



Opalesque Exclusive: Middle East investor outlook (Part One) - allocations to return to hedge funds in early 2010, but investor demands will include monthly liquidity

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From Kirsten Bischoff, Opalesque New York: There was a time during this financial crisis when the demise of the hedge fund industry was predicted on almost a daily basis. But, as hedge fund performance has held up against greater market volatility, for many managers and investors the focus has strengthened to reflect expectations for positive industry evolution.

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Symon Rubens, Managing Director of Terrapinn Middle East summed up these expectations in his opening remarks at Terrapinn's Hedge Funds World Middle East conference held in early March. Rubens said "Many see this as a new dawn for hedge funds, a time when the seismic global shifts are resulting in greater transparency, accountability, and risk management. There has never been a better time for the leaders of the hedge funds industry to converge, and discuss with their investors how hedge funds will adapt and flourish."

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A few weeks prior to this event, Dubai-based CapIntro Partners took the collective temperature of regional hedge fund investors and subsequently released the first annual Middle East Hedge Fund Investor Survey 2009 (which can be accessed online: [here](#)). The survey respondents, which represent the countries of Kuwait, United Arab Emirates, Bahrain, Saudi Arabia, Qatar, Oman, Jordan and Lebanon were comprised of banks, government agencies, investment companies, family offices, endowments, consultants, insurance companies and others.

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Opalesque recently had the opportunity to speak with CapIntro CEO, Mahmoud Al-Khawaja, who was able to break down some of the responses and provide further insight on the expectations and demands of the Middle East hedge fund investor. "Based on our experience and communications with investors, we expect activity levels to remain at a slower pace in comparison to what it had previously been at for the first half of 2009." Says Al-Khawaja.

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55% of the survey's respondents expect to decrease hedge fund allocations during 2009. However, CapIntro Partners expect the end of 2009 and the beginning of 2010 to mark an active return of hedge fund investor confidence in the form of allocations. "We expect activity levels to increase gradually in Q3 as sentiment improves and investors begin to receive additional redemption proceeds they remain waiting for. However, we do not expect investors to allocate aggressively to hedge funds until the last quarter of the year or early 2010."

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But Al Khawaja also cautions that this 9-12+ month projection for the return of hedge fund investing is dependent on the leveling off of market fluctuations. Another period of market stress (equal to Q308) would push the projections out substantially further.

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The attitude of Middle East investors towards hedge funds remains neutral and in line with what CapIntro has read about investors in Europe and the US. The firm expects investors in the hedge fund space to continue to understand and value the benefits of investing in hedge funds and the contribution hedge funds make to their overall portfolios. "While there are a few institutional investors who have decided to exit the asset class as a whole, the majority remain convinced of the viability of such investments and the benefits of combining hedge funds to a multi-asset class portfolio."



Size, track record, and greatly increased liquidity are baseline requirements

When allocations do return, Middle East hedge fund investors expressed strong preferences for larger funds with long track records (3+ years) and high levels of liquidity (46% will require monthly liquidity). These three criteria are rapidly becoming baseline requirements for any fund seeking out substantial allocations regardless of investor background.

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In addition to these baseline requirements, the regions which investors expressed greatest interest in included emerging markets, United States and Asia; and strategies of interest included distressed debt, global macro & CTAs.

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While the survey does indicate that Middle East investors are currently much more hesitant about hedge funds, there are insights into investor behavior which bode well for a possible return to substantial allocations.

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“A large number of investors have redeemed a substantial portion of their investments and are sitting with high levels of cash,” Al-Khawaja points out. While the region currently has investment opportunities which are keeping assets out of hedge funds, once these opportunities dissipate well-positioned hedge fund managers could reap the benefits of a rapid return to hedge fund allocating.

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“Regional investors have the luxury of investing in fixed deposits at regional banks which can yield as high as 7.50%. They also have the opportunity of investing in investment grade corporate debt at approximately 15% annualized YTM (yield to maturity). This window of opportunity will not remain open forever and will disappear as the investment climate improves positioning hedge funds as an attractive alternative,” says Al-Khawaja.