Asian hedge funds lose appetite for short selling, Segaanti to soft close as assets triple, RBS hires David Gray as head of APAC prime services, and KPMG report warns asset managers over light touch regulation

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Asia's hedge fund industry never fails to surprise. In the latest twist in its evolution, **some of the region's oldest funds are apparently ditching short-selling** – the very tool that managers use to 'hedge' their bets in long/short equity funds – in response to investor pull back reported Reuters this week. The reason being that investors remain unconvinced that short positions actually work and aren't worth the fees they incur.

Quite what this will mean for the region's reputation – and whether this is a short-term reaction or the start of a long-term trend – remains to be seen; if hedge fund managers can't successfully build short positions, what does this really say about them? As Reuters rightly points out, the move towards long-only investing as part of the shake-out of Asia's USD124billion industry could be a potential blow to the prime brokers that support the sector.

It seems that the costs, the volatility of Asian markets, the challenge of finding the right shorts – which after all represent potentially infinite losses if a manager gets it wrong – added to the fact that Asia has a fragmented regulatory framework on short-selling rules, are conspiring to change managers' opinions. They have, it seems, lost their appetite. Analysts tracking the sector say that last year's losses and current market volatility are presenting Asian hedge funds with a stark choice: shut down, cut fees or convert to long-only, reported Reuters.

One such fund to give up shorting next month is Tantallon Capital, whilst others such as Indea Capital and ARN Investment Partners are flicking the off switch on their long/short equity funds and converting to long-only strategies. "The current market is largely dictated by macro," commented Lawrence Ka, a senior portfolio manager at Hong Kong FoHFs firm Penjing Asset Management. "If you are a small long/short manager, it is very difficult to fight this battle. That's one of the reasons why some managers are sticking to long-only." Prime brokers operating in the region, who rely on hedge funds borrowing stocks and using leverage, will hardly be pleased with this apparent development: particularly if their larger clients start getting the jitters.

One fund that isn't suffering from performance pressures is **Segantii Capital, which has soft closed its Asian hedge fund and hired at least eight staff** this year to help manage expanding assets. **Chief Executive Kurt Ersoy** told *Reuters* that the Hong Kong-based firm was turning away new investors having tripled its assets to USD620million in the last 12 months. Segaanti's fund launched in 2007 by Simon Sadler, the former head of Asian equity trading for HSBC Securities, returned 41 per cent last year and was up 3.1 per cent through May 2012.

David Gray, who formerly headed up UBS prime services, is back in the game. **Royal Bank of Scotland has hired Gray to oversee its prime services operations for Asia Pacific** as it seeks to compete for a slice of the pie and win business from hedge funds looking to expand or set-up in the region. As reported by the *Wall Street Journal* online, this is a newly created role and is a signal of the bank's intent. Gray, who was at UBS for 17 years, left the Swiss bank in April 2011. His move to RBS follows that of Fabian Shey who also moved from UBS last October to set up the UK bank's global prime brokerage business. Consequently, Gray will report directly to Shey and Samir Atassi, head of Asia Pacific markets sales excluding Japan.

A new report by KPMG said asset managers looking to Asia for growth should bear in mind two key points: the regions is not one homogenous market, and regulation there is just as strict as the US and Europe – (no chance then for managers to exploit regulatory arbitrage as AIFMD and Dodd-Frank kick in).

Tom Brown, European head of investment management at KPMG, said in a statement that whilst Asia, along with Latin America, was undoubtedly the "hotspot for growth", asset managers would be unwise to expect lighter touch regulation in the region. "The fast pace of change in product distribution, disclosure and investor protection that we have witnessed in Europe and the US has transferred across to Asia," said Brown, adding: "While the change varies between jurisdictions, the direction of travel is crystal clear." Some of these regulatory developments include Singapore's Financial Advisory Industry Review and the Future of Financial Advice in Australia.

Bonn Liu, KPMG's Asia Pacific head of investment management, said that asset managers looking to Asia for growth must take not to fall into the trap of seeing the Asian region as one homogenous market. "It is made up of a number of very different nations, all at different stages of market maturity, customer expectations and regulatory sophistication."

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