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HEDGE FUNDS: GOLFER WITH FULL SET OF CLUBS

Hedge funds come under the microscope in this week's edition of When The Bears Are out – Invest Wise, a Channel NewsAsia programme hosted by LIN XUELING

MR TIM PEACH FROM MAN INVESTMENTS, THE WORLD'S LARGEST LISTED HEDGE FUND

What is a hedge fund?
The description of hedge funds covers many, many different things. It's basically talking about a fund that has less regulation, which means it has a plus and a minus.

The plus is that it has a freer hand to invest in a broader range of investments. It has better opportunities to make money throughout the broader range of investment environment. The downside is that there's less government regulation. So, it does leave itself open, to a certain extent, to misuse.

I think there are a number of factors that make a hedge fund. The first one is the broader range of tools that they have to use.

And now, you often use – comparing a hedge fund with a traditional manager mutual fund – is that a hedge fund is a golfer who has a full set of clubs and a mutual fund manager is a manager who has one or two clubs – and I know which I would rather have my money on.

Is it true that if you are a person who needs to ask about a hedge fund, then you don't have enough money to get into a hedge fund?
In the world of funds, we are able to manage a portfolio investing in lots of different hedge funds and we can manage all those assets together. And typically, our funds have low minimum investments. We see no reason we should only offer our products simply to the wealthy.

FAIZAL

Is it a good time for an Asian investor to be looking at hedge funds?
It is always a good time to invest in a hedge fund.

There's always a role for hedge funds in a portfolio, but during a raging bull market environment, I would probably recommend a slightly-lower allocation to hedge funds and a larger directional exposure.

And then, when we go into a more challenging environment – which we are going into now – you want to increase your exposure to hedge funds, particularly focusing on strategies such as distress securities and manage futures.

MR MELVIN TEO, ASSOCIATE PROFESSOR AT THE SINGAPORE MANAGEMENT UNIVERSITY (SMU)

It's at times like this – when the bears are out – when high net-worth people are looking at hedge funds. But at the same time, hedge funds also grab the headlines, in terms of doing badly.
Yes, because the opportunities there are so big, hedge funds can do spectacularly well or crash spectacularly badly. Therefore, they tend to create a lot of headline risk.

Some institutions are averse to that. But you sort of have to go in with your eyes wide open, look at the risk profile of the fund and its returns, and therefore, you might be able to avoid some of the headline risk associated with funds.

Are we at a greater risk now because the US – perhaps even the world – appears to be slipping into recession?
Well, the bear market is both good and bad for hedge funds. Good in the sense that hedge funds tend to do better than, say, mutual funds in a bear market because of lower market exposures.

Bad because investors may be forced to reduce their allocations to funds as their non-hedge fund portfolios are savaged by the economic conditions. Bad also because some funds that have been greedy, that have had taken on too much market exposure, have exposure to subprime mortgages, will close down.

There will be consolidation in the industry but this may not be that bad a thing because we sort of weed out the weak and are left with the stronger ones.

For Asian investors, what should we be looking at and what should we be wary of?
You should be wary of the Greater China funds, which may have tried to chase the Chinese bull market and have gotten caught with their pants down. So, you need to be wary of those funds. Make sure the funds you are investing in truly are long and short, and not just masquerading as an equity long-short fund.

The programme is shown on Channel NewsAsia every Thursday at 9.30pm.