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Hedge Funds to Chase the Wealthy

By Stephanie Baum

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Hedge fund managers are looking to wealthy investors to replenish their funds despite the anger expressed by high net worth individuals over hedge funds' poor performance and broken promises.

Almost three-quarters (73%) of hedge fund managers responding to a survey by US accountancy firm Rothstein Kass said affluent clients would be their top source of new capital, followed by single family offices (49%). The survey, conducted in January, included senior partners at 239 US hedge funds with at least $100m (€79m) under management, operating five years or more.

But last month Tiger 21, a New York investment club that includes 160 wealthy investors with $70m or more in assets, told Financial News that its members had reduced their allocations to hedge funds from 11% of their portfolios to 3%, following double-digit losses and the imposition of gates barring investors from removing their capital. Michael Sonnenfeldt, the founder of Tiger 21, said: "Our members feel that they have been played for a fool by hedge fund managers. The depth of feeling towards hedge fund managers is palpable."

Rothstein Kass' report said hedge funds – which suffered outflows of nearly $160bn last year, the worst in 14 years, according to data provider Lipper TASS – are reverting to traditional investors. This contrasts its findings two years ago, when a fifth of hedge fund managers said institutional investors would be the dominant sources of new capital.

Endowments followed by pension funds were also cited as important sources of new capital, but only by a quarter to a third of survey participants. Connecticut's state pension fund is currently reviewing an 8% allocation to hedge funds and Kentucky's state pension fund is also considering investing in the asset class for the first time.