

# Superannuation funds turn to hedges for higher returns

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Hedge funds

LEADING Australian superannuation funds expect to plough another \$1 billion into hedge funds over the next two to five years, in a move that will increase their average allocations to the sector from 2.5 to 3.5 per cent.

That's the finding of a survey released this week that measured large Australian superannuation funds managers' current allocations, views and future intentions for hedge fund investment.

The survey was conducted in the first quarter of 2008 by the University of NSW Business School and commissioned by the Australian Chapter of the Alternative Investment Management Association (AIMA), the peak hedge fund industry body.

Fund trustees from some of Australia's big super funds, which represent more than \$100 billion of investments under management, took part in the survey.

Almost 70 per cent of respondents had existing investments in hedge funds, with an expectation

*Australia's largest institutional investors profess faith in a wide range of higher-risk alternative investment strategies*



Ivey

ings show that super funds, Australia's largest pool of institutional investors, have considerable faith in the performance of the sector.

"Significantly, the levels of confidence among super funds have remained consistent since our last survey two years ago," he says.

"This is despite concerted criticism levelled at hedge funds in the Australian market, which we believe has served to make the market more volatile and less informed.

"These survey results reflect a positive confirmation of the institutional market's perception of hedge funds.

this will rise to nearly 90 per cent over the next two to five years.

AIMA Australia chairman Kim Ivey says the find-

"We believe that with more understanding of this sector and greater operational transparency, confidence will continue to increase among all institutional investors, not just super funds."

When it came to selecting a hedge fund manager, respondents looked for operational experience, team breadth and business experience.

This is consistent with nearly 65 per cent of super funds favouring hedge fund products offered by institutional managers over boutique managers.

Less than 6 per cent of super funds surveyed invested in Australian boutique hedge fund managers.

The survey also says that, overall, funds of hedge funds are expected to continue as the dominant hedge fund vehicle for super funds.

However, the super funds' current 61 per cent allocation to fund-of-fund vehicles is expected to drop to nearly 50 per cent over the next two to five years.

The majority of this difference will go to single-strategy hedge funds (27 per cent) and multi-strategy hedge funds (23 per cent).

Within the spectrum of hedge fund strategies, superannuation funds appear to be interested in the main hedge funds' methods, such as long/short equity, distressed debt and emerging market strategies.

Less interest is being shown in convertible arbitrage, dedicated short selling and fixed-income arbitrage strategies.

Ivey says there are two main reasons for the growing attraction of hedge funds in 2008.

First, hedge fund managers of all types are heeding the call for better transparency and many now offer greater detail into their investment, risk and operational procedures.

Second, super funds, having reaped exceptional returns from 2004 to 2007 in Australian shares, international equities and property, are now tactically re-

balancing their portfolios to strategies not explicitly exposed to these asset classes.

The survey says that lack of investment transparency is the single biggest obstacle to increasing super funds' investment in hedge funds.

"AIMA Australia is aware of this concern and we have been promoting standardised and more transparent disclosure guidelines to our hedge fund managers for the past 18 months," Ivey says.

"The final disclosure hurdle is probably in the area of short selling.

"Australia has one of the most complex and onerous regimes in the world for regulation of short selling, but more needs to be done to ensure we have a simple and equitable means of capturing short-selling activity.

"This is absolutely vital to enhancing investor confidence and for building Australia's attractiveness as a regional financial centre."

Full results of the hedge fund survey of Australian super funds are available at [www.aima-australia.org](http://www.aima-australia.org)