

Funds wait for Q2 results to decide cash positions

By Shveta Pathak on Sunday, July 19, 2009

Funds continue to maintain a significantly high proportion of cash assets, even more than one-third in some cases, in wake of economic uncertainties, **Emirates Business** has learnt.

The Q2 results could act as a catalyst triggering higher allocation towards various asset classes and, at the same time, toward an increased cash utilisation, said analysts.

Cash, that formed nearly negligible share of the assets for funds during the boom days, went up to even more than an estimated 35 per cent for the more conservative funds since Q4-2008 due to abysmally low returns and, in case of hedge funds, high redemptions. Even as funds have started to utilise cash and are gradually bringing the levels down, they are still adopting a relatively conservative approach and keeping it at levels that are quite high.

"During the peak of economic crisis, we opted to keep more than 35 per cent of our assets under management in cash. Now, we have brought that down to 25 per cent, but bringing them down further would depend on a host of factors," said a top executive of an alternative asset management firm.

Hedge funds, before the crisis, were leveraged, and many even had negative cash positions, said analysts.

"Funds are definitely maintaining higher cash positions. Before the crisis, most hedge funds were levered, so had negative cash positions. Long only fund managers were in general fully invested, and had at most a few per cent in cash. That has changed and many hedge funds are running with 10 per cent to 30 per cent cash positions and most long-only funds are running at maximum cash positions, which are limited to five to 10 per cent in their prospectuses," said Kevin Dougherty, Portfolio Manager, Pharos Financial Advisors.

While "returns-oriented" investors did resist large cash positions, the conservative approach, said fund managers, has helped them deliver better returns along with lower volatility.

"Given current market conditions and volatility, we have been more conservative lately by taking a larger cash position. Our investors have been happy with this given we have delivered strong returns with lower volatility," said John J Papesh, Managing Director, Pharos.

Signs of recovery in the economy saw funds reducing their cash levels, especially in the past three months.

"Our cash levels in our funds were high until about three months ago. In the run up to the half year end they fell further," said Baldwin Berges, Director, Silk Invest.

Results of companies for the second quarter would be critical to decide further positioning of cash, said those in the industry.

However, fund managers said higher transparency in corporate results would be equally critical in their decision-making.

While a better corporate performance could result in easing of liquidity by the banking sector, asset managers said they would also like banks to come forth with more information on their exposures to bad assets.

"The Q2 results will be important for our positioning but we will pay more attention to the accompanying statements by the companies on what their current orders are and outlook for the rest of the year," said Dougherty.
