

SEED CAPITAL CULTIVATION

Despite slumping levels of investment, new research from Acceleration Capital Group shows that, with \$7513bn of seed capital available to hedge funds in Q3/Q4 2008, there is still potential for growth. By Kapila Gohe

Hedge funds have been having a hard time of it lately. Inflows have been sinking and, as industry research (HFR) has shown, the second quarter of this year witnessed the lowest level of investment, as a result of the ongoing turbulence in the financial markets, since the end of 2005.

But many start-up hedge funds should find confidence in the fact that for the second half of this year an expected \$7.5bn in seed capital will be up for grabs, according to new research by Acceleration Capital Group (ACG) – a financial services platform specialising in the placement of alternative investment products.

Exploring new avenues

ACG spoke to 45 leading institutional seeders globally, asking them about their views on the hedge fund strategies and regions they found most attractive for seed investments.

Five geographic regions and 26 hedge fund strategies were provided for selection and each seeder was asked to rank the regions and strategies according to an allocation preference scale. The seeders were also asked how much capital they have earmarked for seed deals in Q3/Q4 2008.

It has been just over a year since the credit crunch hit the global economy, shaking up the financial markets. Hedge funds have been pursuing distressed investments as a strategy and new hedge funds in this space will find seeders particularly interested – 38% of respondents stated distressed as the most preferred strategy for an allocation. Global macro, energy sector, energy sector (clean and green focus) and equity market neutral followed distressed in the top five.

Meanwhile, regulation D, dedicated short bias, convertible arbitrage, merger arbitrage/risk arbitrage and ABL were the least preferred strategies for potential seed allocations.

According to Scott Prince, managing partner at SkyBridge Capital: “Investors are currently reacting to a dramatic shift in the economic environment, general financial conditions and the resulting performance of their portfolios. As long-short equity strategies have struggled to perform in a declining equity market, global macro and distressed strategies are outperforming and are viewed by investors as having more compelling opportunities in the current and foreseeable market environment.”

All eyes are towards the East, as Asia came out as the top geographic region for allocation. Almost 50% of the institutional seeders participating marked the region as their most preferable.

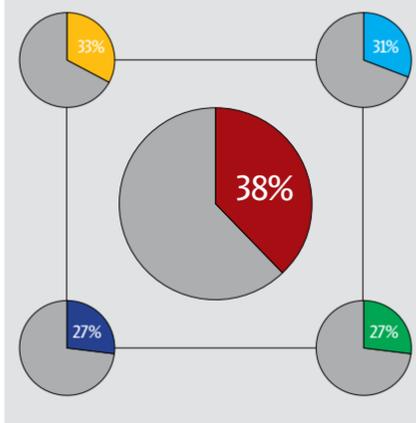
Following Asia, USA gathered 40% and Europe 38% of the votes for preferred region. But 40% of seeders stated they did not intend to allocate towards Greater Russia.

Increase in deals

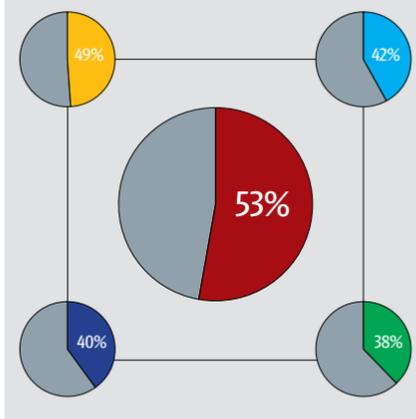
With the difficulty hedge funds have faced in the past few months, the survey certainly spells positive news for those newcomers in the arena. Based on this research, if around \$7.5bn in seed capital were to be deployed over the next six months via seed deals at around an average allocation size of \$50m, there would be 25 seed deals every month for the next six months – totaling a generous 150 seed deals for the remainder of the year. Plenty of seed capital is available, the question now becomes whether or not the right managers will emerge to capitalise on it.

A SEED CAPITAL AVAILABLE

HEDGE FUND STRATEGIES SEEDERS PREFERRED MOST FOR AN ALLOCATION IN Q3/Q4 2008

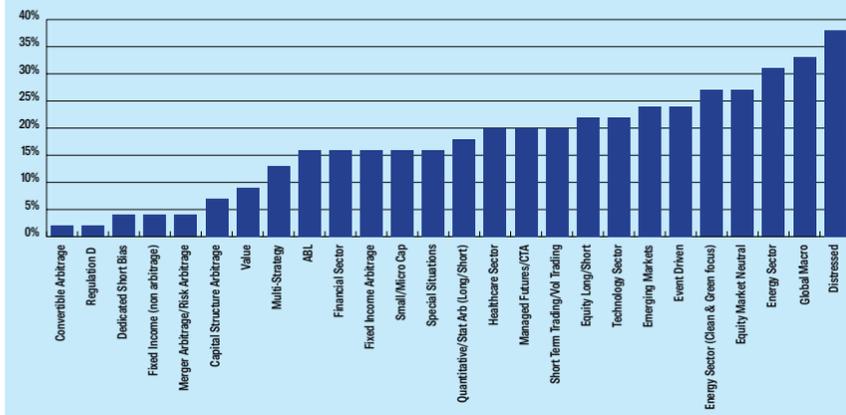


HEDGE FUND STRATEGIES MOST SEEDERS DO NOT INTEND TO ALLOCATE TOWARDS/PREFER LEAST FOR AN ALLOCATION IN Q3/Q4 2008



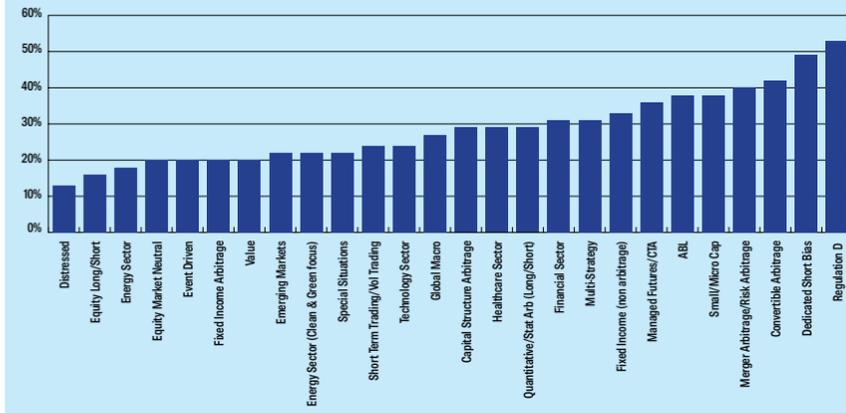
B STRATEGIC PREFERENCES

PERCENTAGE OF SEEDERS WHO INDICATED THIS STRATEGY WAS PREFERRED FOR AN ALLOCATION IN Q3/Q4 2008

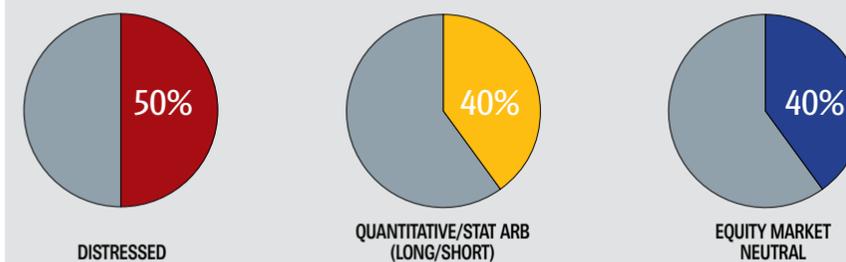


NEUTRALITY STATISTIC: ON AVERAGE, 35% OF SEEDERS WERE "NEUTRAL" AS TO THEIR HEDGE FUND STRATEGY PREFERENCE FOR A Q3/Q4 2008 SEED ALLOCATION

PERCENTAGE OF SEEDERS WHO INDICATED THEY DID NOT INTEND TO ALLOCATE TO THIS STRATEGY IN Q3/Q4 2008

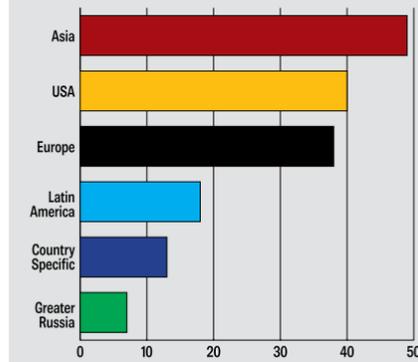


THE TOP TEN SEEDERS (IN TERMS OF CAPITAL AVAILABLE) PREFERRED THE FOLLOWING THREE STRATEGIES FOR AN ALLOCATION IN Q3/Q4 2008

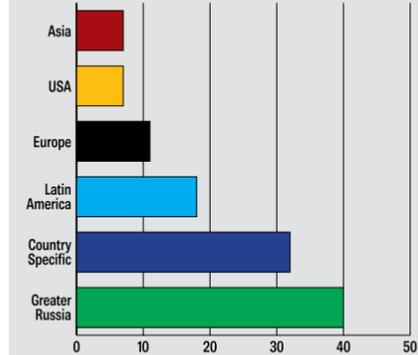


C GEOGRAPHIC PREFERENCES

GEOGRAPHIC REGIONS MOST PREFERRED FOR AN ALLOCATION Q3-Q4 08 (NOT MUTUALLY EXCLUSIVE)



GEOGRAPHIC REGIONS MOST SEEDERS DID NOT INTEND TO ALLOCATE TOWARDS FOR Q3/Q4 08.



PREMISE & METHODOLOGY

This research, the first iteration of a bi annual study, provides insight into the world of hedge fund seeding. Specifically, to determine (A) aggregate demand on a forward looking bi annual basis; (C) which hedge fund strategies are in favour; and (G) which geographic regions are in favour. The current study examines the period Q3/Q4 2008. Subsequent research will examine trends and provide further analysis on a bi annual basis. [See directory on page 27 for more information on ACG]

METHODOLOGY
ACG spoke to 45 leading institutional seeders globally. The results are aggregated and all underlying information is CONFIDENTIAL. Five geographic regions and 26 hedge fund strategies were provided for selection (see table/chart/graph x). Seeders were asked how much capital they have earmarked for seed deals for Q3/Q4 2008 and were also asked to rank each strategy and geographic region with a 1, 2, or 3 where:

- 1 = Most preferred for an allocation
- 2 = Neutral/has potential
- 3 = Do not intend to allocate towards

DISCLAIMER
The research does not purport to be an exact tally of the total \$ amount for seed deals; rather it provides total \$ demand for Q3/Q4 2008 for those 45 leading seeders polled; in addition it provides a statistically valid representation of the strategic and geographic seed investor preference for Q3/Q4 2008.