SINGAPORE: The hedge fund industry in Singapore is expected to grow by 30 percent annually each year over the next few years, according to hedge fund specialists at Singapore's first Hedge Fund Symposium, organised by the BNP Paribas Hedge Fund Centre.

They said it makes sense for hedge funds investing in Asia to be located here as research shows proximity yields better returns.

According to research by BNP Paribas, the returns of funds operating in the region outperform those outside by 3.7%.

This explains why more hedge funds have been drawn to set up base in Singapore and Hong Kong.

Melvyn Teo, director of BNP Paribas Hedge Fund Centre, Singapore Management University, said: "Growth has been very high in the past year. We expect growth to be 30% year-on-year going forward because there are a lot of new investment opportunities coming up in the region.

"For instance, Vietnam is developing, Indonesia is developing, and China is of course a major magnet for people coming here. And as research has shown, if you want to be in Asia, you need to have a significant presence here."

Assets under management by funds using hedging strategies are likely to hit S$52 billion by the end of this year.

But analysts said one key challenge is talent.

"Some of the challenges people face here are lack of a talent pool. Hedge fund managers say that Singaporeans are not so good at taking risks, at trading; they make better risk managers. The other challenge they face is increasing cost," said Teo.

It's estimated that only one in 20 fund managers here are Singaporeans, and only a handful of hedge funds, out of over 190 based here, are indigenous.

Another concern raised by hedge fund managers is the strengthening Singapore dollar, as most funds are denominated in US dollars.

Still, market watchers expect Singapore to outpace Japan, and possibly Hong Kong, as a hedge fund hub due to its friendlier regulatory and tax regime.

It takes a fund two weeks to set up in Singapore, four months in Hong Kong and six months or more in Japan. - CNA /Is