

Hedge funds in Asia

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Abstract

Asia's core attraction to global asset allocators is that there are some world class managers who typically still have capacity. Cyclically, renewed investment interest in Asia and resulting liquidity flows are rapidly increasing demand and to a certain extent, supply. The industry achieved critical mass in 2003 in terms of size, number of managers, and in particular the quality of start-ups.

Allocating to a hedge fund manager is the result of a search for talent allied with capacity, and this is no different in Asia. But global allocators looking to managers in Asia will find some different characteristics, some driven by the youth of the industry, some by the nature of the underlying capital markets, and some cultural.

This article provides an overview of the industry in Asia, primarily for the benefit of potential allocators. While I have tried to include hard data, reporting schedules and a very rapidly developing industry mean that the numbers will inevitably be out of date by the time you read this; qualitative comment is of far more commercial value. I have therefore tried to provide as much qualitative color to the picture as possible, and have emphasized the commercially useful over the statistically perfect wherever possible.

Information is attributed wherever appropriate. Otherwise, opinions and observations are my own and not necessarily those of GFIA pte Ltd.

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Global asset allocators are beginning to review the universe of hedge fund managers in Asia more seriously, and are beginning to allocate capital to take advantage of quality managers, even as some of the more directional capital leaves the region. The fastest growing source of new members for the Alternative Investment Management Association (AIMA, the industry body for the hedge fund industry) is Asia, with currently more than 21% of global membership in the region. In Singapore alone there are 22 members, up from only 2 in 2000.

A survey at the beginning of 2003 suggested that global allocators currently had of the order of 2.5% of their assets in Asian strategies, their intention in aggregate is to increase this over a six-month period by 44%². In the first half of 2003, AsiaHedge, the industry journal for the Asian hedge fund industry, reports that aggregate assets only increased by 6%, but asset growth accelerated dramatically in the second half and our guess is that, when final data is available, we will see that the industry did in fact grow by around 50% in 2003, with preliminary estimates suggesting the universe now totals about U.S.\$ 40 billion. There is no doubt that Asia is rapidly becoming an inescapable part of the hedge fund world. According to EurekaHedge, a Singapore-based specialist hedge fund broker, there are 372 Asian hedge funds, including Japan and Australia, an increase of almost 30% in 12 months!

If we slice this to include only funds with U.S.\$ 50 million or more under management and at least a 12-month history, we arrive at a universe of 126 funds - a number which has doubled in the last six months, reflecting the shift to critical mass of the industry here (Figure 1). Looking at the numbers slightly differently, AsiaHedge estimates that 35% of management groups have less than U.S.\$ 50 million of assets under management.

Research conducted by GFIA, an independent researcher of Asian hedge funds, suggests that there are some smaller and newer funds that, qualitatively, deserve serious attention (sometimes because they are spawned by an already stable organization), and that the universe of funds that might pass

an initial screen by a fiduciary investor would approach 150. Again, this is a significant increase - perhaps 50% - from 12 months ago.

Applying a rough and ready 80:20 rule to these numbers, we could assume that about 30 would at any one time be appropriate for serious consideration. While this is a small absolute number, it is probably about the same ratio of total funds to quality candidates as the hedge fund universe in either the U.S.A. or Europe, and it is certainly a large enough universe to keep an analyst busy full-time. However the geographic dispersion (Figure 2) of the managers' locations means that, although first-level screening can arguably be done anywhere in the world, qualitative due diligence, including building trust and confidence with a manager, can be tough for allocators without a physical presence in the region.

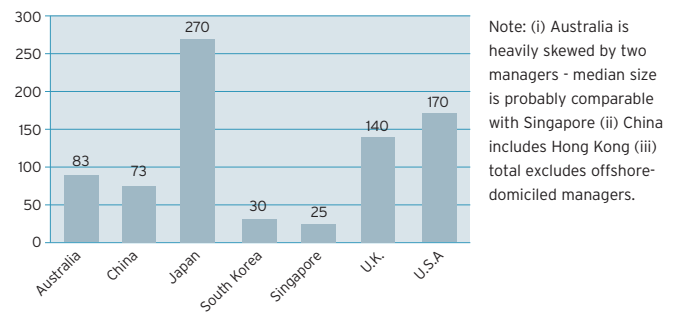


Figure 1: Average AUM by manager location
Source: AsiaHedge April 2003, except S Korea estimate, GFIA April 2003

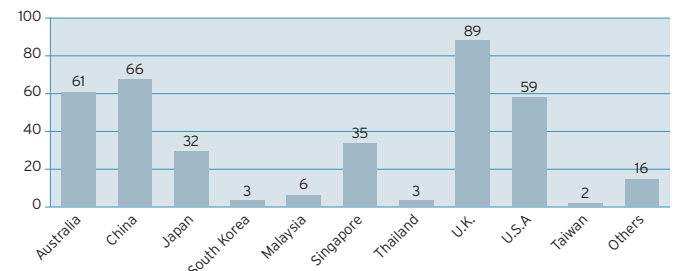


Figure 2: Location of decision maker
Source: EurekaHedge Jan 2004
Note: (i) Many Japanese managers are domiciled offshore and the total for Japan therefore understates the number of Japan-based strategies (ii) China includes Hong Kong (iii) total excludes offshore domiciled managers.

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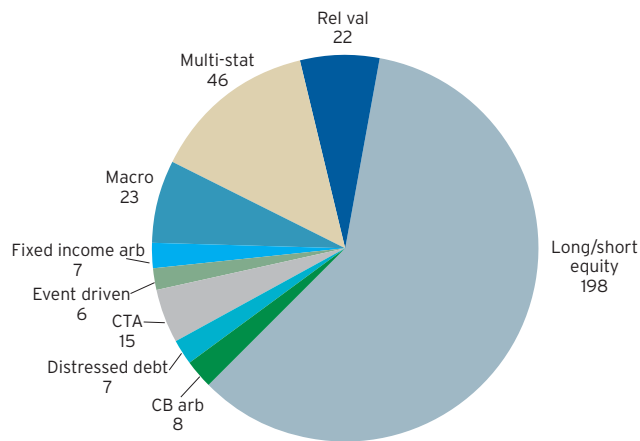


Figure 3: Strategies of Asian managers
Source: EurekaHedge Jan 2004

When I first started researching Asian hedge funds in 1998, a common complaint was that, with no more than one or two exceptions, they were mostly go-go mutual funds with a performance fee. While I do not think that was ever a totally fair criticism, it is true that the universe was initially dominated by fundamentally driven, long-biased, directional long-short equity managers. Some of the early Asian hedge funds were unashamedly chasing the highest returns possible from equity implementation of macro-type thematic bets (and, in their defense, some have grown exceptionally skilled at producing high beta with a strong stop loss discipline).

There is still a predominance of equity long-short managers, and the majority of those are still broadly Jones-model managers who may do best in sideways or rising markets. But within the catch-all category of equity long-short, there are single-country, sector-specific, model-driven, trading, and other niche strategies, as well as of course huge divergence of manager style. Recently - and understandably in the liquidity-driven bull market we saw in the second half of 2003 - many equity managers have become significantly directional and have increased market exposure. There has also been growth in CTA-type, fixed income, multi-strategy, and relative value managers (Figure 3).

Intuitively, managers based in the region should have better access to information and therefore better performance, but there is no hard research to suggest this is the case. There are some powerful Asian strategies run from London, New York, and other locations ex-Asia.

The manager breakdown by location broadly is as follows:

Japan has some large managers, aided by the (relative) liquidity of the stock market and availability of stock borrowing. Given that the restructuring of Japan is being emphasized at the micro level (even if by default due to the lack of restructuring at the macro level), unsurprisingly equity I/s is the dominant strategy. Most Japanese managers have a dual office structure, with an onshore and an offshore base, driven by tax considerations - many in fact have no, or a token presence, onshore, with London, Singapore, and Sydney being popular locations. Interestingly, the indigenous managers are now gaining some visibility, with one of the largest locally-run funds being in excess of U.S.\$ 1 billion of assets. An increasing number of Japanese financial institutions have set up internal hedge fund management operations. GFIA expects to see more local Japanese managers gain visibility over the next 12 months as absolute-return boutiques bolt on hedged strategies.

There is some fund of funds presence in Tokyo.

Hong Kong has a substantial industry, aided by the relative depth of the conventional money management industry there. The majority of Hong Kong funds are therefore equity long-short, with a smaller number of successful fixed income and relative value players. There are a couple of global funds-of-funds with local presence, and at least 4 indigenous fund of fund groups. As the world slowly comes to terms with the awesome reality (no longer do we talk of 'potential') of the Chinese economy, demand for strategies that understand China is increasing, and that expertise is, typically, concentrated in Hong Kong. At least two major mainland Chinese corporates are running internal hedge funds with differing degrees of visibility. We expect Hong Kong to own the China theme niche

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definitively (though there are also China theme hedge funds run from New York, Singapore, Shanghai, and elsewhere). For other strategies, the relative rate of growth appears to be slowing slightly.

Singapore has a newer and relatively small industry (although numbers of managers are on a par with Hong Kong), but is demonstrating a couple of niches in Japan strategies, and relative value and other non-equity strategies (driven by the number of banks that have proprietary trading centered in Singapore, as a key source of management talent). A small number of global funds-of-funds have some representation in the Republic. Singapore's core strength is that for senior professionals it offers a more comfortable quality of life than any other investment centre in the time zone outside Australia; furthermore the regulatory environment is extremely friendly to boutique operations. During 2003, there were roughly as many live launches in Singapore as Hong Kong, so the rate of growth of the relatively smaller industry in Singapore is higher. Subjectively, a large proportion of Singapore's new launches were highly credible, suggesting that asset growth could follow fund formation quite rapidly as the Republic is perceived to be the base of choice of the more institutional quality managers. There are no funds-of-funds run from Singapore though a couple of local institutions run their allocations as internal funds-of-funds.

Australia has a vibrant hedge fund industry, stimulated significantly by the growing tendency of local institutions to make allocations to alternatives - more than 30 retirement funds now have explicit allocations to hedged products, and both the number and volume of assets committed is growing rapidly. Many managers are, however, small, but the top half dozen are receiving meaningful allocations from global managers, with some soft closed, and there are at least 2 billion-dollar managers in Australia. Strategies represented are an eclectic mix, including domestic, regional, and Japanese strategies. Australia is aided by its superb quality of life, attracting mid-career professionals, and by the accessibility to global markets and business afforded by technology.

South Korea is beginning to come of age. Radically easier stock borrowing in 2003, a rapidly restructuring economy, and a deep but inefficient stock market, are stimulating Korea-specific hedge funds. This is likely to continue and I expect the development of Korean funds to track that of Japanese funds, with initially a few directional long/short equity funds, eventually deepening into a good universe of strategies broadly mirroring the pan-Asian strategy mix. Some of the larger Korean institutions have already initiated strategic allocations to hedged assets, and distributors are reporting growing demand from the HNW and mass affluent markets. This is likely to be an increasingly important market in the future.

The Asian capital markets still limit opportunities for event-driven managers, stat arbitrage traders, and pure market neutral players, though there are examples of all these types within the industry. However, in the search for talent and capacity, there is enough here to keep the global allocator interested. In particular, the last 12-24 months have seen an increase in the number of managers with low or minimal correlation to equity markets, either by careful hedging or by remaining with non-equity assets.

Appetite for capital

In 2003, 90 new hedge funds started in Asia (compared with 66 in 2002), raising an aggregate U.S.\$ 5 billion³. That is an increase of over 40% in the number of funds, with an average of more than U.S.\$ 50 million per launch, double 1993's average launch size (though the median would be lower than this). The picture for 2004, as I write this piece, is likely to be comparable, as star financial professionals see the opportunity, and allocators are increasingly prepared to make the journey to Asia. Subjectively it feels as if the typical quality of start-up is improving, partly as the footprints of those that have gone before help newcomers avoid mistakes, and partly as financial institutions are now shedding real muscle into the marketplace, with star professionals looking for second careers. Furthermore, as more and more seasoned allocators trawl Asia for talent, managers are exposed to global competition and a global standard of organizational competence.

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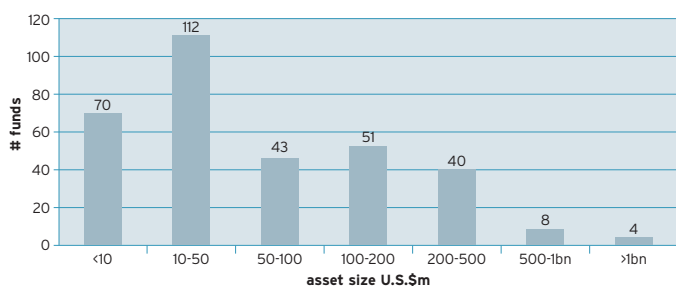


Figure 4: AUM by fund
Source: EurekaHedge Jan 2004

Figure 4 demonstrates that the typical Asian hedge fund is still a small business – but not as small as a year ago. Only 48% of Asian hedge funds have less than U.S.\$ 50 million under management, compared with more than 60% a year ago. In mid-2003, AsiaHedge calculated that the 5 largest funds in the region controlled 26% of the assets, though that concentration appeared to weaken a little over the last year as the industry deepened.

Doing some quick and dirty math, many Asian managers probably generate less than U.S.\$ 1 million a year in revenues, for a business that needs at minimum two or three highly experienced financial professionals, and usually must service an international client base. Almost a third of all Asian hedge funds have been in business for over a year but still have less than U.S.\$ 50 million under management. That is a great deal of personal commitment for the managers running those strategies.

Even in the U.S. and Europe, many start-ups struggle to achieve critical mass. But in Asia even managers who bring significant credibility to a new operation have found it difficult to achieve scale quickly. This is beginning to change, but a really credible and well-resourced new operation cannot hope to raise assets as rapidly as their counterparts in Mayfair or mid-town.

There are several reasons for this.

First, the industry is young. Fewer than 150 funds have been running for more than three years (and only 64 for more than five years) and therefore the supply of graduates possessing a track record and reputation from existing firms is limited. The industry is beginning to outgrow this constraint (the number of three-year-old funds has increased 50% in the last year) but for now, constraint it is. Asia is not a conventional lifestyle destination for professionals leaving careers in the U.S. and Europe to resettle, so apart from a few hedonists in Singapore and Sydney, few experienced professionals choose to relocate to Asia from elsewhere. So, talent is typically new to the hedge fund industry, usually from long-only asset management houses, or proprietary trading, with the learning curves widely associated with those career paths, and resulting hesitation on the part of allocators. One of the implications for an allocator is that the organization needs to show a good learning feedback loop – often an excellent manager will produce the best returns after 12-18 months of running a hedge fund, when he has learnt the hardest lessons, and allocators need to be sensitive to where in the learning cycle the manager is, in a way that they would not for an experienced hedge fund manager.

Secondly, many allocators are unfamiliar with the capital markets in Asia, and therefore are less comfortable with strategies in this playground. The nature of the markets here has some implications for the industry, too.

Regulatory environment

This is unsurprisingly a short section. Most Asian hedge funds, while they may have an onshore advisor conforming to local regulations, offer offshore and largely unregulated products. Furthermore, to date, most Asian allocators and investors have preferred to invest in such structures. A long discussion of regulations would be fruitless, with the exception of some comments about the appearance of regulated retail-oriented products, which are feasible, though arguably not that important yet, in several jurisdictions.

The industry in Asia typically offers Cayman structures, U.S.

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LLPs, and separate accounts, and global allocators face few regulatory hurdles. In most cases, allocators need only confirm as part of their organizational due diligence process that the onshore management company is appropriately regulated and licensed - their counterparty risk will be with a type of structure with which they are very familiar.

Some managers in some jurisdictions (Australia, Japan) offer domestic funds for local investors who find offshore structures difficult for tax or other reasons.

Australia, Hong Kong, Japan, and Singapore all allow retail offerings of hedged product. The requirements in each jurisdiction differ, and as always the commercial realities of distribution and demand will dictate whether a manager wishes to offer products to local retail markets and consequently whether the cost of a domestic structure is warranted. To date only Japan has seen really significant demand, with Australia making some headway. In Hong Kong and Singapore retail demand has been slow to appear.

Characteristics specific to Asian strategies

Asia is not a single market. Depending on their strategy, managers may focus on one single market, a small handful of the friendliest, or 14 different markets (the number of markets included in the widely used MSCI indices). Geographically, remember that after your 13 hour flight from London (or, may Allah help you, your epic multi-hop trek from Chicago, losing a day of your life in the process) to Singapore, the geographic centre of the region, you still have a 7 hour flight to Tokyo or Seoul, a 4 hour flight to Hong Kong, a 5 hour flight to Shanghai, and a 7 hour flight to Sydney. Although almost all financial professionals speak English, you will have to negotiate with taxi drivers that speak in a host of languages you do not understand, and a different currency in each country. And best not to forget whether you should be thinking of Christian, Buddhist, Hindu, Muslim, or a host of other country-specific holidays (Respect for the Aged Day... International Women's Working Day.... Picnic Day....etc.!) when you are planning your itinerary.

All the Asian markets have different characteristics, in terms of the sectors represented, trading patterns, liquidity, and, importantly, availability, cost, and convenience of stock borrow. This of course creates arbitrage and diversification opportunities, but the dictum that 'in a bear market the only thing that goes up is correlation' is as true of public equity in the region as any other asset class globally.

Compared with developed markets, there is less corporate activity in public markets (and therefore few event-driven strategies), but a resilient and sustainable supply of distressed paper; typically thin fixed income markets but from high quality issuers, a fairly high quality supply of CB paper; and some large but very inefficient derivatives markets, etc. The opportunity set is colored differently in Asia.

Liquidity is a rapidly moving target, meaning that accurate hedging is often either difficult or expensive, or both - market neutral is at best a target, not a measurable result, in Asia. Gap risk can be high, and the clever arbitrage strategies have a habit of exhibiting nasty tails from time to time. Allocators must demand higher returns to compensate for these risks.

To ensure a supply of consistently profitable trades, a large proportion of managers are multi-strategy, in fact, if not in name. This can be difficult for allocators who prefer a clear definition, or use quantitative optimization models that work best with clean strategies. Moreover, allocators need to differentiate between style drift, and perfectly legitimate changes in capital allocation within a fund. This is partly because Asia is (always?) in transition and that is also true of its capital markets. What might be a red light elsewhere in the world may be pragmatic in Asia. One of the better Japan long/short equity managers, for example, says 'I'd much prefer to do my research, find my Microsoft, and run it for several market cycles, and when it's right to do that, I will - but over the last few years market conditions have dictated that I trade'. And he does, sometimes moving net long to net short and back within a month - and by doing so has annualized over 22% return since inception four years ago. Will I still back him when he

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finds his Microsoft, despite the dramatic strategy shift this will entail? In principle, yes, as his strategy will very much follow his deep understanding of the market structure, which is what he is paid for.

Asian shops are, broadly, split into those run by western, or western-minded, managers, and indigenous, local managers. Cultural differences can be overstated - at the end of the day, capitalism is capitalism. However I would make a couple of comments (necessarily general - remember, Asia is not homogenous). First, in most Asian countries, going independent is considered a one-way street, with no way back into conventional employment. That is an extra disincentive (and, conversely, an extra badge of courage) for Asian managers to set up. A number of really good managers in the region do not have the cultured polish of the Manhattan or Mayfair crowd, and although a good allocator will see through the polish or lack of it, it is a hindrance to rapid growth. Finally, many Asian business people have a culture of control, both of people and of cash. Many indigenous firms are characterized by a hierarchy that feels odd to an allocator used to looking at a more collegiate organization - and many are frankly under-resourced in terms of numbers and caliber of support (and sometimes investment) staff, in the interests of cash conservation. I spend a great deal more of my time than my peers elsewhere in the world looking at organizational risk - it is a key success factor in allocating to Asian hedge funds.

An advantage, however, is the very real manager diversification between indigenous and foreign managers. One of the very good Japan long/short managers I track, owned and managed by local professionals, typically has negative or very low correlations with its foreigner-operated peer group that cover a similar universe of stocks in superficially very similar strategies. The demonstrable quantitative difference is explained definitively by very cultural, qualitative differences in the mindset of the professionals in the business.

But allocators do need to spend more time on their Asian managers, and this, with the double whammy of distance (awkward

time zones, long flights, and infrequent face to face contact) slows the rate of investment.

The silver lining of Asia, until mid-2003 was that most Asian managers had capacity. The capacity picture of Asia is however beginning to resemble that of the rest of the world, with popular managers soft-closing within 12-24 months. This is exacerbated by the smaller volume of underlying capital markets in Asia that constrains managers to smaller asset sizes. Only about 3% of Asian funds have more than U.S.\$ 500 million of assets, and of those, to my knowledge, fewer than half are accepting capital and those are predominantly currency or CTA strategies.

A typical equity long/short manager in Japan would have capacity of perhaps U.S.\$ 500 million, and in Asia ex-Japan, maybe U.S.\$ 250 million. Liquidity has been increasing but underlying capacity rises more slowly due to constraints on short availability, the need to apply leverage, and an increased number of market participants. There are more than 70 Japan long-short funds that have assets of less than U.S.\$ 500 million (of which, from experience, at least 30 would warrant some interest from a fiduciary investor); in Asia ex-Japan, 42 funds have less than U.S.\$ 200 million, and the same empirical screen yields another 30 or so of interest to the professional investor⁴.

Managers do close, and approximately 30 funds have left the universe during 2003 (less than 10% of the universe, comparable or even slightly lower than other regions). Although the rationale for closing is not always publicized, the list mostly comprises funds that were consistently too small to be profitable. I can only spot two accidents in there, neither of them widely held.

Adding all this up, GFIA estimates that currently the good managers in the region still have an aggregate capacity somewhere in excess of U.S.\$ 10 billion - and this has not, despite capital inflows, changed much in the last 12 months. Although better known names are getting difficult to access, there is a

⁴ All these figures are sourced from Eurekahedge's database; the empirical figures are from GFIA

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healthy pipeline of good quality start-ups and allocators prepared to do the work will continue to find the capacity they need. In terms of sourcing good capacity, allocators focusing exclusively on the U.S. and Europe are missing a large part of the potential universe.

So allocators that are prepared to do the work, have a window of opportunity to find high quality talent, in strategies that may well have little correlation to their existing holdings - and actually find that the manager is happy to take their money.

A final implication of the lack of capital in Asia is that, generally, information flows are good, as managers realize they must be flexible to woo investors. However I am beginning to see a little more reticence at the margin - again, Asian managers are importing the standards of managers in more developed jurisdictions.

A specialist Asian fund of funds I worked with obtained ongoing full position disclosure from all but one of the equity managers in its portfolio. I switched capital from a U.S.-based fund to a very similar strategy based in Hong Kong (with similar quant characteristics but about half the capital) purely because the information flow from the mid-town manager was always late, thin, and inflexible, while the Asian manager was happy to provide virtually any information I needed, immediately. This is an extreme example but not atypical.

Asian appetite for hedged product

Across the region, the major private banks have been active for many years selling hedged product - largely funds-of-funds - to wealthy families and individuals. Over the last two to three years this product push has reached down to the priority banking level, so the middle class professional with a few hundred thousand dollars in the bank has typically already been exposed to hedged, and in particular, fund of fund product. As always with the private banking industry, hard numbers are not available but sales are reported to be substantial. This may partially explain why retail response to funds-of-funds has been weak - much of the demand has been satisfied already.

Some funds-of-funds groups have packaged their products successfully to appeal to a wider spectrum of distribution, such as IFAs and stockbrokers.

While demand from private banking clients across the region appears broadly homogenous, at the institutional and fiduciary investor level, the region exhibits diverse characteristics.

Japan accounts for approximately 10% of global demand for funds of hedge funds⁵, and much of this has been from long-term investing institutions, such as life assurance companies (this group alone is estimated to have invested U.S.\$ 9 billion⁶) and banks (U.S.\$ 4.5 billion⁷ - these are old figures and by now are almost certainly 20% or more higher). Many of Japan's institutional investors have been exposed to the industry since the early to mid-1990s and are now among the world's more sophisticated allocators.

Hong Kong has a small number of sophisticated family offices who are very familiar with hedged assets. Generally, however, Asian family offices are relatively unsophisticated in allocating to alternatives, and have smaller amounts of liquid assets than their U.S. or European counterparts, as typically they are managing excess liquidity of a family business and not the proceeds of the sale of a business.

At least two major fiduciary investing institutions have made allocations to hedge funds, advised by traditional asset consultants as part of a formalized portfolio construction process; In this respect, Hong Kong resembles other institutional markets in Europe and elsewhere. Although the total assets are not large, there is a depth of understanding of hedge fund allocation skills in the territory.

Two major public sector institutions in Singapore are taking the asset class seriously, and if they are seen to be successful, the generally homogenous institutional market in the Republic will follow suit. Reported forthcoming changes in the legislation controlling trustee investments may accelerate allocations.

5 Source: Barra Consulting 2001. The author believes that although Barra's absolute numbers will have changed significantly in the intervening 3 years, the ratio cited is probably relatively stable.

6 Source: AIP Tokyo estimate, September 2002

7 Ibid

Australian superannuation funds have been quietly making allocations for 2-3 years now, and it is estimated that perhaps a couple of dozen have now some exposure, either through a portfolio of single manager funds or funds of hedge funds. There appears to be at best moderate interest from family offices.

Other Asian markets, such as Taiwan and South Korea, are making inroads. South Korea in particular looks interesting as at least two major institutional investors have made allocations - in a largely homogenous environment, visible trendsetters can prove a powerful catalyst.

Current environment

One of the themes evident in the Asian hedge fund industry is how the alpha from beta seekers are being replaced by more mainstream allocators. The international money in Asian hedge funds has often been attracted by the Asian growth story. Some managers (in particular some of those located outside the region) have built good businesses riding the waves, but hedge funds are not the best way to ride a liquidity driven bull market. During 2002, and continuing into 2003, there was a gradual erosion of holdings by Asiaphile investors, replaced with allocations from large global allocators who were less impressed with the Asia story than with the simple fact of managers doing the right job, with available capacity. While the number of these allocators is currently small (around 15-20 houses appear to have credible research awareness of the region), both the number of managers on the radar screen, and the number of allocators interested, appear to be growing. By the final quarter of 2003, many of the better known hedge fund allocators were either investing, or evidently doing serious desk work prior to investing, in the Asian hedge fund universe. Almost all of 2003's growth in assets occurred in the final four months of the year.

One interesting phenomenon of the last few months, as Asian markets have raced ahead, is that dedicated hedge fund allocators have been including absolute return long-only equity managers in their searches.

After a treacherous 2002 in which returns were typically moderate and dispersed, with many managers shrinking their balance sheets, 2003 was a much more comfortable year. The ABN Amro EurekaHedge index returned a creditable 4.4% in 2002, but then a much more headline-worthy 27.3% in 2003, and has annualized at 12% since the index's inception in January 2000⁸. Asian equity valuations remain undemanding, though no longer generally cheap, and credit is strong. Generally market liquidity is increasing both cyclically and structurally.

A number of managers are reshaping their strategies in reaction to recent market conditions. Some are widening their universe (Japan managers beginning to add Korea, for example). Some are emphasizing trading, as I have discussed. Many new start-ups are focusing on non-equity sectors of the capital markets.

Future developments

I can see no reason why the number of managers in the region should not continue to grow at a net 25% per year or more. As the capital markets industries reshape, increasing numbers of competent managers will seek to build independent businesses.

Aggregate capacity may become more of a limiter within the next 12-24 months, and we are beginning to see the cream of Asian managers move to soft closing, with several already hard closed. Allocators will increasingly need on-the-ground expertise to ensure early access to attractive funds. Increasingly global allocators are including Asia in their universe - not to do so would mean excluding an increasingly meaningful slice of the global opportunity set.

In summary, it is the inefficiencies in Asian capital and information markets which are creating good returns, and in the near term these returns are being amplified by good market liquidity. Investors should expect both returns and volatilities to be higher, strategy by strategy, in Asia than in a developed market. However the universe of Asian managers is less and less directional, and increasingly able to capture returns from a wider range of opportunity sets.

⁸ These are GFIA calculations on preliminary EurekaHedge data as final numbers were not available at time of printing