



A lot to play for

Bob Griffin, partner at international law firm Akin Gump Strauss Hauer & Feld LLP and leader of the firm's recently launched Abu Dhabi funds and private equity practice, shares his views on opportunities for regional investors

The assets of the worldwide hedge fund industry are estimated to have fallen by half. Many say that hedge funds are not a place for new money. What about other opportunities that may be available, such as alternative funds eyeing the assets of distressed hedge funds?

We don't believe that hedge funds should be any less attractive for new money. In fact, we believe that hedge funds will continue to play an important role. Despite the financial industry's fall-out in late 2008 and early 2009, we are again seeing launches of new hedge funds and a revival of investors' appetite for alternative investments, especially in this region. However, it is true that investors have become more selective when investing in alternative investments, and hedge funds are actively addressing investor demands for greater transparency and liquidity. Our clients have also indicated that investors are showing increased interest in more regulated fund structures (in particular European Union UCITS funds), and we expect those types of vehicles to become more prominent. Having said that, many funds have been faced with significant loss of value and liquidity crises, while at the same time some investors in closed-end funds are having difficulty meeting capital calls. While there has been some deal flow associated with the purchase of distressed assets and investment capacity of defaulting investors, we expect that trend to be a short-term feature of the market.

Are your clients showing an increased appetite for risk as "green shoots" emerge?

Yes, although we expect to see a more cautious approach. A decrease in the reliance on leverage to generate returns should in itself lead to a more balanced risk-return profile in the hedge fund industry. In addition, fund managers are facing greater regulation in the US and EU, as well as greater scrutiny by investors, all of which should impact on how risk is assessed.

The most exciting development is the recent trend of regional managers promoting inbound investment

In the past, interest in private equity from Gulf investors was primarily limited to investment in the West. As global financial markets begin to heal, do you expect more inbound or outbound opportunities?

We expect to see both. Corporate restructurings, technological changes and available financing within the region provide attractive inbound opportunities. Likewise, investors within the region have available capital, and the continued investment in private equity abroad suggests that such funds have become a viable asset class for Middle East and North Africa investors.

Some have argued that the region is not yet ready for private equity – that the legal framework and long-term markets are not yet developed enough. Do you agree?

No, we don't think that's correct. On the contrary, private equity investments in the region could outperform equivalent investments in developed markets due to lower levels of debt both in making investments and operating businesses. In addition, steps are being taken throughout the region to provide dispute resolution mechanisms that could meet the needs of both local and international investors. It's our belief that private equity can play a critical role, not only in providing needed capital to critical industries, but also in attracting investment and management expertise to the region. We hope that in that way private equity investments will help to further develop the region's legal frameworks and markets.

Islamic funds – though a small portion of the market – have proven themselves not immune to the crisis. What opportunities, if any, do you see in this area?

We believe that the Islamic funds sector will continue to grow. Investors from the region are likely to consider Islamic finance as providing better investment opportunities, especially in light of the recent problems in the western financial sector. As a result of the recent economic turmoil, investors are searching for asset classes that have performed better than others. While Islamic funds have faltered as the general economic output of the region has decreased, certain Islamic funds have benefited from requirements under Sharia law. For example, the screening of heavily indebted companies has probably helped to prevent larger fall-outs in the Islamic funds market.

You have recently extended your funds practice to Abu Dhabi. What opportunities do you hope to capitalise on in the region?

A growing number of fund managers seeking to expand their activities internationally, and in the Middle East in particular, have been opening offices in the United Arab Emirates. The most exciting development is the recent trend of regional managers promoting inbound investment, rather than focusing primarily on outbound opportunities. By extending our funds practice to Abu Dhabi, we hope to capitalise on these trends by targeting funds and investors on the ground in the Middle East. Over the past several years, we have had a great deal of success in representing clients operating or investing in the "new world economies" of the Gulf, Russia, India and China. Experience has shown us that managers and investors in those markets prefer to work with firms that have a local presence. We believe that our strong private equity and hedge fund practices, combined with our global reach, will give us a competitive advantage in this market. ■