COLUMBIA INVESTMENT MANAGEMENT ASSOCIATION

Investment Management: The "Buy-Side" Defined

Overview

The "Buy-Side" is a cumulative term that refers to a group of several different types of institutions that manage money and participate in the securities markets as investors or speculators. The "Buy-Side" gets its name from the tradition that these firms buy the securities that the "Sell-Side" firms (i.e. investment banks) package and then sell on behalf of their corporate and government clients. The most prevalent "Buy-Side" firms are Investment Companies, Pension Funds, and Hedge Funds.

Investment Company

An Investment Company is a firm that invests the pooled funds of retail (individual) investors for a fee (usually about 0.75-1.5% of assets). By aggregating the funds of a large number of small investors into a specific investment (in line with the objectives of the investors), an investment company gives individual investors access to a wider range of securities than the investors themselves would have been able to access. Also, individual investors are able to save on trading costs since the investment company is able to gain economies of scale in operations. There are two types of investment companies: open-end (mutual funds) and closed-end (investment trusts). Examples of Investment Companies are Fidelity Management and Vanguard.

Pension Fund

A Pension Fund is a qualified retirement plan set up by a corporation, labor union, government, or other organization for its employees. Examples include profit-sharing plans, stock bonus and Employee Stock Ownership Plans, thrift plans, target benefit plans, money purchase plans, and defined benefit plans. Examples of Pension Funds are CalPERS (California Public Employees Retirement System) and the Boston Firefighter's Benefit Fund.

Hedge Fund

"Hedge fund" is a general, non-legal term that was first used to describe a type of private and unregistered investment pool that employed sophisticated hedging and arbitrage techniques – including short-selling – to trade in the equity markets. Hedge funds have traditionally been limited to no more than 100 sophisticated, wealthy investors. Over time, the activities of hedge funds broadened into other financial instruments. Today, the term "hedge fund" refers not so much to hedging techniques, which hedge funds may or may not employ, as it does to their status as private and unregistered investment pools. Hedge funds are similar to mutual funds in that they both are pooled investment vehicles that accept investors' money and generally invest it on a collective basis. Hedge funds differ significantly from mutual funds, however, because they are not required to register under the federal securities laws. Hedge funds are not required to register because they generally only accept financially sophisticated investors and do not publicly offer their securities. Hedge funds also are not subject to the numerous regulations that apply to mutual funds for the protection of investors—such as regulations requiring a certain degree of liquidity, regulations requiring that mutual fund shares be redeemable at any time, regulations protecting against conflicts of interest, regulations to assure fairness in the pricing of fund shares, disclosure regulations, regulations limiting the use of leverage, and more. Examples of Hedge Funds include Tiger Management and Lone Pine LLC.