

news flash

hedge fund industry

Hedge funds emerge largely unscathed from the “market turmoil” of the last week in February

The sentiment in global equity markets changed dramatically on the 27th of February when China's Shanghai All Share Index dropped by 8.8% after Chinese authorities expressed their concern about the level of the market and speculation arose that they may introduce capital gains tax on share transactions. This sentiment triggered a global sell-off.

According to data released by Hedge Fund Research Inc. the average hedge fund fell by only 1.37% on the day that saw the S&P equity index dropping by 3.4%, the Nikkei down 0.5% and the FTSE 100 losing 2.3%. For the month of February hedge funds still managed to produce positive returns with the HFRI FOF index up 0.96% whereas the MSCI World Index was down -0.52%.

JP Morgan “unseats” Goldman Sachs as the world’s largest hedge fund manager

A recent study conducted by Absolute Return Magazine revealed that JP Morgan's hedge fund assets grew by 75% to \$34bn in 2006. This was largely a result of its purchase of Highbridge Capital. JP Morgan overtook Goldman Sachs (\$32.5bn) who held the largest manager position during 2006. The balance of the top five includes Bridgewater Associates (\$30.2bn), DE Shaw (\$26.3bn) and Farallon Capital Management with \$26.2bn under management.

State Street 2006 Hedge Fund Survey shows that investment boards are gaining more comfort with hedge funds

State Street Corporation, in conjunction with Global Absolute Return Congress (“Global ARC”), last month released their third institutional investor hedge fund study. Participants in the study included representatives from global corporate pensions (21%), public and government pensions (32%), endowments & foundations (44%) with investable assets in excess of \$1 trillion and other (3%). Some of the main findings from the study were: -

- Respondents' governing bodies are more comfortable investing in hedge funds today compared to 12 months back;
- More than 50% of boards spend 15% or more of their time on hedge funds, and
- Only 4% of respondents indicated they have no hedge fund investments compared to 16% the previous year.

Hedge funds “muscle” in on territory that was once the preserve of banks

Hedge funds have secured a large share of the trading in US Treasury bonds that historically have been dominated by the investment banks. According to the Financial Times (9 March 2007), the Citadel Group is now estimated to account for more than 10% of trading in the most liquid Treasuries. The surge in the significance of hedge funds trading US bonds has arisen partly because hedge funds are increasingly using computer-driven trading models to exploit small price differences and to generate high volumes.

Asian hedge funds surge 30% in 2006

The Asian hedge fund market is going through an exceptional growth phase. According to Eureka-hedge, the average size of funds in Asia has grown by more than 50% to \$127m in the past five years. Long/short equity accounts for 60% of assets and continues to dominate the Asian hedge fund industry followed by multi strategy (12%), event driven (8%) and distressed debt (6%).

