Orvent Asset Management shuts door, Credit Suisse and Bank of America win regional prime brokerage market share, while KKR nears USD2billion for second Asian fund

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Last year saw more than 140 Asia-focused hedge funds shut according to Eurekahedge and with capital raising continuing to be a challenge, **Singapore-based Orvent Asset Management has become the latest casualty**. The firm has shut its USD130million event-driven hedge fund following the decision by Brummer & Partners, the fund's seed investor, to pull its money out at the end of April reported *Reuters* this week. The fund was started by former Millennium Management portfolio manager Scott Collison in early 2011. Sweden's Brummer & Partners, one of Europe's largest hedge funds with approximately in USD14billion in AUM, no longer has any investments in Asia-based hedge funds. Another Asia-focused hedge fund seeded by Brummer – the Karakoram fund – shut after Brummer pulled its money in December 2010 following a 15.4 per cent loss that year. At the end of the day managers have to generate performance.

Referring to a fund information document from Brummer & Partners, *Reuters* noted that the Orvent fund ended last year down 7.3 per cent and was apparently down a further 3.6 per cent as of end-April 2012. This illustrates the point well that receiving seed capital is far from being a free lunch; managers have very little time to establish a good track record in today's hedge fund environment.

At the other end of the spectrum, **KKR & Co., the New York-based buyout titan, is nearing the USD2billion mark in the first round of capital raising for its new Asia fund** reported *Bloomberg*. Targeting a first close in June, KKR is hoping to raise as much as USD6billion for what will be the firm's second fund targeting Asia. Apparently, investors in the new **KKR Asian Fund II** are being offered the choice of a lower management fee or a greater share of commissions derived from the fund's portfolio companies. KKR successfully raised USD4billion for its inaugural Asian fund in 2007. Marketing documents reveal that it has been generating an 11.3 per cent internal rate of return as of 30 September. Since KKR established a presence in Asia in late 2005 it has made 22 investments, committing approximately USD4.6billion in equity. With a USD6billion target for this second fund it seems KKR remains resolutely bullish on the private equity opportunities in Asia going forward.

Judging by a new industry survey the **Asian prime brokerage units of Credit Suisse and Bank of America Corp are probably cracking the champagne having apparently won market share against the two behemoths, Goldman Sachs and Morgan Stanley**, over the past year. An annual survey by one of the region's leading publications found that the combined market share of Goldman's and Morgan Stanley prior to the financial crisis stood at roughly 60 per cent; that share has since halved with Credit Suisse, Deutsche Bank and UBS winning more than 10 per cent each. With USD19.2billion in hedge fund assets in the region, *Reuters* reported that Credit Suisse narrowed the gap on No2 broker, Morgan Stanley, to just USD420million compared to USD4.8billion the previous year.

Bank of America, meanwhile, overtook Citigroup to achieve the No. 6 position, increasing assets to about USD6billion. UBS retained its No. 5 ranking despite assets slipping by a fifth to USD13.7billion. In Hong Kong, Deutsche Bank overtook Morgan Stanley as the No. 1 broker as well as displacing UBS as the No. 1 prime broker in Australia. The German bank has approximately USD15.8billion in Asian hedge fund assets. According to the survey, the top five brokers control 65 per cent of Asia Pacific market share.

In a **new Edhec-Risk survey, Asian investors have expressed negative views with regards**

to equity and bond indices, citing concerns over the lack of diversification and concentration issues reported *Risk.net* this week. Quite what the alternative might be, however, is anyone's guess. The survey, which the Edhec-Risk Institute put together in partnership with ETF provider Amundi ETF, found that 71 per cent of equity index users, prompting the authors of the report to suggest that there might be issues associated with industry standard practice on index construction. Additionally, only around half of respondents were satisfied with fixed income indexes. Two thirds of respondents reported having significant problems with concentration and lack of diversification issues in regard to standard capitalisation-weighted equity indexes.

Market cap-weighted indexes tend to have a natural bias towards larger companies and, said Paul Thind, head of custom indexes for Asia Pacific at Royal Bank of Scotland in Hong Kong, "they don't have the diversification characteristics that you have in a portfolio consisting of equally-weighted companies, for instance." He added that such issues have led to the creation of fundamental and equally weighted indexes which are attracting "increasing interest among institutions". The survey found that 88 per cent of respondents cited transparency as a key factor when selecting an index, in addition to liquidity and objectivity.

Felix Goltz, head of applied research at Edhec-Risk Institute in Paris was quoted as saying: "A key finding is that the rate of usage for these indexes is very high [but] at the same time the rate of satisfaction is low. However, while investors aren't very satisfied, no clear alternative is emerging." Goltz added that Asian investors place a lot of importance on indexes being objective and systematic and that indexes that lack full transparency or contain some discretionary decisions is something that investors "are very critical of".

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