Hedge funds not hit by new US rules

SEC bid to raise bar from US$1m-2.5m affects mostly US onshore investors

By MATTHEW PHAN

TOUGH new US rules on who can put their money into hedge funds are unlikely to hit Singapore-based funds, their managers told BT yesterday.

The United States Securities and Exchange Commission is proposing to raise the net worth requirements for people investing in hedge funds to US$2.5 million, up from US$1 million.

The Bloomberg news agency reported SEC chairman Christopher Cox as saying that the US regulator would make the proposal today, after a federal court rejected rules subjecting funds to more oversight. The SEC will also propose a new anti-fraud rule for hedge funds to follow.

Hedge funds have raised concern in the US after Connecticut-based Amaranth Advisors LLC lost US$6.6 billion in September from trading natural gas.

Singapore’s hedge fund sector has grown rapidly in recent years with efforts from the government, regulators and stakeholders to promote the sector, such as via a hedge fund research centre at Singapore Management University.

The republic has more than 100 hedge fund managers, up from a handful five years ago, and assets under management here are worth over US$7 billion, Melvyn Teo, an SMU professor and director of the centre, said at the centre’s launch in November.

But “there is very little money in Singapore-based funds, or in Asian-based funds for that matter, from onshore US investors, who are the ones affected by the proposal”, said Alexander Mooms, chief operating officer for Eurekahedge, a locally based hedge fund research firm with a global clientele.

“Small funds that are set up in Singapore will not be seeded by US onshore investors. Further, the majority of US investors that allocate assets to Asian funds have large institutional endowments and will be unaffected by the difference between US$1 million and US$2.5 million.”

Another fund manager, Desmond Soon at Pacific Asset Management (PAM), said his group does not have many US investors, as accepting US money requires compliance with US tax and legal regulations.

“If you have a prospective fund and start it without US investors, the process is more straightforward,” he said.

Because of this, the SEC’s proposal will have no impact on PAM, an Asian fixed income and currency manager with a few hedge funds strategies, said Mr Soon.

According to the Monetary Authority of Singapore, the regulating body for hedge funds here, there are only four funds available to retail investors in Singapore, with the remainder open only to institutional or accredited investors.

The four funds open to retail buyers are: the ABN Amro Multi Strategy Fund, the DBS Absolute Return Fund, the Schroder Active Strategies Portfolio and the SGAM Guaranteed Alternative Diversified Fund. These funds must disclose their top holdings, investment strategies and performance on a quarterly, half-year and annual basis; further, retail investors must subscribe for a minimum of $100,000 in a fund.

These restrictions do not necessarily apply to hedge funds that are open to more sophisticated investors. However, to qualify as an accredited investor, individuals must have personal net assets of over $2 million, or income over the last 12 months of over $300,000. Qualifying corporations must have net assets of over $10 million.

The MAS is already “quite strict” in terms of the customer due diligence it specifies that firms must do, as well the disclosure required of hedge funds, Mr Soon said.