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Where There is a Crisis, Bermuda Finds an Opportunity Collateral Damage of Hedge Funds

The extraordinary events in the global financial markets of the recent weeks, and months, have tested the mettle of hedge fund managers, investors and service providers in Bermuda and further afield within the alternative investment space. But as in any crisis, Bermuda has a unique opportunity to maintain its leadership in fund administration, building on the collaborative approach of its international business community, its regulatory approach and its reputation for excellence.

of the problem. Sentiment that, in my opinion, is quite unfair.

Those managers who had been business-savvy have been restructuring their funds in an effort to retain long-term capital. Many, however, have left it too late and are now just trying to find ways out of the inevitable problems. Some managers have raised "gates", introduced "side pockets" or suspended redemptions altogether. The latter, it could be argued, is hedge fund

Today, Bermuda resident directors of hedge funds have to demonstrate their independence or suffer the consequences from shareholders if their interests have not been protected. In the new world of free-falling global markets, fearful counterparty relationships and much more expensive leverage, it seems certain many hedge funds will go out of business.

In Bermuda, the number of new start-ups have been limited as a result of the global

"The EMERGING SURVIVORS are already telling POTENTIAL INVESTORS they are GEARING UP FOR A WAVE OF RENEWED BUYING OPPORTUNITY or starting new funds..."

There is no doubt that hysteria has been gripping the market with the doom lords suggesting that anything between 15-75% of all hedge funds will go out of business within the next twelve months. And, we have seen research suggesting that, "hedge fund assets may fall to about \$1 trillion by the middle of next year".

There is also a general sense of retribution in the air. Over the last few years, hedge funds have performed well, relatively speaking, in comparison with traditional managers. It certainly feels like payback time, with the old institutional world taking hedge funds down a few pegs. When markets were stable, it was possible to sell hedge funds based on sound arguments such as providing liquidity; cooling overheated markets; exposing corporate frauds and generally enhancing efficiency of capital flows. However, in the markets such as those seen in the 2H08, investors' attitudes have been about salvaging the global financial system and the benefits of hedge funds have turned to being one of part

suicide for managers, as investors have always believed that such approaches are looking after the interests of the manager ahead of their investor base. In such scenarios, a crisis of confidence will prevail.

Many investors have been disgusted by the management fees paid to abet poor performance, the lavish offices, huge back office staff, not to mention salaries and bonuses. The days of 2% management fees and 20% performance fees could be a thing of the past for hedge funds as the attitude of investors begins to change significantly.

With massive redemptions, fund closures and poor performance, those acting as non-executive directors of hedge funds have had some late nights recently and have been faced with a spectrum of heightened liabilities and risks. Managing their fiduciary responsibility to protect the assets that remain has had to be of paramount importance together with protecting shareholder interests. Gone are the days of name-plate or rubber stamping directors.

financial crisis. However, the general consensus of the hedge fund industry based in Bermuda is that there remains a real threat of hedge fund closures in the coming months and, after months such as September, October and November 2008, the numbers could be multiplied. This trend is not confined to Bermuda, as the attrition rate in Europe, Asia and North America has been increasing.

The destruction of the hedge fund space which is being witnessed does create opportunities for managers. That being said, the alternative funds industry will need to adapt — to increased competition; to a difficult investing environment; to new compliance and regulation; and to increasingly, more demanding, investors. Furthermore, managers will have to be far more disciplined with their investment mandates and approaches, maybe focusing less on searching for alpha in unfamiliar investment instruments. However, those funds that have good managers and direction, have the foresight for change, have prudent

infrastructure and embrace corporate governance will be the funds that will survive this trend of volatility.

Equally, the service provider communities that assist managers in the deployment of their strategies will experience wins and losses. The industry is conserving cost and managing expansion appropriately in this environment and as is the case with managers, there will be some third party casualties in the aftermath of significant asset erosion.

For all of these reasons, Bermuda continues to be an offshore jurisdiction of choice and arguably one of the world's leading financial centres for insurance and reinsurance, captive insurance, fund administration and management and myriad of other financial services based

businesses. Bermuda remains widely respected for its regulatory approach and strong legal system, but for hedge funds, it is more important than ever that a tangible benefit is the collaborative approach of all third party service providers and the experience, knowledge and guidance which they each offer to a changing alternative investment industry. And with the requirement that all Fund Administrators operating in Bermuda must be licensed by the Bermuda Monetary Authority, further adds credibility that Bermuda should remain the jurisdiction of choice.

Yes, there will be fewer hedge funds, and maybe there should be. We would suggest that, it is up to the industry to prove it has talent and has not just been coasting on the cheap credit available or transacting business without proper due diligence.

The emerging survivors are already telling potential investors they are gearing up for a wave of renewed buying opportunity or starting new funds that will invest in the bottom of the market in about any type of investment. These are the managers that are thinking ahead.

Opportunities are presenting themselves with greater regularity in the traditional, OTC and convergence spaces. Hedge funds, it could be argued have been part of the problem, but they are certainly going to be part of the solution in the future.

With Bermuda's infrastructure, skilled workforce and collaborative approach we will be standing shoulder to shoulder with the hedge fund community in an effort to provide the right solution for the future. •

Sherrie Outerbridge Named Office Manager and Event Coordinator



Sherrie Outerbridge
Bermuda International
Business Association
| Office Manager and
Event Coordinator

The Bermuda International Business Association is pleased to introduce Sherrie S. Outerbridge as the newest member of its team. She joins the Association as its Office Manager/Event Coordinator.

Additionally, Ms. Outerbridge continues to donate her time and expertise to many charitable groups in several capacities and to assist their Executive Committees on a consultancy basis. Some of these groups are notably: International Association of Administrative Professionals, The Sunshine League, Women's Resource Centre.

Commenting on her appointment, Ms. Outerbridge said, "The Bermuda International Business Association is an increasingly important organization that is central to the successful growth of international business both at home and abroad. I look forward to being a part of the organization's efforts to build awareness of the opportunities in international business for Bermudians and our work to promote Bermuda as the jurisdiction of choice for financial services businesses around the globe. This is an exciting opportunity and one that fulfills my professional goals for growth and personal goal of helping Bermuda." Ms. Outerbridge also stated that she is looking forward to enhancing the Association's Local Awareness programs with the addition the monthly lunch n' learns and increased visits to our local schools. •

Ms. Outerbridge brings an extensive background in international business and has had many years in the field of Trust and Estate Management in the public and private sectors, receiving her qualifications as T.E.P. (Trust and Estate Practitioner), a two year, university level course as offered by Central Law of London, in Bermuda. She was in the first group in Bermuda to receive this important certification. She also has extensive experience in Communications, Event Planning and Food and Beverage Management. She is also a certified Toastmaster (Public Speaker).

Cheryl Packwood, CEO of the Bermuda International Business Association, said, "We are excited to have Sherrie as a member of our team given her experience in trusts at Rothschild Trust Limited and her track record of accomplishments in communications, event management and coordination."