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Hedge funds to get bigger investment share

Only one in 10 investors plan to decrease their holdings.

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The percentage of investors who intend to either maintain or increase their allocations to hedge funds in 2010, according to the Middle East Hedge Fund Investor Survey. (SUPPLIED)

Hedge funds are set to receive a larger proportion of the Middle East investor's funds this year compared with 2009, a new survey has revealed.

According to the "Middle East Hedge Fund Investor Survey" by Capintro Partners, 90.9 per cent of respondents expect to either maintain or increase their allocations to hedge funds in 2010 while the remaining 9.1 per cent intend to decrease their hedge funds holdings this year.

The survey polled 66 respondents from across the Middle East, with 27.3 per cent of them from the UAE, followed by 21.2 per cent from Bahrain, 18.2 per cent from Kuwait and 13.6 per cent from Saudi Arabia among others.

Of those polled, 36.4 per cent expect to increase their hedge fund exposure and 54.5 per cent expect no change in their allocation for 2010.

Another interesting finding of the survey was that a vast majority of those polled expect hedge fund management fees to stay the same (51.5 per cent) or decline (47 per cent) this year, with just 1.5 per cent expecting an increase in hedge fund fees this year. It is worth noting that manager fees remained under pressure in 2009 as well.

Moreover, the findings also show that a majority (62.1 per cent) are negotiating discounts with fund managers. On the other hand, 37.9 per cent say they do not negotiate fee discounts.

Shariah-compliant hedge funds have not picked up with regional investors as evident by the fact that a majority of the participants (80.3 per cent) claiming that they do not invest in them while those who do invest in Islamic hedge funds represent 19.7 per cent.

Exactly half of the respondents revealed that they allocate funds via both single fund managers and Fund of Funds (FoFs) while 25.8 per cent did so only via single managers and 24.2 per cent through FoFs.

Of the 45.5 per cent of respondents who expect a change to their hedge fund allocation this year, 69.7 per cent expect no change in their split between single managers and FoFs; 12.1 per cent expect to increase their exposure through single managers and 10.6 per cent expect to increase their allocations to FoFs.

The survey polled the respondents on changes in their allocation strategy, and Global Macro emerged as the leader as far as strategies for the year are concerned, with 20.3 per cent investors claiming to prefer the strategy, closely followed by Equity L/S investment, which was preferred by 19.3 per cent of respondents and Distressed investment strategy by 14.6 per cent.

A large section of respondents (29.7 per cent) favoured investments in emerging markets while almost a quarter (24.0 per cent) favoured Asia ex-Japan as the preferred investment destination, with US being relegated to number three as the preferred investment destination (21.4 per cent).

Interestingly, 74.2 per cent of the survey's respondents claimed to not use structured products while making investments, while those who may use structured products regularly represent 25.8 per cent, the survey results revealed.

Stating the purposes of structured products, of the 25.8 per cent of respondents who may use structured products either regularly or periodically, 41.2 per cent use structured products for capital guarantee.

The survey also shows that respondents who will invest in funds that are gated or with suspended redemptions represent 27.3 per cent of the participants while investors who will not invest in funds that are gated or with suspended redemptions represent 72.7 per cent.

Many fund managers globally had put restrictions on how much and when their investors could withdraw their capital in 2008 by slamming gates on investors, as the industry struggled to stem a wave of redemptions and poor performance. The findings also show that respondents who use only managed accounts represent 4.5 per cent of respondents, while those who invest in funds represent 57.6 per cent and respondents who use both managed accounts and funds represent 37.9 per cent.

The findings reveal that respondents with less than 10 per cent of their overall portfolio in hedge funds has increased by 32 per cent. Respondents with between 31 and 40 per cent and greater than 50 per cent of their portfolio in hedge funds has decreased by 51 per cent from 2009 to 2010.

Replying to changes in return objectives, there was a 16 per cent decrease in respondents return objectives of Libor + 400-600 and a 19 per cent increase in respondents with a greater than Libor + 600 return objective from 2009 to 2010.

Changes were also marked when it came to investing through a consultant rather than doing it directly.

"There was a 23 per cent increase in respondents who invest through consultants and a five per cent decrease in respondents who invest directly from 2009 to 2010.

Volatility targets remain low. "There was a 200 per cent increase in respondents whose volatility target is less than two per cent and a 150 per cent increase in respondents whose volatility target is two per cent – three per cent from 2009 to 2010.

"The was a 43 per cent decrease in respondents whose volatility target is greater than seven per cent from 2009 to 2010."

On minimum transparency levels from a manager that respondents are willing to accept, 25.8 per cent accept position level transparency and 74.2 per cent accept overall portfolio exposure.

Elaborating on transparency levels, respondents representing 60.6 per cent expect access through their level of transparency on a monthly basis, while 24.2 per cent expect their level of transparency on a weekly basis.

Lastly, there was an increase in the number of respondents who require minimum liquidity requirements. "There was a 17 per cent increase in respondents who require monthly or better liquidity from 2009 to 2010," the findings of the survey say.

The survey covers 66 investors from the GCC. Of these respondents, UAE respondents represent 27.3 per cent followed by Bahrain at 21.2 per cent, Kuwait at 18.2 per cent, Saudi Arabia at 13.6 per cent Qatar and Oman at 6.1 per cent, Jordan at 4.5 per cent and Lebanon at three per cent.