

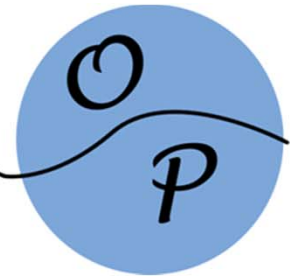
Ocean *Partners* LP

INTRO TO HEDGE FUNDS

Lee Slonimsky

Managing Member,
Ocean Capital Partners LLC

LEGAL HISTORY



- Created by 1933, 1934 and 1940 laws still in effect.
- Original intent was to lure wealthy investors back to the stock market after the moribund decade of the 1930's.
- They remain largely unregulated despite vast expansion of the importance and assets under management.
- "HEDGE FUND" is not a legal term, but one coined by a business journalist in the late 1940's.

“ACCREDITATION” REQUIREMENTS

- Unchanged since 1940 despite seventy plus years of rising salaries: Still (for example) \$200,000 per year for a single (unmarried) investor.
- Media and US public largely ignorant of the fact that 28 slots in a 99 partner fund can be used by “Non-Accredited” investors if they simply fill out a couple of extra pages in a subscription document.
- All requirements self-enforced by managers.

REQUIREMENTS TO MANAGE A HEDGE FUND

- On a federal level, no requirements. Few states have any significant requirements either, and those that do are domiciles for few to no Hedge Funds.
- Managers work in a Hedge Fund culture that is more entrepreneurial and more progressive, than mainstream Wall Street. For example, a recent New York magazine survey found that 32% of Hedge Fund Managers identified themselves as Democrats, compared with only 17% of Investment Bankers.
- Hedge Funds are less concentrated in New York City, or in other financial centers like Charlotte, NC, Chicago, San Francisco or Los Angeles, than investment banks and brokerage houses are.

CURRENT SCALE OF HEDGE FUNDS

- The US industry alone is approaching 2 Trillion Dollars in assets under management, and by many estimates accounts for between 40 and 50% of daily trading activity on major US Exchanges.
- Hedge Funds can act like banks in many situations, despite facing far less regulation, and some economists forecast that they may become the dominant US banking institutions (throughout both share ownership and outright lending) over the next 20 years.
- There are only approximately 8,000 Managers in the US, and there is no record of there ever having been a Native American Manager despite low to nonexistent entry barriers into the industry. Many Hedge Funds still typically start in the \$1 to \$2 Million Dollar asset range, funds available to many tribal institutions and even some individuals.

POTENTIAL BENEFITS FOR TRIBES OF HEDGE FUND RELATIONSHIPS & HEDGE FUND OWNERSHIP

- There is a vast opportunity to develop relationships with a two trillion dollar, highly aggressive industry that does not follow the historic discriminatory practices of banks. Unlike banks, Hedge Funds are able to “Hedge” the risk of challenged credit quality business loans and mortgages in ways that make credit more accessible to consumers.
- As Michael Lewis pointed out in his best seller “The Big Short,” Hedge Funds (a few of which were primarily responsibly for exposing the abuses in subprime mortgages, not bank regulators) that were appropriately positioned made just as much money on failing mortgages as on solvent one. The same failed loans that pushed venerable institutions like Lehman Brothers and Bear Stearns over a cliff made some Hedge Fund Managers and investors rich. An astute manager able to hedge risk successfully, can bring a far larger level of investment capital to tribal lands than any US financial institution has been able to do previously.