

Hedge Funds Reduce Holdings in Illiquid Securities, Survey Says

By Saijel Kishan

Jan. 26 (Bloomberg) -- Most hedge funds have less than a quarter of their assets in hard-to-sell securities, according to a survey conducted by executive search and consulting firm Alpha Search Advisory Partners.

About 90 percent of 1,000 hedge funds polled globally said that they hold less than 25 percent of their assets in illiquid securities, Roslyn, New York-based Alpha Search said in a statement today.

Hedge funds assets fell \$600 billion in 2008 in investment losses and client withdrawals, according to Morgan Stanley. The firm said the industry could lose another \$450 billion in assets this year, forcing managers to reconsider strategies. Some followed the example of Tudor Investment Corp., which said in November it would sell off illiquid investments, mostly corporate bonds and loans from emerging markets, after separating them from its main fund into another account.

Fifty-eight percent of managers surveyed by Alpha Search said they expect investor withdrawals to continue through at least the first half of this year, while 29 percent said redemptions will continue until the end of the year.

Ten percent of those polled said they felt most redemptions were almost done and that there would be new investments in the industry. Citadel Investment Group LLC in Chicago and Harbinger Capital Partners in New York were among the hedge fund firms that restricted redemptions by clients last month.

Almost a quarter of those surveyed managed more than \$8 billion and more than 55 percent described their businesses as multistrategy firms, which trade everything from equities to bonds to currencies.

Hedge funds, private and largely unregulated pools of capital, lost an average 18 percent last year, according to Hedge Fund Research Inc. in Chicago.

Joint Ventures, Mergers

Half of the hedge funds polled are considering a joint venture or merging with other asset management firms this year.

Credit Agricole SA and Societe Generale SA, France's second- and third-largest banks, said today that they agreed to merge their asset management operations.

A third of the funds surveyed said they hold between 25 percent and 50 percent of their assets in cash, Alpha Search said. A December report by London-based Man Group Plc said hedge funds held more than \$300 billion in cash.

More than half of the hedge funds surveyed said there will be compulsory registration of firms and disclosure of their investments to a regulatory organization, Alpha Search said.

Timothy Geithner, President Barack Obama's nominee for Treasury secretary, said on Jan. 22 that he believes that the federal government needs to consider the registration of hedge-fund managers.

Almost 36 percent of the firms surveyed said they plan to cut staff this year or may postpone hiring, Alpha Search said.

Most of the funds said they may delay hiring until the second quarter and instead use consultants or contractors in the meantime.

Hedge-fund managers expect to generate profits from the health care, energy and industrials sectors, according to the survey.

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