Asia hedge fund industry at risk of downsizing

By *mkitchen*
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Asia's hedge fund industry isn't in the best shape heading into 2012 and things aren't expected to get much better according to an article on *Bloomberg News* this week. Poor performance and an uphill battle raising assets saw 123 funds shut in the first 10 months of last year according to Singapore-based data provider Eurekahedge Pte. Meanwhile, total industry assets in the region have dwindled to USD125billion, way down on the 2007 high-water mark of USD176billion. There were some high profile launches in 2011: Morgan Tse's Azentus Capital launched with north of USD1billion and Carl Huttenlocher's Myriad Asset Management, which started trading last month in Hong Kong, is targeting USD2billion by mid-2012. However, too many managers failed to gain traction in last year's volatile environment. Only 32 per cent of Asia-focused funds tracked by Eurekahedge generated positive returns in the first 11 months compared to 75 per cent in 2010. The average Asian hedge fund was down 8.75 per cent last year: hardly what investors are paying large fees for.

Peter Douglas (pictured), principal of Singapore-based hedge fund consultancy, GFIA Pte, which advises investors looking to allocate into hedge funds, said that people's stamina will increasingly give out. "2012 will be the year of major attrition," Douglas was quoted as saying. "Regardless of your commitment and personal wealth, the number of years that you can go pursuing your dream without any kind of compensation is a stretch."

Artradis, one of Singapore's best known hedge funds, closed last year and returned money to investors in its AB2 Fund and Barracuda Fund. More recently, RSR Capital returned external investor capital in its Caerus Asia Arbitrage Fund, a volatility fund like Artradis's, because volatility bets weren't "profitable enough". Boyer Allan also closed two of its Asia hedge funds last month: the pan-Asia Boyer Allan Pacific fund and the Boyer Allan Greater China fund.

Global funds in Asia running billions of dollars like Fortress Investment Group are likely to continue attracting the major slug of assets in 2012. In the current environment, start-up numbers could continue to suffer. Factor in that the majority of Asia's hedge fund industry is still populated by small to mid-sized managers and the threat of further fund closures and downsizing is a real possibility.

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