

Asian hedge fund startups struggling to reach critical mass

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Asia-focused hedge funds that launched post financial crisis are shutting as they struggle to compete for, and raise new capital from a shrinking pool of key investors reported *Bloomberg* 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. Last December, Isometric Investment Advisors Ltd. closed when its largest startup investor, London-based FRM Capital Advisors, decided to reinvest its money elsewhere. It is believed that FCA accounted for around 80 per cent of Isometric's assets in December. Black's Link Capital, a Hong Kong-based event driven manager founded by Anthony Correa and Hani Abuali in 2010, closed because its biggest investor, a US-based FoHFs, pulled its capital. Despite being predicted to lead the industry revival post-08, it seems some of these managers, often relying on FoHFs as early stage investors, have failed to gain critical mass.

And this, says Sam Tabar (pictured), head of Asia Pacific capital introductions at BAML, has caused the sector to retract somewhat. What we're now seeing is that the latest wave of fund managers, either spinning out of prop desks or existing hedge funds like Morgan Sze and Carl Huttenlocher, are, because of their pedigree, attracting a lot of assets, in tandem with large established billion dollar managers. Approximately 70 per cent of the USD70billion in net new assets went to managers running USD5billion or more in AUM according to HFR in January. Moreover, as the FoF industry consolidates, it means they want to invest in bigger managers in order to reduce concentration risk. Referring to a Bank of America Merrill Lynch report released last month, *Bloomberg* pointed out that more than half of all FoF assets are controlled by 18 firms: the bigger they get, and the more institutions decide to allocate directly, the fewer chances smaller Asian fund managers are going to have to grow significantly. Last year saw a new trend in Asia: fewer numbers of funds being launched, but of a higher quality than previous years. It seems as post-08 funds continue to close, this trend is likely to persist in 2012.

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