

## Singapore takes key role in development of hedge funds

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**By James Williams - A recent industry report showed that Singapore's market share in the Asian hedge fund space had risen year-on-year to 14.14 per cent. With assets under management also climbing 22 per cent from USD17.6bn end-2009 to USD21.5bn, there's good reason to be optimistic on the scope of influence the Lion City will have in shaping the region's alternatives industry.**

As discussed in the previous article in this Hedgeweek Special Report, last year's decision by MAS to clarify its intentions on licensing provisions proved to be a massive fillip and helped reverse the trend of fund managers setting up shop in Hong Kong. Start-up numbers bounced back.

This is clearly one of the reasons why assets grew in 2010, but there are two others to consider. First, existing fund managers upped their game with the likes of Aisling Analytics - one of Singapore's biggest hedge funds (USD1.5billion in AUM) - posting strong returns: its Merchant Commodity fund featured at number 17 in Bloomberg's recent 100 Top-Performing Large Hedge Funds report after posting returns of 19.8 per cent.

Second, non-Asian fund managers began relocating to Singapore in a bid to break away from oppressive tax regimes. Prana Capital LLP moved there from London last April, as did Algebris Investments. Adam Levinson, co-CIO of global macro funds at Fortress Investment Group, has also moved to the city-state to drive the firm's Asian expansion.

Hedgeweek asked global macro manager Prana Capital to comment on their decision but they declined, although its CIO, Peregrine Cust (who once worked for London-based hedge fund manager Crispin Odey), was quoted last year as saying the decision to relocate was to get closer to the action: "We like to get our hands pretty dirty and meet with the companies and do that extra bit of due diligence; it made sense to make that investment to capitalise on the long-term opportunity to move to Singapore."

With fund managers gravitating to Singapore thanks to its progressive tax and regulatory regime, competition is hotting up. Seunghyun Cho is Managing Director of Leonie Hill Capital. The firm has been in Singapore since 2007. He believes its alternatives industry has evolved on two fronts: "In terms of product development, we've observed a greater variety of strategies deployed. Also, the market has become deeper and diversified, with more players finding Singapore conducive to manage their funds. So yes, I believe it has become more competitive."

Andrew Gordon, Executive Vice President, BNY Mellon Broker Dealer and Alternative Investment

Services, is excited by the number of larger managers that have built significant businesses over the past couple of years. "They have done this with more than just investment performance – but by outperforming in operational terms as well," says Gordon.

Chris Kundro, co-CEO of LaCrosse Global Fund Services, agrees, saying that one of the most noticeable trends has been the number of funds outsourcing their middle and back office operations.

"Investors now are demanding a more industrial-strength operations platform," comments Kundro. "We're providing daily P&L, cash and collateral management for OTC derivatives, settlement and clearance for non-prime brokerage transactions: not only is it more professional operations management it's better control over the hedge funds, which investors appreciate." Singapore has been a strong market for LaCrosse, with Kundro confirming that in 2H10 the firm brought on about 10 fund start-ups.

When asked whether the emergence of prop-desk spin-offs was putting added pressure on established funds to perform, Cho says there's more to running a successful fund than being a good trader. "We need to be able to manage good returns, but that's not enough. We need to know how to deal with all the legal issues, manage the good quality of client service and manage cash flow for office operations etc. A good management team is essential."

Recent start-up, Woodsford Capital, began trading its Woodsford Relative Macro Fund last year and uses LaCrosse Global as its full-service administrator. CEO Zhijian Wu (pictured), says there were a few reasons why Singapore was chosen to establish the fund. Regulatory transparency was one, government efficiency another, with Wu confirming that it takes just 24 hours to register a company provided all necessary documents are prepared. "Thirdly," says Wu, "Singapore is well located in one of the world's fastest growing areas. With close access to big emerging markets such as China and India, there's huge business potential here."

Wu says that because Singapore's regulations are transparent "it improves the efficiency and attractiveness for start-ups". Generally speaking, its infrastructure is well developed, but not everyone is convinced. Although considered one of the most advanced cities, Cho doesn't think it gives a particularly stable and fast service with respect to broadband connectivity and telecommunications systems.

Nevertheless, with a near non-existent crime rate and high standards of living, it ticks a lot of the "personal" boxes. Kundro says he's noticed that managers with young families tend to favour Singapore. "When considering a fund's jurisdiction a manager tends to balance the cost and ease of doing business there with investors' demands for protection. As a jurisdiction, Singapore has made excellent progress attracting funds," opines Kundro. Cho agrees: "It's a good gateway for funds from the developed countries in finding good value and deals in emerging Asian markets so as to deepen their product range."

The growth of Singapore's fund market means that service providers are becoming more prevalent, keen to cash in on new opportunities. Previously a lot of prime brokerages serviced Hong Kong and Singapore collectively, but this is changing. "We've certainly seen a growth in the size of Singapore's prime brokerage community," explains Gordon. "Most now have teams in Singapore itself and they're all busy."

BNY Mellon set up a global infrastructure to support prime brokerages' needs to segregate their clients' assets; having on-the-ground brokerage teams in today's era of due diligence is *de rigueur*. In 2010, the likes of Deutsche Bank and UBS beefed up their Asian prime brokerage teams to capture greater market share; the latter hiring David Forsyth to head up its Singapore prime brokerage division.

Many expect Singapore's capital raising environment to improve in 2011. A recent report by Deutsche Bank predicted that capital allocations into hedge funds would quadruple to USD210bn this year, with up to 40 per cent of respondents saying they would increase allocations into Asia ex-Japan. More importantly still, 65 per cent of respondents said they would consider putting capital

into funds under USD1bn in AUM. This bodes well for Singapore, but it comes as no surprise to Kundro. "Many of the launches we saw last year were in the USD10million to USD40million range," says Kundro. "Now we're seeing several start-ups come to us with AUM in the USD40-80million range. I think many funds realise they need to get to scale at launch rather than waiting."

With its private banking heritage, Singapore has become a choice destination for HNW individuals. This benefits established fund managers with track records and means they can adequately compete with Hong Kong: as evidenced by its growing market share of assets. "Generally speaking, Singapore has less political/country risks compared to Hong Kong," says Cho. He says the two will continue to compete, but in different fields as each has its own niche: "Hong Kong is good for public listings, Singapore is good for asset management."

So what are service providers doing to stay ahead of the curve in Singapore; "A recent area of activity has been the launch of a portfolio of services to manage OTC derivatives collateral positions, including valuations, mark-to-market, reconciliation and custody of collateral," explains Gordon. "We've also launched a price and asset verification service to help hedge funds that are not looking for full administration - although most clients in Asia are looking for the full service."

Cho thinks that overall, service providers offer "decent" services to help the hedge fund industry but believes there's room for improvement in terms of price and speed. "Finding the right partners to work with makes a big difference in how fast your hedge fund can get ahead. I believe it is more of a partnership relationship."

Aside from prime brokerages ramping up their teams, another emerging trend is the lengthier time it's taking to get investor subscriptions. Increased due diligence means investors want to track the fund over two or three quarters before committing capital. "Speaking to fund managers in the region, it's taking about nine months to get investor subscriptions whereas previously it might have taken three," comments Kundro. Consequently, both prime brokers and fund managers are having to exercise greater patience in the capital introduction sphere.

Singapore-based fund managers are blessed with an abundance of talented people to hire. The Financial Industry Competency Standards (FICS) ensure a high standard of professionalism in its financial workforce. Ironically, Woodford Capital's Wu attributes staff retention to be one of the biggest challenges of running a hedge fund there: "Due to the low unemployment rate the job market is quite hot and the turnover of operation staff is relatively high."

As more funds continue to populate the city-state, prime brokers and fund administrators are likely to be busier than ever over the mid-term. This is quickly confirmed by BNY Mellon's Gordon: "Our pipeline is healthy so we do see continued market growth - hopefully we're at the start of a trend that will see more Asian investment into Asia-based hedge fund managers."

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