

## As Asia popularity grows with investors, managers have opportunity to arbitrage regional salaries

Kirsten Bischoff  
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With \$500m in assets flowing into Asia hedge funds in the final quarter of 2010 (according to Hedge Fund Research), many hedge fund managers are focused on opening satellite offices in Asia in order to have an "on the ground" presence in the region. From the recent launch of New York-based (but with Singapore offices) Revere Capital seeding Asia hedge funds, DE Shaw's move to open a satellite Asia office, to the March launch of a Hong Kong based fund by former Goldman Sachs superstar Morgan Sze (expected to be at or over \$1bn) managers are looking to ride the wave of assets expected to continue to build for Asia strategies.

**Bob Olman, of recruitment firm Alpha Search Advisory Partners, says that his firm is spending a good deal of time recruiting for positions in Asia, and that some managers are taking advantage of distinct regional salary differences. "There is a distinct arbitrage opportunity in compensation between hiring investment professionals who have come from Asia originally and are educated in the US and return to Asia and those who - particularly in mainland China - have never left the country, were educated there, and now work for hedge funds headquartered in America or Europe. The spread in compensation between those two groups is tenfold in favor of those who have spent time in the US," he says. The difference in overhead costs for salary between establishing offices in Beijing or Shanghai versus Hong Kong and Singapore are quite significant.**

Asia focused funds expect stronger asset raising in West

**However, for Asia focused hedge funds, asset-raising continues to target raising assets from investors in Europe and North America, says Olman. "All of the mandates we are getting for marketers, are for those with investor relationships in Europe or North America." While Hong Kong, Singapore and Taiwan offer asset-raising opportunities, Greater China remains (for now) largely off limits to foreign hedge fund managers, and the focus is on western investors wary about a stagnant US economy and the possibility of continued European sovereign debt fallout.**

"Investors continue to allocate to Asian hedge funds but now, more than ever, have indicated a strong and clear requirement for inflation protection in their hedge fund strategies," said Kenneth J. Heinz, President of Hedge Fund Research, Inc (HFR) in a statement released on Thursday. "To meet this demand, the Asian hedge fund industry has evolved to offer access to not only hedged equity strategies, but sophisticated currency, commodity, volatility, corporate transaction and fixed income exposures designed to appeal to inflation-sensitive investors in 2011."

During the recent Opalesque Hong Kong Roundtable, Vincent Duhamel, CEO of \$2bn New York and Singapore based SAIL Advisors commented that asset raising for Asia funds seems to be strongest in the US. "In the US, there seems to be a lot more activity. Significant numbers of institutions still have a strategic allocation to the alternative space over the long-term, and they also realize the type of returns that they need to match their future liabilities and long passive fixed income exposure is just not enough."

Whereas, still unfolding regulation in Europe made it more difficult for any offshore fund to raise capital within the EU. Anne-Marie Godfrey, Partner at Bingham in Hong Kong estimated that 50% of Asia hedge fund money is raised in Europe, meaning questions regarding EU regulations were impacting Asia funds greatly.

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