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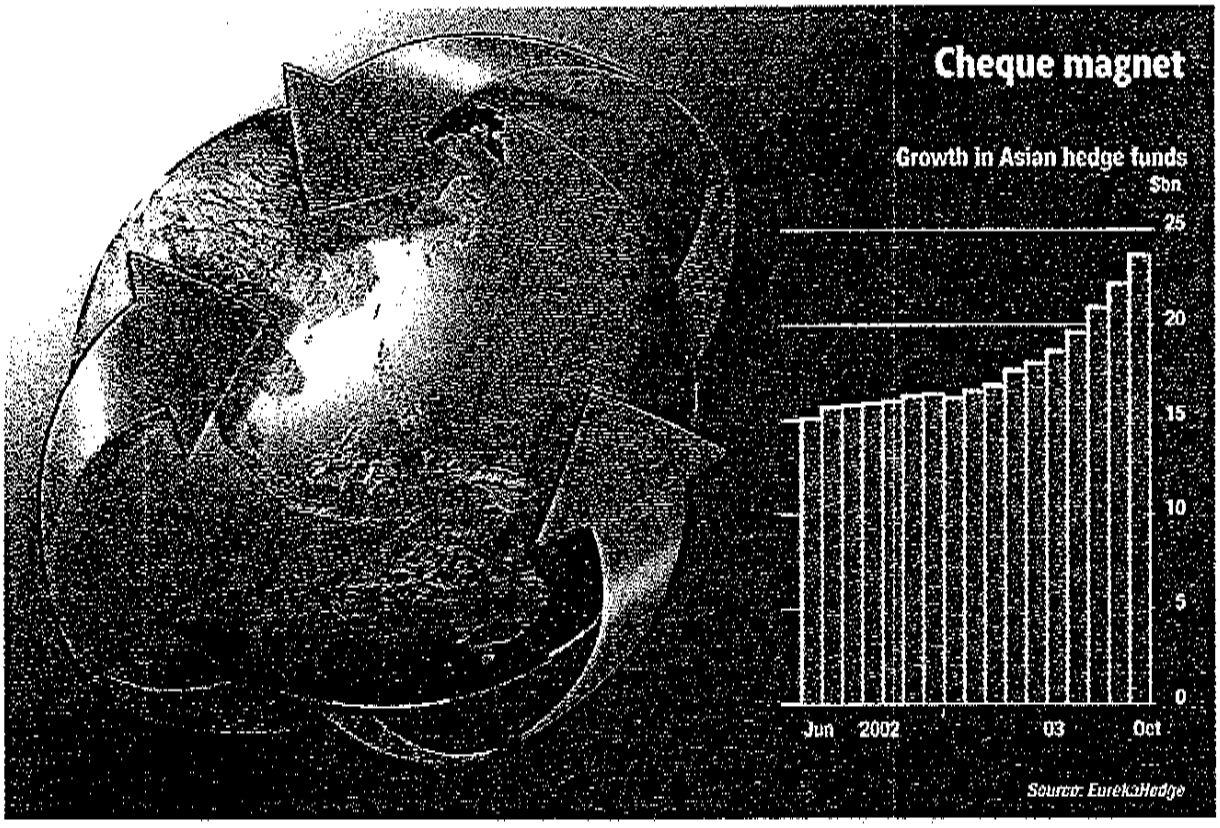

Asian hedge funds finally entering their golden age

By Angela Mackay in Hong Kong

Hundreds of millions of dollars flowed into Asian hedge funds over the past few weeks, breaking the log jam caused by the Iraq war and the Sars crisis and marking a turning point in sentiment for the region.

"We estimate that about US$1bn has poured into alternative investments in Asia over the past week or so," said Richard Armstrong, a managing director at Eurekahedge, the Singapore-based hedge fund consultancy. "I've talked to more than a dozen of our clients over the past couple of days and they say the taps have been turned on," Mr Armstrong said.

Prime brokers attributed some of the inflow to pent-up demand, but added that the bulk of it was a scramble by investors who have been under-allocated in Asia for the past three years.

"I've never seen so many big investors coming through Asia – the numbers since the start of September have been amazing," said a prime broker at a US investment bank in Hong Kong.

"The noise has increased considerably since August. It's fair to say that hedge fund managers' appointment books are full," said Joanne Murphy, associate director at Bank of Bermuda, the intermediary specialising in hedge funds.

Denys Firth, director of Asia Debt Management, which runs four alternative investment funds, said his company received its biggest allocation ever last week. "The money went into our ADM Galleus Fund which invests in distressed debt," Mr Firth said. Hong Kong-based ADM has US$800m under management.

Big increases in regional share markets this year have attracted European, US and UK investors, however, Sars deterred them from travelling to Asia to "kick the tyres".

Both Mr Armstrong and Ms Murphy noted that as the pace of cash flowing into Asian funds increased, so would the number of funds closing to new money.

Interest has also risen because many Asian funds have outperformed their peers in other regions. The average Asian fund was up 4 per cent August alone.

"With US$25bn invested in this region, that kind of return adds US$1bn to the value of the industry anyway," Mr Armstrong said.

So far this year, 88 Asia-focused alternative investment funds have started while fewer than 10 have shut down, according to Eurekahedge. Most industry estimates put the size of the Asian market at US$50bn by the end of 2005 compared with US$14m at the end of 2001. Industry sources said the identity of investors seeking to make allocations indicates that passive investment money will not be far behind.

"A lot of money will come into Asia over the next year. So far Frank Russell and Mercer [two investor advisory firms] have not started putting their big clients into regional alteratives, but when they do we'll see fund flows double or maybe triple very quickly," the prime broker said.

At the same time, many Asian hedge funds have finally come to the notice of big investors because they have reached a level of maturity that permits investment. "They have hit their golden age and achieved the trilogy of allocation which means they have been around long enough and have a certain critical mass as well as performance," Ms Murphy said.