We dramatically improve clients’ financial and operational performance, risk profile, and return on IT investments by seamlessly integrating business strategy and process with technology implementation.

The firm has integrated capabilities in thought leadership, business strategy, technology services, software components, insourcing, and ventures. These are augmented through an alliance network - providing comprehensive, scalable solutions and reduced project risk. Capco has offices in the major financial centres around the globe and focuses on capital markets, private client services, asset management, and banking clients.

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