

[Business](#)[Markets](#)[World](#)[UK](#)[Tech](#)[Money](#)[Commentary](#)[Breakingviews](#)[Sport](#)[Life](#)**FUNDS NEWS** | Fri Jul 2, 2010 | 11:36am BST

# Hedge fund investors opt for liquidity over returns

By **Martin de Sa'Pinto** | ZURICH

The rush for liquid hedge funds is costing investors juicier opportunities elsewhere as institutions opt for a safety first strategy after being burned in the financial crisis.

The preference for liquid funds is also squeezing returns as more assets and a growing number of managers try to capture alpha, or outperformance, from a finite number of suitable asset classes.

Hedge fund companies are making efforts to meet investors' liquidity needs, with many launching funds regulated under the European Union's Ucits III regime which imposes strict liquidity requirements and clear pricing of assets, and limits leverage.

Following the 2008 crisis, many investors want funds they can sell quickly if market turmoil hits, opting for Ucits or for segregated accounts, which offer visibility and control over their assets. Some managers say this strategy has its limits.

"You're not going to make money if you're forced to sell every time something goes down. People will have to realise this when they invest in their Ucits III structures," said Wouter ten Brinke, head of Amsterdam-based fund of funds Theta Capital.

## TRENDING STORIES

- 1 **UK recruiters report strongest hiring for a year in February**
- 2 **Singer George Michael died of natural causes - coroner**
- 3 **May defeated as lawmakers demand power to reject final Brexit terms**
- 4 **Even with THAAD defence, North Korea missile barrage poses threat to South**
- 5 **WikiLeaks says it releases files on CIA cyber spying tools**

"If you have staying power, if you're not forced to liquidate, that's where you can benefit most from less liquid strategies or instruments," said ten Brinke, whose company manages \$850 million (559 million pounds).

While investors are reluctant to be contractually tied to funds, or "locked up", studies have shown hedge funds with lock up provisions produce excess returns of 4 to 7 percent per year over their relevant liquid benchmarks, ten Brinke said.

His company's Theta Deep Value fund invests in illiquid strategies, including funds buying the asset backed securities at the root of the subprime crisis. Deep Value returned 45 percent from launch in July 2006 and April 2010, well ahead of a 4.2 percent rise in the Lipper Fund of Hedge Funds Index.

Conversely, large inflows to the most liquid hedge funds may be crowding their ability to make money.

Managed futures, among the most liquid strategies, had big inflows after performing well through the crisis, but Lipper data show them among the worst performing hedge fund segments of 2010, with year-to-date losses of 4.05 percent.

## HEADLINE RISK FEARS

Even many investors without immediate liquidity needs are avoiding illiquid strategies, which are seen as more risky and are often undervalued by liquidity-obsessed markets.

"The upside of outperformance for pension funds doesn't compensate for downside of a potential blowup. In hedge fund investing the biggest risk for institutional investors is headline risk, reputational risk," said ten Brinke.

Industry experts say investors now want funds to hold enough cash and liquid securities to meet withdrawal requests without having to sell assets when markets are in freefall or blocking withdrawals, as many did in 2008, in order to contain losses.

## SPONSORED TOPICS

---

"They (investors) don't want to be parted from their money. Right now (liquidity is) the key issue we see with investors," said Peter Schoenfeld, chief executive of hedge funds company PSAM LP at June's GAIM hedge funds conference in Monaco.

Moreover, few pension funds or insurance companies have enough in-house expertise to be comfortable with illiquid securities or funds, said Rebecca Meijlink, head of capital introduction company Alphabet Capital Advisors.

---

#### ALSO IN FUNDS NEWS

---

##### **Banks come in from the cold for hedge funds**

"Also their structure is cumbersome, their committees can take a year to decide what they can invest in, so it is hard to grab opportunities when they arise," said Meijlink.

---

##### **Standard Life, Aberdeen face tall order proving co-CEOs can work**

Fund of hedge funds, still the largest hedge fund investors, are also favouring funds they can sell easily after many had difficulty closing positions during the crisis so could not meet investor requests to redeem their assets.

---

"Even if funds of funds think illiquid strategies can outperform, they need to ensure the liquidity in their portfolio matches the terms offered to investors," said Meijlink.

Larger institutions with specialist staff are still investing in long-term hedge fund strategies, said Gerlof de Vrij, head of tactical asset allocation at 240 billion euro Dutch pension manager APG.

Tony Broccardo, Chief Investment Officer of the 15 billion pounds Barclays Pension Fund (BARC.L), said his fund held enough liquidity to be flexible, but would use it to buy into illiquid areas when good opportunities arose.

But Barclays and APG are in a minority. High net worth clients invest in less liquid funds if returns promise to be more appetising, but the ground has now changed for hedge funds as institutions like pension funds have grown in prominence.

"The objectives are very different," said legendary hedgeie Byron Wien, now a director at Blackstone ([BX.N](#)). "Individuals are willing to take the risk to get the performance, institutions are willing to give up performance points on the upside to get the protection on the downside."

(Editing by Sitaraman Shankar)

---

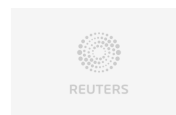
#### NEXT IN FUNDS NEWS →

##### Private equity money to inspire North Sea investment - oil lobby



LONDON A recent surge in North Sea deals, driven by private equity money, will inspire other investors to spend more in the ageing basin where gross revenue has turned positive for the first time in five years, Britain's oil lobby said.

##### Standard Life, Aberdeen eye deep cost cuts in 11 billion-pound deal



LONDON Standard Life has reached agreement to buy Aberdeen Asset Management in an 11 billion-pound merger that should save 200 million pounds a year in costs, pushing rivals to follow suit as fund managers' margins sag.

---

#### MORE FROM REUTERS

**Poland sees 100,000-200,000 Poles coming home after Brexit**

**Mosul caught in 'strange and terrifying' battle as IS foreign soldiers fight to the end**

**Commentary: Italy - splitting into oblivion**

---

#### SPONSORED CONTENT

**Ireland's Kenny, in Brussels, wins EU Brex...**

**A smarter way for expats in the UAE to invest** *TD Direct Investing*

**Essential Guide to FOREX Trading - Free 5 page guide - Capital at risk**  
*Guardian Stockbrokers*

**Brexit battle lines drawn as UK readies...**

**Expert financial and political views on Latin America** *MarketViews*

**A smarter way for expats in the UAE to invest** *TD Direct Investing*

**Essential Guide to FOREX Trading - Free 5 page guide - Capital at risk**  
*Guardian Stockbrokers*

## FROM AROUND THE WEB

Promoted by Revcontent



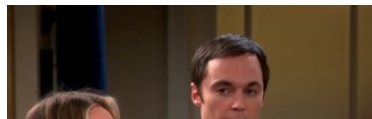
**شعر جميل و صحي**  
*Vivèse Senso Duo Oil*

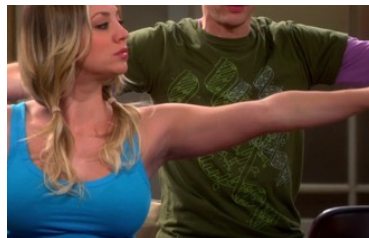


**The Ultimate Way to Get Cheap Hotel Rooms**  
*Save70.com*



**Home Solution to Restore Sharp Vision Within 2 Weeks**  
*OptimaskPro*





### People Are Cancelling Their Netflix Account Because of This One Site

Daily Life



### Stallone's Net Worth Left Us Shocked

React Share



### Generate A High-Quality User Experience with Revcontent

Revcontent



Follow Reuters:    

Subscribe: [Newsletters](#) | [Apps](#)

#### [Reuters News Agency](#) | [Brand Attribution Guidelines](#) | [Careers](#)

Reuters is the news and media division of [Thomson Reuters](#). Thomson Reuters is the world's largest international multimedia news agency, providing investing news, world news, business news, technology news, headline news, small business news, news alerts, personal finance, stock market, and mutual funds information available on Reuters.com, video, mobile, and interactive television platforms. Learn more about Thomson Reuters products:

#### EIKON

Information, analytics and exclusive news on financial markets - delivered in an intuitive desktop and mobile interface

#### ELEKTRON

Everything you need to empower your workflow and enhance your enterprise data management

#### WORLD-CHECK

Screen for heightened risk individual and entities globally to help uncover hidden risks in business relationships and human networks

#### WESTLAW

Build the strongest argument relying on authoritative content, attorney-editor expertise, and industry defining technology

#### ONESOURCE

The most comprehensive solution to manage all your complex and ever-expanding tax and compliance needs

#### CHECKPOINT

The industry leader for online information for tax, accounting and finance professionals

All quotes delayed a minimum of 15 minutes. [See here for a complete list](#) of exchanges and delays.

© 2017 Reuters. All Rights Reserved. | [Site Feedback](#) | [Corrections](#) | [Advertising Guidelines](#) | [Cookies](#) | [Terms of Use](#) | [Privacy Policy](#)