ALTERNATIVE INVESTMENTS BME 611 ISSUE119

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Looking for an alternative

Institutional investors in the Middle East and further afield are running for cover, caught between falls on the bourses, nuclear sabre rattling, falling oil prices, a possible gold bubble and overzealous regulators. How long can investors afford to sit on their money and what are the alternatives, asks Banker Middle East?

What now for alternative investments? Real estate as an investment in the Middle East has taken an almighty beating ("we do not envisage [real estate in the GCC] moving to a stable outlook in the near term," said Moody's Martin Kohlhase).

Are the days of private equity fundraising mega roadshows a thing of the past? A report on Zawya Dow Jones says Abraaj Capital is "halving its fourth fund to $2 billion".

What about Islamic finance and the continuing uncertainty over Sukuk defaults? It seems that only exchange traded funds (a few bubble-watchers think that gold ETFs are in for a fall) are getting any positive press.

"Commentators have pondered whether international institutional investors will buy property in the GCC market, particularly Dubai. This cannot be ruled out, but fundamentally we believe that the difference between current actual returns in the mid-to-high single-digit percentages versus expectations of returns in excess of 10 per cent (to compensate for emerging market, legal and regulatory risks) as well as continued overcapacity, is preventing institutional investors from moving into the market," said Kohlhase.

"This implies that prices would have to fall further or that the economic recovery would have to be more pronounced than is currently anticipated to restore the demand-supply balance and provide returns attractive to institutional investors."

Is it time for savvy Middle Eastern banks and big institutional investors with rugged warchests to go around buying up distressed commercial and residential real estate and cheap banks at cents on the dollar, up and down the Gulf, Mediterranean and other parts of Western Europe? Property prices in some of Spain's larger cities have fallen by 20 to 30 per cent and banks are being forced to merge.

Prices in Ireland have likewise fallen by 50 per cent. However Warren Buffett (everyone's favourite value investor) lost over $200 million on an investment in two Irish banks. "At year end [2008] we wrote these holdings down to market: $27 million, for an 89 per cent loss. The tennis crowd would call my mistakes 'unforced errors'," he said.

Investor education and strong infrastructure are the keys to manager success as traditional and alternative investments converge, notes an SEI white paper, adding that a restless and empowered investor base is demanding greater transparency and liquidity from managers, while focusing on absolute returns and uncorrelated investment strategies.

"This combination of factors is driving convergence of traditional and alternative investment products, with investors pouring more than $110 billion into alternative mutual funds in the US and Europe in 2009 alone," it said.

Hedge funds, are also showing signs of life. The Capintro Partners Middle East Hedge Fund Investor Survey suggests that hedge fund appetite could be returning. It claims that the results from its survey show that the majority of respondents expect to increase or maintain their existing allocations to hedge funds in 2010 in comparison to an expected decrease in 2009.

It also pointed out that respondents are looking for improved liquidity terms compared to the previous year and that there is an expectation that emerging markets, Asia (excluding Japan) and the US will outperform in 2010. Favoured strategies for 2010 include Global Macro, Equity Long Short and Distressed.† †

Or could it be forex? “Due to the very volatile nature of the currency markets, institutional investors can use such strategies to minimise their exposure to risk and maximise their gains,” Mario Camara, the Managing Director and Chief Legal Officer of ACM Middle East told Emirates Business 24/7