Hedge fund investment (sometimes called 'skill-based investment strategies') is examined to see how compatible it is with traditional theoretical models of investment - notably modern portfolio theory and the capital asset pricing model. As far as hedge funds are concerned, traditional theory is deficient in several respects. Skill-strategy investment managers claim to be able to produce superior absolute returns, in most cases at lower risk, to traditional long-only mutual funds. Hedge funds, although varying widely in their trading styles, are usually characterised by short selling Introduction and Outline. Introduction to Hedge Funds. Brief History of the Hedge Funds Industry. A Definition of Hedge Funds. The risks, Hedge Funds are free to pursue virtually any investment strategy with any level of risk. Secondly, Hedge Fund investors are typically high net worth individuals or institutional investors e.g. pension funds [Gar05], partly because Hedge Funds typically require high minimum investment amounts. A graph taken from the European Central Bank [Gar05] shows the composition of Hedge Fund investors from 1992-2004. All hedge funds are fundamentally skill-based, relying on the talents of active investment management to exceed the returns of passive indexing. Hedge fund managers are motivated by incentive fees to maximise absolute Page 3. An Introduction to Hedge Funds. Version 3.0. Connor and Woo (2003). To obtain the exemption, hedge funds must agree to private placement, which restricts a fund from public solicitation (such as advertising) and limits the offer to 35 investors who do not meet minimum wealth requirements (such as a net worth of over $1 million, an annual income of over $200,000). The easiest way for hedge funds to meet this requirement is to restrict the offering to wealthy investors. Investment Paperback Books. Introduction Paperback Adult Learning & University Books. Hedges Paperback Books. Language Skills Paperback Books. Practical Skills Paperback Books. An-Introduction-to-Hedge-Fund-Strategies. Jingxuan Pan. Gregory Connor and Teo Lasarte An Introduction to Hedge Fund Strategies Introductory Guide 1 Introduction International Asset Management (IAM®) is the proud sponsor of the IAM Hedge Fund Research Programme of the Financial Markets Group. In this section we discuss the key issues in defining hedge fund strategies and some of the broader strategy groupings that have been suggested. We will focus on specific, more narrowly defined strategies in later sections. Discretionary funds base their trading decisions on the hedge fund manager’s judgment. Many funds fall between these two extremes.