Preface

This book provides an exposition of contemporary investment theory and financial markets focusing upon the workings of the fiduciary finance industry. Through its various institutional forms (including pension funds, mutual funds, hedge funds and sovereign funds), this industry aggregates investment capital from individuals, corporations and governments and intermediates between these investors and capital markets.

The value of fiduciary assets eclipses the world’s economic output and is an important source of risk capital and liquidity for the global financial system. Until quite recently, the economic stature of fiduciary finance and its role in the global financial system received limited scrutiny from academics, financial system governors and regulators. In the aftermath of the recent financial crisis, however, fiduciary institutions such as pension funds and other collective investment vehicles have been recognized as being members of the ‘shadow banking system’ which are systemically interconnected to traditional financial institutions and the real economy.

As episodes of financial market volatility have become more frequent and displayed increasing amplitude over the past two decades, calls have been made for reforms to mitigate the excesses within the global financial system. The scientific status (and thus, legitimacy) of the investment industry has also been queried. Market outcomes, however, have largely been observed through a restricted lens of orthodox finance theory with traditional financial institutions (such as banks and insurers) predominating. However, the business model and economic rationale of the fiduciary finance industry is clearly differentiated and its investing practices remain subject to prudential constraints and business disciplines.

To provide a better understanding of the outcomes from financial markets and to evaluate whether regulation can create meaningful change, this book explores the extant theories of investment and industry practices. The research presented in this monograph is therefore of interest to investors, academic and industry researchers, regulators and taxpayers.