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Opalesque Exclusive: Capintro: How hedge funds remain to thrive in these challenging times?

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The second quarter saw 292 hedge funds liquidate, a 22% decrease from the 376 funds liquidated in 1Q-2009, says a report of Hedge Fund Research (HFR) (Source).

Nevertheless, the same report affirms that during the same period the number of fund launches rose to 182 in the second quarter of 2009, compared to 148 the previous quarter, suggesting an improving environment for both performance and risk appetite.

Capintro Partners, an alternative investment placement specialist with offices in London and in Dubai, issued a study called "Hedge Funds: A More Compelling Investment" in September-09. According to the study, not all the numbers are bleak. Opportunities abound, it says, and the wise manager knows where and when to look.

"Considerable volatility and directional moves remain in the credit markets due to both technical and fundamental factors. Hedge fund strategies that are able to take advantage of directional moves and adapt to the adjustments are best suited to outperform the rest of the competition," says the study.

Hedge fund managers grant more incentives

Capintro's study highlights that one of the best strategies used by hedge fund managers to cope during the hard times is the willingness to provide more incentives to investors.

Given the magnitude of client redemptions in 2008, effective managers are offering investors greater concessions in order to attract back assets. These concessions may include:

- Additional capacity with managers, which may have been soft or hard closed;
- More favorable liquidity terms through improved liquidity share classes or other fund structures (such as UCITS, as well as a more accurate match between assets and liabilities);
- Higher levels of transparency and reporting;
- Reduced or more competitive fees;
- Tighter terms in the offering memorandum.

Favored strategies for the remainder of 2009

Capintro said that strategies that target liquid asset classes are the ones most likely to meet these criteria, particularly if periods of extreme cash flow constraints return:

1. Traditional (non-CTA) Global Macro managers have the ability to participate in a variety of markets and invest using a top-down approach. These managers typically invest in highly liquid securities and can also take advantage of broad directional changes and trends in markets.

2. Arbitrage and Event-Driven managers, particularly in the credit space are also well positioned to outperform. Arbitrage managers can take advantage of pricing discrepancies that can be found between similar assets.

3. Equity Hedge (L/S equity managers) are likely to be able to distinguish between equity issues that have declined to become undervalued following the financial crisis and others that have rebounded too aggressively in the recent rally and may now have become over-valued.

Managers with the ability to generate alpha through security selection should outperform as the global economy rebounds and equity markets discount the recovery.