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Opalesque Exclusive: As US asset raisers look overseas, Mid-East investors anticipate raising hedge fund allocations – Capintro Partners

From Kirsten Bischoff, Opalesque New York:

US hedge fund marketing firms, and investor relations professionals have by and large, expressed the belief that the most lucrative fundraising opportunities in 2010 likely lay outside the US. According to a newly released survey, perhaps one of the most fertile asset raising grounds for hedge funds in the coming months will be the Middle East.

In a recent survey of MENA investors, UAE-based, alternatives investing placement specialist Capintro Partners, reports that 34% of respondents expressed intensions to increase hedge fund allocations during the year (with the majority of surveyed investors currently holding 10-15% of their portfolio in hedge funds).

Such an optimistic outlook for hedge fund asset-raising in this region is a stunning reversal over last year's responses (in 2009 55% expected to lower hedge fund allocations), but in line with the industry inflows that have been gaining traction over the past few months.

What funds are in the sweet spot for these investors?
According to the survey, the "perfect fund" would be one with a minimum of $500m in assets under management, 3+ years of strong performance track record, returns of Libor +400-600bps, low volatility, monthly liquidity, and monthly transparency on portfolio exposures.

Mid East-based investors also make it clear that whether it is through additional allocations or portfolio rebalancing, their focus in 2010 is on the most straightforward and easily understood strategies. Global macro ranks highest on their list of favored strategies for 2010, followed closely by equity long/short and distressed; least favorite strategies were the various arbitrage strategies.

Fund of hedge funds
More grim is the future the survey paints for the fund of funds portion of the industry. If there is a takeaway from the results of investor expectations for FoHF investing, it is that the verdict is still out regarding to what extent fund of hedge funds will recover from the stumbles they made in performance, liquidity and due diligence during 2008.

Although a full quarter of the investors surveyed still only invest into the industry through fund of funds, 6.1% expect to lower their allocations to these vehicles. As investors allocate more of their portfolio to hedge fund investing, one might conclude they will increase their budget for in-house expertise in this area, and fund of funds will continue to lose assets. Signs of utilizing more in-house expertise may be indicated by the response by 23% of investors that they were increasing their use of third party consultants, which they typically would be more inclined to do in order to support an internal hedge fund portfolio management team.