

# news flash

hedge fund industry

## The “larger” funds of hedge funds (FoHF’s) continue to increase in numbers and size

InvestHedge published its 2006 “billion dollar” FoHF’s survey last month. The survey reveals that the “billion dollar club” (FoHF’s with more than \$1bn under management) has grown from 135 funds in 2005 to 142 in 2006. Of these, 21 FoHF’s have more than \$10bn under management with UBS the largest FoHF in the world - \$43bn under management. According to InvestHedge the “larger” FoHF’s now control approximately \$820 billion (up 30% from \$630 billion in 2005) of the assets in the hedge fund industry. A key issue for any investor who invests in these large FoHF’s is to assess whether size impacts performance.

## Slowdown in the launch of new hedge funds in the US

The absolute return New Funds Survey for 2006, published in the February issue of Absolute Return magazine, shows that new hedge funds launched in the US slowed for the second year in a row. Seven of the top ten launches were new funds by established players. This provides more evidence that the larger, established names will continue to get bigger. “Bigger is not better” in the hedge fund world. Investors need to compare the importance of “brand” versus performance when considering to invest in offshore FoHF’s.

## Large investment banks continue to buy stakes in hedge funds to diversify their income stream

Lehman Brothers Holdings Inc, the fourth largest US merchant bank last month agreed to buy 20% of hedge fund company Spinnaker Capital Group; and Deutsche Bank, Germany’s largest bank is considering buying a stake in a US or UK hedge fund this year. This follows on the back of Morgan Stanley who has made four hedge fund investments since October 2006. i.e. buying FrontPoint Partners and obtaining stakes in Brookville Capital, Lansdowne Partners and Avenue Capital Group.

## Merrill Lynch survey - reduced equities correlation makes hedge funds more attractive

The Merrill Lynch weekly Hedge Fund Monitor of 5 February 2007 shows that the correlation of hedge funds to the S&P 500 Index reduced significantly since June of last year. *“Hedge fund strategies have become less correlated to each other, and therefore, more diversifying when combined with one another. These diversifying characteristics are more likely to make hedge funds more attractive portfolio building blocks to institutions, such as pension funds. This change in correlation is also a possible sign of the maturation of the hedge fund industry and the prevalence of tighter risk control process”.*

## Biggest pension fund in the US to increase hedge fund capital allocation

According to Thomson Investment Management News, CalPERS the largest US pension scheme with \$230bn under management is set increase their current exposure to hedge funds. At the Institutional Fund Management conference held in Geneva last month the CalPERS CIO Russel Read said, *“We have had successful hedge funds in which we have about 2% and we are looking at increasing our exposure to the sector”.*

