

Middle East investors plan increased allocations to hedge funds

Author: Margie Lindsay

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A majority of Middle East investors expect to increase or maintain their existing allocations to hedge funds in 2010. This is in stark contrast to 2009 when the majority expected to decrease allocations.

Over a third (36.4%) of respondents to the latest [Middle East hedge fund investor survey](#) conducted by Captinro Partners, said they would increase allocations to hedge funds this year while less than 10% said they intend to decrease allocations.

Of total respondents half intend to allocate to both single managers and funds of hedge funds (FoHFs) while 25.8% said they would allocate only to single managers and 24.2% only to FoHFs.

Over a third (36.4%) expect hedge fund allocations to achieve a return target of Libor plus 400-600 basis points (bp) while 34.9% expect a higher return of Libor plus 600bp.

Volatility continues to divide investors. Respondents with volatility profiles between 3% and 7% represented a vast majority (81.6%) of total respondents. Only 6.2% of said they were comfortable with a volatility profile greater than 7%.

Under half (48.5%) of respondents said internal rules limited investments in hedge funds to 5% of a fund's assets under management (AUM) while 31.8% have limits on their investments of 10% of AUM. Investors representing 31.8% have limits on their investments of 10% of AUM.

Respondents who require funds with at least monthly liquidity represent 51.5% and those who require funds with at least quarterly liquidity represent 31.8%. Funds with annual liquidity or longer lockups only appeal to 1.5% of respondents.

For the minimum level of transparency from a manager that respondents are willing to accept, 25.8% accept position level transparency and 74.2% accept overall portfolio exposure. Respondents representing 60.6% expect access through their level of transparency on a monthly basis while 24.2% expect their level of transparency on a weekly basis.

Strategies favoured by investors for 2010 include global macro (20.3), equity long/short (19.3%)

and distressed (14.6%). Regional interest was evenly split between emerging markets (29.7%), Asia excluding-Japan (24.0%) and the US (21.4%).

The fate of fees presented a similarity of views. Over a majority 951.5% expect no change to fees any 47% a decrease. Answers from respondents who negotiate fee discounts with fund managers represented 62.1% of the investor's base.

There was not good news for Shariah compliant hedge funds. The vast majority (80.3%) said they do not invest in these products while only 197% invest in Shariah compliant hedge funds.

Looking at managed accounts less than a fifth (4.5%) said they use them while 57.6% said they do not and 37.9% use both single funds and managed accounts.

Capintro Partners, an investment research and placement specialist with a focus on introducing global alternative investment managers, to Middle East and North Africa investors, collected responses from 66 investors in eight countries including the UAE, Bahrain, Qatar, Kuwait, Oman, Saudi Arabia, Jordan and Lebanon. The last responses were received on through February 4, 2010.

Investors were asked to complete an online questionnaire that focused on four main categories: an investor profile (categorizing investors by type, assets & country), their minimum investment criteria, expected asset allocation changes in 2010 as well as industry developments and changes.

“The survey provides our investors and fund managers with interesting insight into the changing behavioural trends of investors in response to the global financial crisis,” said Mahmoud Al-Khawaja, CEO of Capintro.

Capintro, headquartered in the UK with a representative office in Dubai, undertakes a range of activities including placement services of actively managed funds and direct investments in the alternative investment industry including hedge funds.