

news flash

hedge fund industry

February was a good month for hedge funds as global equities continued to “feel the pain” of the housing market crisis in the US

The month of February was another tough month for global equities. The MSCI World Equity Index was down 0.58% in comparison to the HFRX Global Hedge fund Index which managed to “protect” investors’ capital by achieving a positive return of 1.77%, thus outperforming global equities by 7.85% for the year to date.

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

The InvestHedge publication last month published its 2007 “Billion Dollar” FoHF’s survey. The survey reveals that the “Billion Dollar Club” - FoHF’s with more than \$1 billion under management - has grown by 6% from 142 funds in 2006 to 151 in 2007. Of these, 31 FoHF’s have more than \$10 billion under management and are referred to as the “super league”. UBS is the largest FoHF in the world with \$57 billion under management.

According to *InvestHedge* the “larger” FoHF’s now control approximately \$1.1 trillion (\$820 billion in 2006) of the assets in the hedge fund industry with institutional investors representing 78% of the total assets. The real issue facing the institutional investor is how to go about selecting appropriate FoHF’s. The InvestHedge Directory comprises of 2,704 fund of funds run by 586 management companies – selection remains a daunting task!

“The dispersion of returns is growing and size does not guarantee performance, in fact the reverse is often true” – InvestHedge.

UK pension schemes “crave” more alternative investment managers – www.emii.com

UK pension schemes seeking alternative investment managers rose by one-third in 2007 to record levels, according to Watson Wyatt. Alternative managers represented 45% of the 268 mandates they advised on last year, including 62 hedge funds, 25 private equity funds and 34 real estate investments. Hedge funds saw the largest spike in interest, up more than 60% from the previous year.

Five challenges for hedge funds to attract more assets

SEI recently published a white paper entitled “*Five Critical Challenges for Hedge Funds Taking Aim at the Institutional Market*”. The paper, partly based on a survey of more than 100 institutional investors, not only reveals a growing acceptance by institutional investors of hedge funds, but also identifies five challenges hedge funds should address in order to attract more institutional assets. These are:

- *Good infrastructure* - quality of administration is a prime concern;
- *Reporting and transparency* - only 11% of respondents said they sought position level transparency;
- *Stable management teams*;
- *Investment disciplines* - more concern expressed about investment process than absolute returns; and
- *Keeping abreast of public policy and regulatory trends.*

