



## **Results of AIMA Australia Short Selling Survey of Hedge Fund Managers**

Following the decision by ASIC on 21 September 2008 to ban short selling in Australian securities for 30 days, AIMA surveyed its hedge fund manager membership to determine the impact of this action on their businesses. The survey was also distributed to non-members hedge funds to obtain as wide as possible representation.

### **Executive Summary**

At the date of preparing this paper, twenty seven (27) managers covering 28 hedge funds, and representing \$24.7 billion in assets under management, responded to the Survey. This represents a significant proportion of the Australian absolute return industry.

Ten (10) managers had A\$100M or less in AUM and four (4) had materially in excess of A\$600Mill in AUM. Five (5) of the hedge fund products offered by these managers had been downgraded since the ban took effect. However twenty one (21) of the twenty nine (29) hedge fund products were not formally rated by research houses.

Investor representation in all of the HF manager funds was reasonably deep. 70,710 investors were represented, split 53% as wholesale investors as 47% as retail investors.

Notably, while over 55% of the hedge fund managers surveyed said the short selling ban would materially affect their ability to implement their strategy, only 6 managers were considering suspending or closing their fund's application/redemption terms.

Only a small minority of hedge funds were passively managing their short positions. The vast majority of managers were consistently active in managing their short position exposures. Only four (4) managers modified 10 or less short positions in their funds since June 30<sup>th</sup>. The rest were evenly spread between modifying 11-20 short positions up to 50+short positions in their fund over the same period.

The most common complaint about the short selling ban was either it negatively affected the manager's investment strategy or it negatively affected Australia's reputation as a sophisticated financial centre. Individual comments from respondent managers were extremely negative in their assessment of the short selling ban.

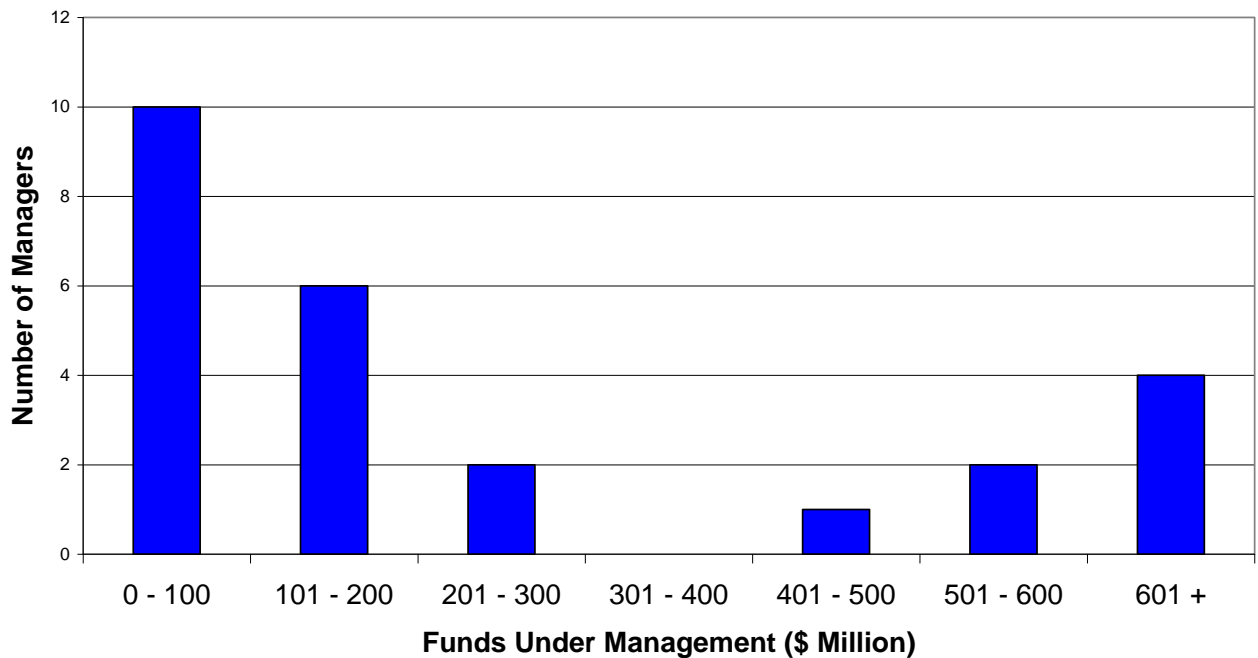
## Results

Respondents were asked six specific questions and one general question.

The questions and aggregated answers are shown below:

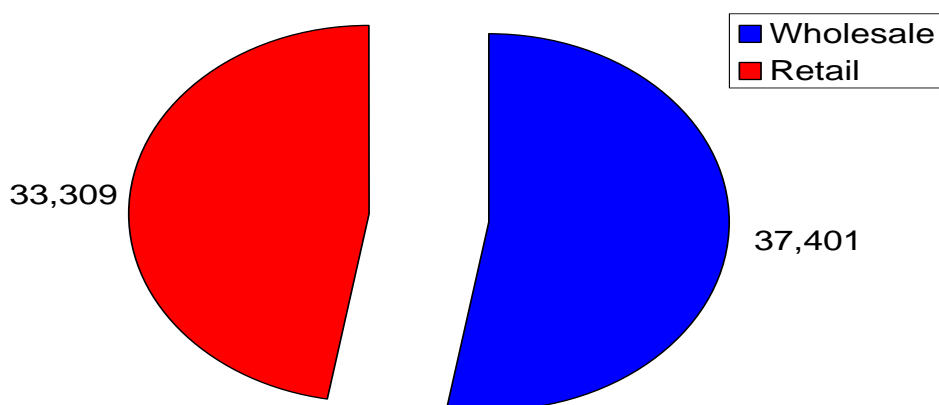
### Question 1: What is the most recent total value of the funds impacted?

**Manager Funds Under Management**



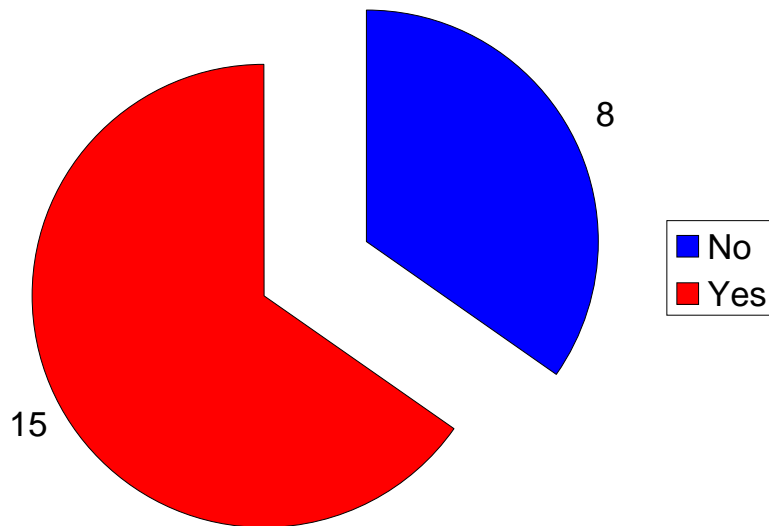
### Question 2: Approximately how many investors are involved in total?

**Investor Type**



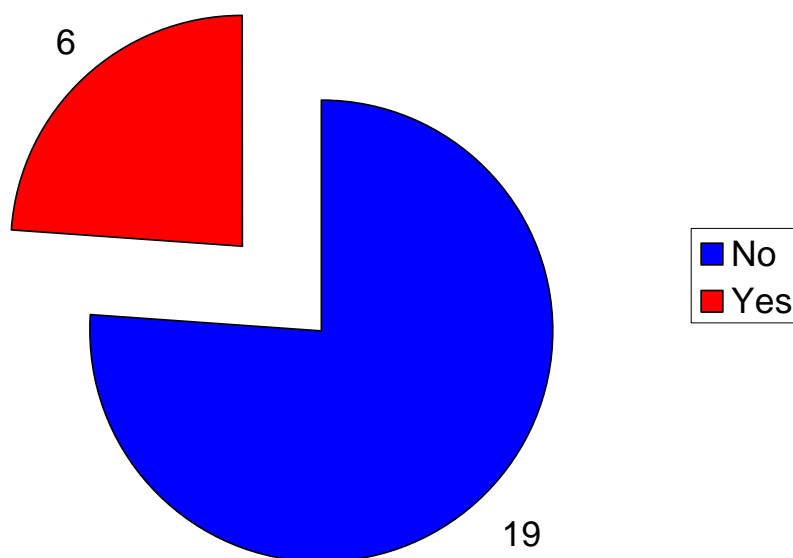
**Question 3: Does the change materially impact your ability to manage your fund's mandates or force you to make material portfolio changes?**

**Material Impact on Mandate**



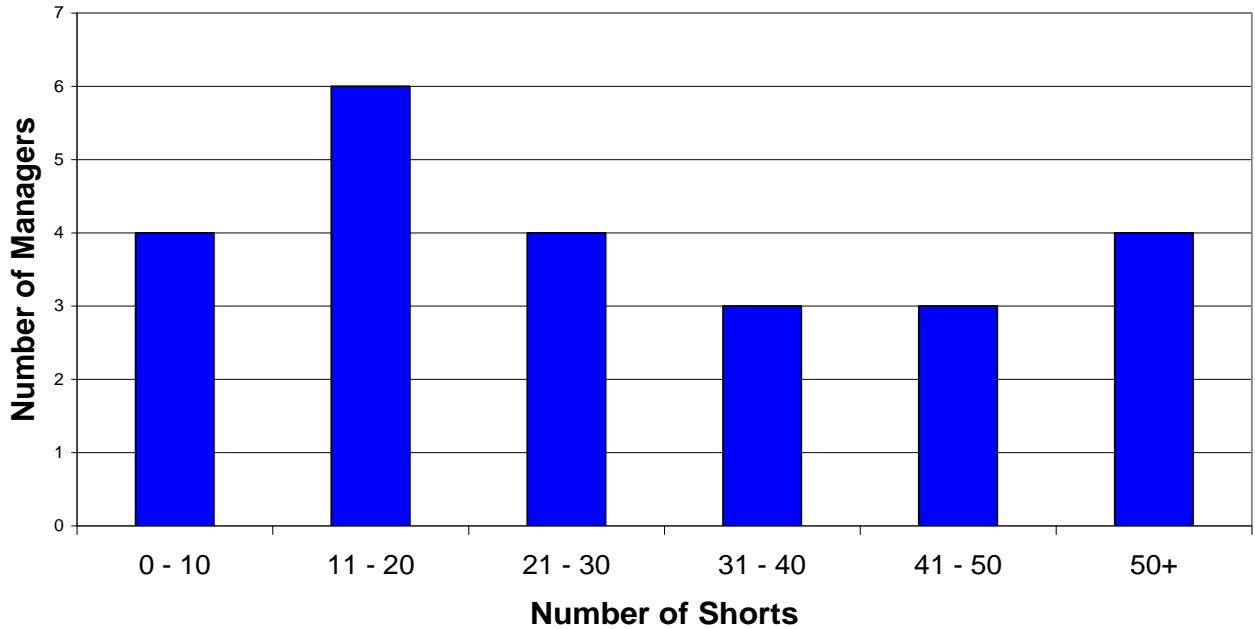
**Question 4: Are you considering whether to suspend or close the fund as a result of the short selling ban?**

**Considering Fund Suspension or Closure**



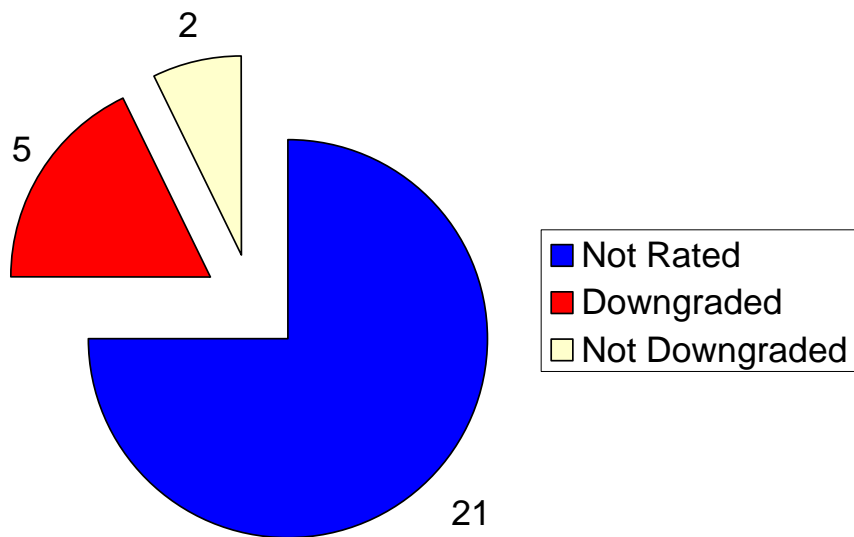
**Question 5: Approximately how many short positions have you commenced/modified since 30 June 2008?**

**Shorts Commenced/Modified Since 30 June 2008**



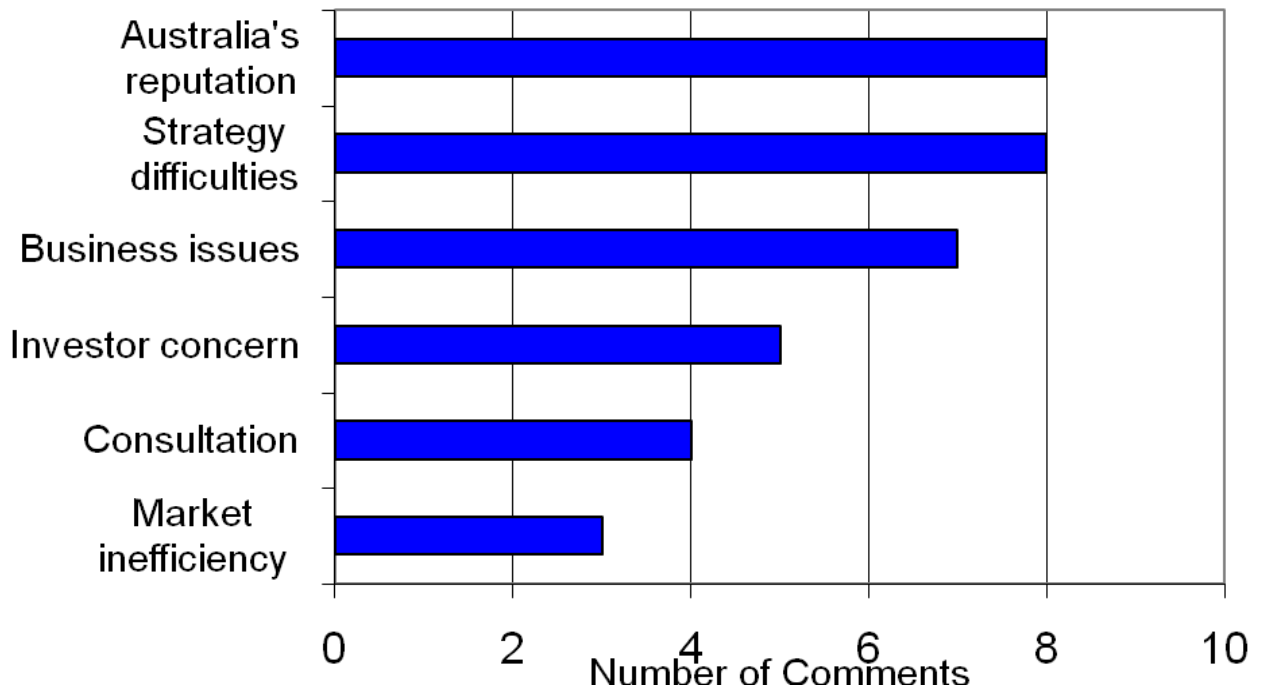
**Question 6: Is the Fund rated? If so, has the rating changed since Sunday?**

**Fund Rating**



## Question 7: Any other consequences you feel important to address?

### Summary Comments



### Comments from respondents

"Application of the ban clearly threatens the viability of several funds and segments of the markets and is ultimately likely to have a material adverse impact on many investors and employment levels within the investment industry generally."

"Concerned that any ban on covered short sales will have a significant impact on market liquidity and efficiency. Additionally a ban on short selling for an extended period may impact our ability to add value to our clients."

"There is more market manipulation and collusion by investors buying shares than there is by investors shorting shares."

"The most disruptive part is the fact that we have no guidance as to what the limitations will be, how long before the regulations are implemented and if they are negative the impact of everyone running for the door".

"It is unfortunate that the ban here in Australia seems to have been poorly thought through prior to its application and that this has been followed with several piecemeal relaxations which have heightened uncertainty in the minds of institutional and retail participants in the market place."

"A better solution would be to make non-compliance to ASIC shorting rules more appropriate: under recent leadership at ASX, the guidelines have been for

a \$2,000 daily fine for non-delivery of stock, which amount does not 'fit the crime."

"The decision to go much further than other leading markets which have only banned financial stock short selling has also undermined Australia's financial reputation, and harks of a financial inferiority complex."

"At a time when apparently we are trying to promote Australia as one of the financial hubs of Asia, we have gone and enforced the most heavy hearted ban on short selling in the world. This does not encourage market participants that this is a stable regulatory regime or a place they want to do business in"

"I believe that the full ban on securities lending went one step too far, and even appears dangerous to the future capital raising ability of the Australian capital markets: foreign investors may lose confidence in Australia as a place where conditions are stable and credit-worthy, where the goal posts will not be moved mid-term"

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