Local knowledge gives hedge funds their edge

Firms based close to their investments earn higher returns, symposium told

BY GABRIEL CHEN

LARGE-SCALE investing may be a global business but new evidence is emerging that geographical proximity still plays a key part in success.

A study of hedge funds – giant private funds that use sophisticated investing techniques to reward wealthy clients – has concluded that nearer is very often better.

If a hedge fund is investing in Asia, it should set up shop in Singapore or Hong Kong, to better monitor locally managed investments, rather than being based in faraway New York or London, it found.

Hedge fund managers agree that even half a dozen trips a year to Asia to pick out new investment targets are a poor substitute for being on the ground in the region.

According to Dr Melvyn Teo, director of the BNP Paribas Hedge Fund Centre at Singapore Management University (SMU), who carried out the study, hedge funds with a regional presence outperform those without one by almost 4 per cent a year.

“The closer it is to its investments, the greater the chances the hedge fund will earn high returns,” he told more than 100 hedge fund managers at the first BNP Paribas Hedge Fund symposium held at SMU yesterday.

In the study, Dr Teo analysed 1,159 Asia-focused hedge funds from January 2000 to June last year, taking into account monthly fund returns and their characteristics, such as size and fees.

While concluding that geography matters, he also said overperformance is “exceptionally strong” in emerging markets, where local information is not always readily accessible to foreigners.

Other speakers and panel members said that anecdotally, hedge funds investing in Asia are set to do better when they are based in Asia.

“You need the proximity to the firms you’re investing in. The ability to make frequent visits does matter,” said Fullerton Fund Management’s chief investment officer, Ms Chan Chia Lin.

Still, there is an opposing view. British-based Mr Christopher Fawcett, chief executive of Fauchier Partners, a fund of hedge funds manager, cautioned that sometimes the closer people are to the market, the more they could be “sucked into the fad”.

“If you’re too close, you don’t see the wood for the trees,” said Mr Fawcett, who noted that some domestic-based onshore Japanese funds did worse than United States and British funds investing there.

Hedge funds engage in a slew of investing techniques on behalf of wealthy clients. A fund of hedge funds is a pool of such funds.

While the likes of Singapore are drawing more hedge funds, it is still a relatively small player compared with mega centres such as London and New York.