

# news flash

hedge fund industry

## Offshore hedge funds continue to grow in size, despite the “hiccup” in August

The offshore hedge fund industry witnessed another strong quarter with inflows of approximately \$46bn in Q3 2007, bringing the total assets under management to \$1.8 trillion, according to *Hedge Fund Research Inc (HFR)*. HFR added that half of all the new capital allocated last quarter came from funds of hedge funds (FoHF's).

“Investors continued to opportunistically allocate new assets to hedge funds despite the volatility experienced by the markets in August” – Ken Heinz (President of HFR): [hedgeweek.com](http://hedgeweek.com)

## Super league fund of hedge funds continue to attract the greatest portion of inflows

Research by *Morgan Stanley* shows that the six largest FoHF's globally have each seen assets under management rise by a compound annual growth rate of at least 39% in 2007 – only the large groups were emerging as the prime beneficiaries of the ongoing institutionalization of the industry. A key issue for any investor who invests in these large FoHF's is to assess whether size impacts on performance (*Financial Times*: 29 October 2007).

## Hedge fund use of ETF's rises by 36%

A report by *Morgan Stanley Institutional Investor* found a 36% rise in the number of hedge funds that reported using Exchange Traded Fund (ETF's) in the last year. Hedge fund use of ETF's has been increasing year-on-year.

Hedge funds utilise ETF's to “easily gain beta exposure to international and emerging market benchmarks in order to have more time to capture alpha by selecting stocks in markets they feel they can add value,” the survey said. But more commonly, hedge funds have used ETF's as a simple but broad hedging tool in their portfolio. (HFM Week – 31 October 2007)

## Hedge funds biggest concern: retaining talented staff! – Ernst & Young

A recent global study conducted by auditing firm *Ernst & Young* found that 42% of respondents cited retaining top people in the hedge fund industry as their greatest concern followed by managing growth at 39%. Only 9% of the respondents viewed new products as their most pressing issue.

Other findings from the survey are:

- 75% of participants reveal that **technology (IT)** is the biggest spending area over the next two years,
- The **Far East** appears to be the region expressing the greatest interest in raising permanent capital,
- Two thirds of the respondents agree that **lock-in periods will get shorter**, and
- 64% surveyed feel the **valuation process** is the greatest transparency challenge the industry is facing.

## South African hedge fund industry grows to approximately R26bn for the 12-month period ended June 2007

A new survey from *Novare Investments* shows that the South African hedge fund industry has experienced its biggest annual growth in assets under management, from R10.5bn to R26bn. According to the survey, FoHF's now represent approximately 60% of total hedge fund assets.

