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Wealthiest US investors ditch hedge funds

By David Bain and Mike Foster

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Wealthy US investors are pulling out of hedge funds at an unprecedented rate and will not return for a generation, according to the founder of Tiger 21, the networking group for high net worth and ultra-high net worth investors.

Michael Sonnenfeldt said his members cut their portfolio weightings in hedge funds to 2.8% in 2008, against 11% the year before.

He said: “This move out of hedge funds is like an earthquake. Our members, many of whom made their money as entrepreneurs, feel that they have been played for a fool by hedge fund managers. They have found there was no harmony between them, as investors, and hedge fund managers.

The depth of feeling towards hedge fund managers is palpable.” He said it would take a generation for investors to come to terms with their experience.

The trend contrasts with the way ultra wealthy investors financed the development of hedge funds in the 1970s and 1980s. Unusually talented managers will still attract backing from the wealthy, but most hedge funds will have to appeal to institutions for backing over the next few years.

Nicolas Sarkis, managing partner of multi-family office AlphaOne Partners in London, said the ultra wealthy in Europe would take their cue from the US and redeem more money from hedge funds this year.

He said: “The Tiger 21 survey acts as a lead indicator of likely trends among the wealthy in Europe, so I wouldn’t be surprised to see a similar fall in hedge fund allocations over in this part of the world very soon.”

Phil Irvine, co-founder of PiRho Investment Consulting, said hedge fund investors suffered an average 20% drop in the value of their funds last year. Trading platform data suggests investors suffer an additional 20% penalty when redeeming holdings at speed, as opposed to orderly sales.