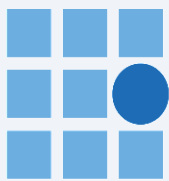


Business Model for a Hedge Fund



Perceptive**Analytics**

Data Analytics | Spreadsheet Modeling

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Benefits

The client is a growing hedge fund based in London with \$50 MM in assets under management. Our model helped the client as a decision support tool for investments in various instruments.

The client was also able to optimize the risk by balancing the funds among various investments.

Services

Financial Modeling

Modeling Aspects

Portfolio Management

Executive Summary

The client has started a closed-ended fund of \$15 MM. The general partners of the company contributed 10% of the fund value and the rest was raised through limited partners. The fund invested in three types of investments viz. Debt, Quasi-Equity and Equity Investments.

With three types of investments available, each with a different rate of return and associated risk, the client wanted to analyze the returns under various scenarios. Faced with this challenge, the client approached Perceptive Analytics to build a model that tracks the performance of the fund and recommends action to obtain maximum return for the selected scenario.

Business Challenge

The fund had two sources of finance, equity from limited and general partners and lender's facility. The hierarchy for fund utilization prescribed that the lender facility be used only after exhausting the capital committed by partners. The model required to calculate the returns from investment of these funds. The returns needed to be distributed to the partners after meeting certain conditions like retaining sufficient cash reserve for operations of subsequent months.

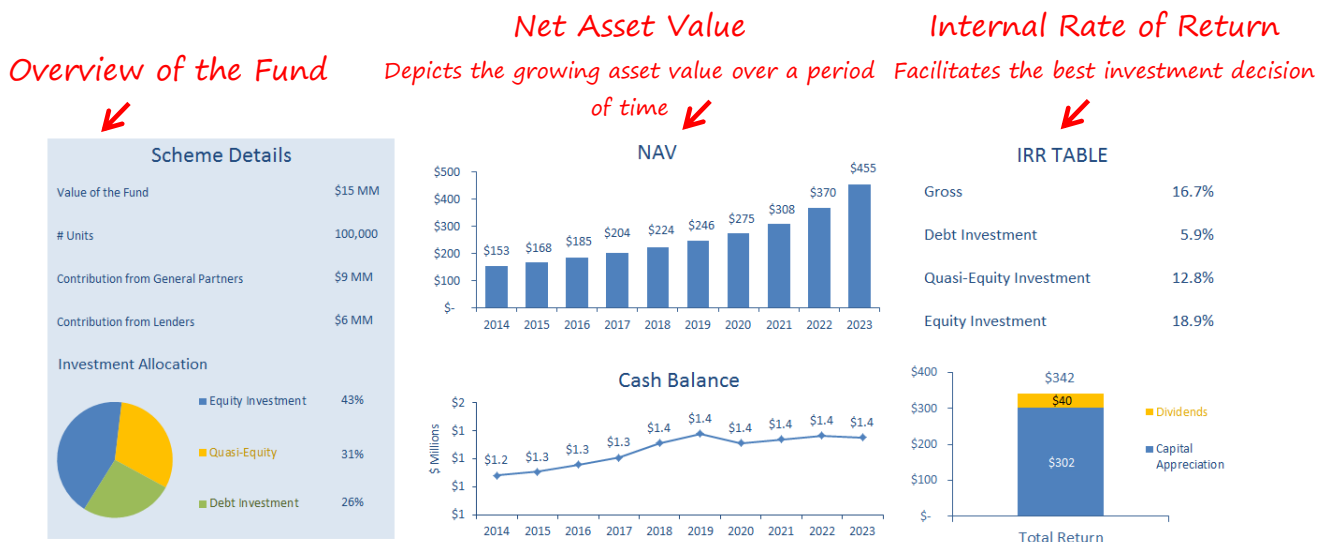
Our Solution

Perceptive Analytics built a model that allowed the user to look at the portfolio performance summarily. The KPI, Internal Rate of Return (IRR), showed performance of funds in each of the three types of investments.

For greater control on investments, it also tracked

- Amount of capital called and lender facility availed
- Cash available for debt service
- Carried Interest payable to General Partners
- Write-offs associated with each investment

The model generated financials and provided a Dashboard giving the user insights into IRRs of different investments, investment patterns and investment reflow patterns. It reduced the cost of capital by identifying excess cash balances available to repay the partners.



Impact

Using the insights generated by the model, the company could plan its investment methodically by taking into consideration the IRR of investments. The model optimized the returns for the investors by determining the quantum of investment to be made in each of the 3 types of securities. The client was able to convince investors to participate in the fund as the model effectively demonstrated the profit potential in a transparent manner using realistic assumptions.

Perceptive Analytics

Perceptive Analytics is a Data Analytics company, offering specialized services in Marketing Analytics, Data Visualization, Financial Modeling, Spreadsheet Modeling and Application Solutions. We serve large and medium sized companies in the US, India, Australia, Europe and Middle East.

We provide financial modelling, statistical modelling, simulation, dashboard design, cash flow analysis, data analysis, spread sheet applications, and other services.

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