**A drop in the hedge fund ocean, but S’pore sparkles**

More support service providers pitching their services here as assets under management rise to US$10b

By MATTHEW PHAN

Singapore is understood to have lured at least 150 hedge funds with some US$10 billion of assets under management to set up shop here. And the growth potential remains explosive, given the sector’s total US$1.5 trillion of assets managed around the world.

In 2005, the number of hedge funds based in Singapore stood at 109, a 51 per cent increase over the previous year, while their assets had doubled year-on-year to reach US$6.1 billion, according to the Monetary Authority of Singapore’s annual report 2005-06.

In comparison, Hong Kong has 118 hedge fund managers as of March this year.

Industry players say more providers of support services for hedge fund managers are pitching their services in Singapore.

Critical to the hedge fund industry, for example, are prime brokers, or major investment banks that provide the financial leverage, risk management and securities lending which funds need to carry out their trades. Fund administration, which refers to bookkeeping and evaluation of portfolios, is another important service.

The number of prime brokers pitching their services to funds in Singapore has doubled to seven or eight brokers today, from just two to three five years ago, said Peter Douglas, principal and founder of hedge fund research firm GFIA, and representative of the Alternative Investment Management Association in Singapore.

The term “hedge fund” usually refers to a type of investment vehicle using higher risk investment techniques.

GFIA’s checklist with hedge funds like Tantallon Capital Advisors confirmed that they are seeing an increase.

“Given the growth of hedge fund activity in Singapore, it means a lot of services are delivered in Singapore,” said Mr Douglas.

But he said many of those services are currently provided out of Hong Kong.

More and more prime brokers are considering having permanent representatives in Singapore, though there are “only a couple” at the moment, according to Alexander Mearns, chief executive officer of Singapore-based Eurekahedge, reputedly Asia’s largest marketer of hedge funds. Citigroup and UBS, he said BT their prime brokerage teams are based in Hong Kong but have a physical presence in Singapore.

Goldman Sachs and Morgan Stanley also indicated their prime brokerage teams for Asia were based in Hong Kong.

UBS told BT “its trend is to hold another conference here next year. In ‘capital introductions’ potential investors are matched up with suitable hedge fund managers. UBS has also started a consulting service here aimed at assisting hedge funds with start-up and management advice.”

“Singapore is one of the primary centres of hedge fund activity in Asia-Pacific and many of our most important clients are based there,” said Matt Peot, head of Prime Services Asia Pacific, UBS.

Similarly, Hannah Goodwin, head of Prime Brokerage, Citigroup Global Markets Asia, said “Our Singapore prime brokerage business has grown over the last year and we certainly see it expanding in the future.”

Fund administrators, including large players like Citigroup and the Bank of New York, are also trying to edge in on the local market, said Lee Foo Khwee, chief financial officer of Tantallon.

The segment is currently dominated by HSBC, which industry players say is one of the largest hedge fund administrators in Asia-Pacific.

“It is generally known that the support services industry for hedge funds in Singapore is less developed than in Hong Kong,” said Melyn Teo, director of the BNP Paribas Hedge Fund Centre at Singapore Management University.

However, there is more growth in Singapore, and for other services in the recherche, IT, audit and legal functions, the industry is more evenly split between the two countries, said Mr Douglas.

Still, given current technology, industry players say it does not matter where prime brokers are located. Tantallon’s Mr Lee said his firm prefers to deal with brokers in the same time zone and is impartial to Hong Kong or Singapore-based brokers.

Industry players also said they are happy with rules surrounding hedge funds here, which focus on disclosure and transparency, rather than restricting activity.

“There is not a lot more that the regulators can do to help hedge funds. The regulatory environment in Singapore is already pretty laissez-faire compared to the onerous regulations in Hong Kong,” said Prof Teo.

Sources say hedge funds account for less than 10 per cent of daily trading volume in Singapore markets, and are more active in the equity and derivative markets but less so in the fixed income and commodity markets.

“While hedge funds do not account for a substantial proportion of our market volume, we have begun to see a trend of more active participation in our markets in recent years,” said the Singapore Exchange.

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