Opalesque Exclusive: Middle East investor outlook (Part Two) – family offices likely to be first to allocate in 2009, indicate continued enthusiasm for funds below $250m

Wednesday, April 01, 2009

From Kirsten Bischoff, Opalesque New York: Dubai-based CapIntro Partners recently took the collective temperature of regional Middle Eastern 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 Lebannon were comprised of banks, government agencies, investment companies, family offices, endowments, consultants, insurance companies and others.

While funds both large and small have suffered during the financial crisis, there has been much speculation on whether those with assets less than $250m will survive in the future hedge fund industry paradigm. Indications that investors will heavily weigh asset size and length of track record, and expectations that governments will enact regulation requiring extensive infrastructure levels do not bode well for managers who fall well below these minimums.

However, there is one investor type which has had a long loyalty to hedge fund investing, and which in the CapIntro Survey indicated its enthusiastic willingness to invest in hedge funds falling below the $250m mark – and they are family offices.

As banks and financial service institutions are currently affected the most by the financial crisis and have liquidity challenges, smaller funds, which are more likely to wind up on the radar of family offices, may be amongst the first to see allocations in the future.

“We expect family offices to be among the first to begin to allocate to hedge funds in 2009 and expect them to start as soon as the environment improves and signs of stability emerge.” CapIntro CEO, Mahmoud Al-Khawaja told Opalesque.

The family office outlook for investing

CapIntro expects family offices to be a large and dominant player in the next cycle of hedge fund marketing in the Mideast region. “Though almost all categories of investors are affected by the liquidity shortage, those who may not be as badly affected by the crisis may include family offices and corporate investors who invest their proprietary capital and may not face as severe an asset-liability mismatch,” said Al-Khawaja.

Family offices also allocated a larger percentage of their overall portfolio to hedge funds (43% of those who allocate over 40% were family offices). “Though they may be smaller in size, they could be larger in allocations. There are several mid-large size family offices in the region that are comparable to any large institutional investor.”

Family offices have high performance expectations

On the flip side, while family offices are willing to look at smaller, newer hedge fund managers, the CapIntro Survey also revealed them to have high expectations of manager performance. 21% look for Libor +400-600 and 11% expect even more than that.

“We do find family offices to be more demanding from a performance stand point than other investors.” This bodes well for managers who may not have asset size, but can point to strong 2008 performance. However, with this focus on high performance comes the downside of increased volatility in terms of family office redemption levels. “We have also found family offices to have a shorter holding period than other institutional investors in terms of investment time horizon and holding period,” Al-Khawaja says. “We have historically found them to chase performance and trade in and out of investments.”