

Hedge funds' prickly mood

Isla MacFarlane summarises the sentiment of Middle East hedge fund investors

As the global hedge fund industry sheds its evergreen leaves in the thorny economic climate, Capintro Partners has released a survey revealing how Middle East investors are planning to prune their allocations to hedge funds in 2009.

Mahmoud Al-Khawaja, Chief Executive Officer of Capintro, said, "This research serves multiple purposes; it allows global fund managers to hear directly from investors with regards to questions they typically have such as what type of hedge funds MENA investors invest in and what their investment criteria are. We also wanted to play our part in the development of the hedge fund industry in the region by moving away from anecdotal evidence to more factual statistics and data analysing investor behaviour."

The survey's results indicate that Middle East investors have lost their confidence in this complex asset class, with the majority of investors (55 per cent) expecting to decrease their allocation to hedge funds in 2009; only 14 per cent expect to increase allocations and 31 per cent plan no change in their allocation.

Of the respondents that intend to change their exposure to hedge funds, 49 per cent expect no difference in split between single managers and fund of hedge funds (FoHFs), while 27 per cent expect to increase exposure to single managers and 11 per cent to decrease allocations to FoHFs.

According to the survey, favoured strategies for 2009 include distressed (19 per cent), global macro (17 per cent) and commodity trading advisers (15 per cent). These were followed by credit (10 per cent), equity long/short and multi strategy (both at eight per cent), event driven (seven per cent) and volatility arbitrage (six per cent). Fixed income arbitrage, market neutral, merger arbitrage and statistical arbitrage all were set for those with allocations of three per cent or less.

The top three regions investors favour in 2009 included emerging markets (25 per cent), the US (24 per cent) and Asia, excluding Japan (22 per cent).

Over half (54 per cent) of respondents said that they use structured products regularly or periodically. Of those who use them, the majority (57 per cent) said they made use of capital guarantee products while under a quarter (23 per cent) said capital/risk management requirements were the main use with only 11 per cent giving leverage as the main usage.

On return objectives of hedge fund portfolios, the largest group of investors (43 per cent) said they expect their hedge fund allocation to achieve a return target of Libor plus 400-600 basis points (bp), while 29 per cent expect a return target greater than Libor plus 600bp and 28 per cent expect a return target of Libor plus 200bp – 400bp.

The overwhelming majority of respondents (82 per cent) said that they bypass a consultant and access hedge funds directly. Only 18 per cent said they used a consultant with endowment/foundations most likely to use consultants, followed by investment companies, family offices and corporate investors.

Over a quarter of respondents (29 per cent) require a minimum asset under management (AUM) of at least \$250 million to invest with a fund while 25 per cent require at least \$500 million. Only 17 per cent are able to invest with funds of \$50 million or less AUM and 57 per cent with a fund of \$250 million in AUM or less.

Liquidity also proved to be a major issue; almost half of respondents (46 per cent) said they would invest only in funds with at least monthly liquidity with 38 per cent happy with quarterly liquidity. Funds with annual liquidity or longer lockups only appealed to eight per cent of respondents.

Hammad Naqvi, Managing Director of FX Derivatives & Investments at Mashreqbank, commented on the survey, "This is the first effort of its kind aimed at presenting collective investor feedback from the region on the alternative space. Given the recent challenges facing the asset class, this research is well timed and provides an important platform for presenting collective Middle East investor sentiment."

The company collected responses from 65 investors in eight countries including the UAE, Bahrain, Qatar, Kuwait, Oman, Saudi Arabia, Jordan and Lebanon. Investors were asked to complete an online questionnaire that focused on four main categories: an Investor Profile (categorising investors by type, assets and country), their Minimum Investment Criteria, Expected Asset Allocation Changes in 2009 as well as Industry Developments and Changes.

Capintro said that it will continue to publish and improve this research annually in order to better serve its investors as well as global fund managers. "We plan on growing this project into a highly anticipated annual report focusing on the MENA market. This report will set a new regional standard in hedge fund marketing," concluded Al-Khawaja.