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Hedge fund inflows poised to rise despite a disappointing 2008

Most hedge fund strategies produced double-digit losses in 2008, making it the worst year on record for hedge fund performance and outflows. Despite the disappointment of 2008, according to a Deutsche Bank alternative investment survey, the hedge fund industry can expect a resurgence in inflows in the second half of 2009. After hoarding cash for months, investors appear ready to plough resources back into hedge funds – the survey revealed that 40% of respondents indicated investors were holding 10%-30% in cash at the end of 2008.

Volcker advocates oversight of hedge funds deemed “too big to fail” – (HFMweek.com)

Former Fed chairman, Paul Volcker, has called for more regulation of hedge funds. Volcker, in his capacity as a senior member of President Obama’s Economic Recovery Advisory Board, proposed capital requirements for hedge funds previously deemed “too big to fail”, as well as calling for regulation prohibiting large banks from running hedge funds. In his report, Volcker added that the report is “a reasonable indication of the direction in which we might go”.

Hedge funds move to independent administrators

In the wake of the Bernard Madoff ponzi scheme, many large hedge funds have been pressured to switch from in-house administrators to independent administrators, according to a Primnews fund of hedge funds review. This follows a widely publicized report by Union Bancaire Privée, a Swiss bank with assets under management in excess of \$50 billion, stating that it would redeem assets from hedge funds that did not have independent administrators and custodians.

Institutional investors remain committed to hedge funds

SEI in partnership with Greenwich Associates recently published a survey titled “Hedge Funds Under The Microscope”. Assets under administration by those surveyed totaled \$772 billion and the survey team interviewed senior investment professionals at 95 institutions across Europe and the US.

The survey responses suggest that institutional investors continue to view hedge funds as important vehicles for portfolio diversification and absolute return potential. As a result, investors are adapting their investment strategies and manager selection criteria to a more challenging market environment. The survey also reveals that hedge funds succeeding in the years to come will be those that stand up to intensified due diligence by exhibiting institutional quality, providing more transparency and delivering consistent, non-correlated returns overtime.

Endowments still favour hedge funds

According to the National Association of College and University Business Officers (NACUBO), of the endowments with assets under management in excess of \$1 billion, 22% invested in hedge funds to the end of June 2008. This was up from 20.5% the previous year. The study also showed that larger endowments invested a larger proportion in hedge funds than their smaller counterparts. Consequently, only big endowments - those with assets under management in excess of \$1 billion - reported positive performance as of June 2008.