



US-Based Emerging Manager Convertible Arbitrage Fund

This month [Joseph Hynes](#) takes a look at investor appetite for a convertible arbitrage hedge fund based in the US run by an emerging manager.

Fig. 1: The Assignment

Fund Strategy	Convertible Arbitrage
Fund Location	US
Experience	Emerging Manager

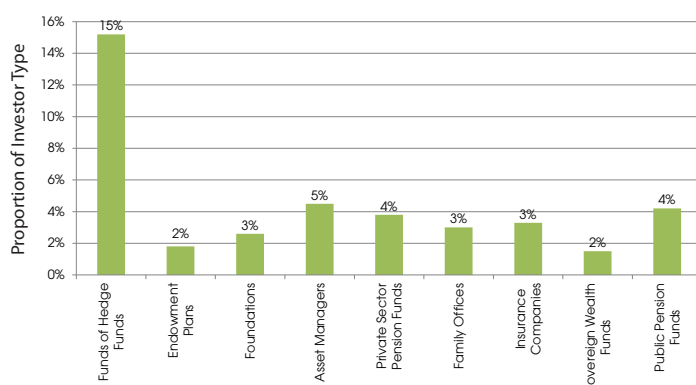
In this month's fundraising assignment we look at an emerging US-based single-manager hedge fund with a convertible arbitrage strategy focus.

Preqin's Hedge Fund Investor Profiles shows 160 potential investors for the fund. Convertible arbitrage has been among the top performing strategies in 2012, a year with a difficult returns environment for other approaches such as long/short equity. The strategy lost popularity in 2008 following the liquidity crisis and the resultant disappointing returns for investors, but is gradually winning back the favour of the institutional market through improved returns in recent years. Despite being a relatively niche strategic preference for the institutional market, changes made by convertible arbitrage managers following the Lehman collapse and other financial crisis events have encouraged renewed interest in the strategy.

The Long List

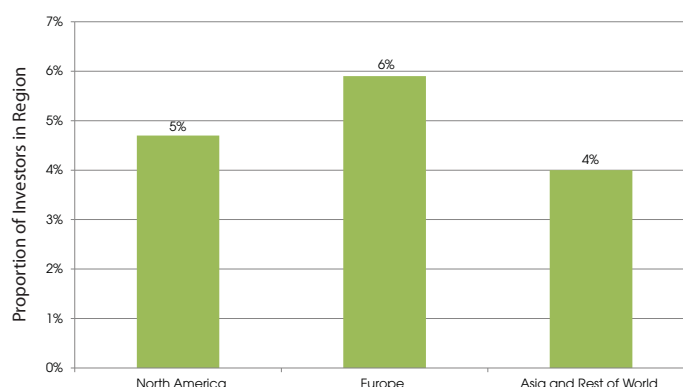
The hedge fund would be of most interest to North America- and Europe-based investors, with 5% and 6% of investors having an active interest in this type of vehicle respectively. Institutional investors from Asia and Rest of World may also

Fig. 3: Proportional Appetite of Investors by Investor Type



Source: Preqin Hedge Fund Investor Profiles

Fig. 2: Proportional Appetite of Investors by Investor Region

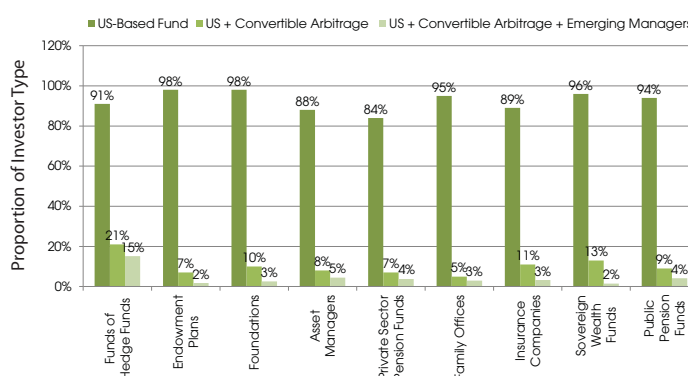


Source: Preqin Hedge Fund Investor Profiles

provide fundraising opportunities for the fund, with 4% of investors based in the region stating an interest in an emerging manager convertible arbitrage vehicle operating out of the US. With respect to investor type, funds of hedge funds have the greatest preference for this particular type of fund, with 15% of multi-managers willing to invest in this specific type of fund.

The 'Investor Barometer' shown in Fig. 4 highlights the distribution of interest among different investor types, representing how the overall list has been reduced to the final 160 investors potentially interested in the fund in question. Although a high proportion of all investor types will invest in US-based funds, including

Fig. 4: Investor Barometer: Proportion of Investors with Interest in Fundraising Assignment by Type



Source: Preqin Hedge Fund Investor Profiles



98% of endowments and 88% of asset managers, there is a significant drop in the proportion of investors that are willing to invest in a hedge fund with a convertible arbitrage strategy focus. For example, 95% of family offices will invest in US-based funds, but just 5% will invest in US-based convertible arbitrage funds. Despite improving performance, convertible arbitrage remains a small part of the hedge fund industry for a number of reasons, including relative illiquidity, the inherent small size of the convertibles sector, and the conservative nature of the institutional investor community. Despite this, if the strategy continues to perform well and show volatility hedging properties then, over time, it may become more appealing to a larger proportion of the institutional community.

The Short List

Of the 160 investors interested in this type of fund, Preqin has picked three investors of particular interest, as shown in 'The Short List' in Fig. 5. These are the institutions that not only meet the criteria for this manager type but also meet other requirements - for example being under their target allocation to hedge fund investments.

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Preqin's database contains information on 160 investors that have expressed interest in investing in a US-based emerging manager convertible arbitrage fund. 92 of these potential investors are based in North America, 53 are located in Europe and the final 15 are Asia and Rest of World-based investors. Subscribers can click [here](#) for a full list of all potential investors for this fund.

Not yet a subscriber? Hedge Fund Investor Profiles is the leading tool in helping fund managers find institutional investors with a pre-qualified stated preference for their vehicle, along with the direct contact details to get you in touch with the key decision makers.

For more information please visit:

www.preqin.com/hedge

Fig. 5: The Short List

Investor	Type	Location	Details
Aetos Capital	Fund of Hedge Funds	US	<ul style="list-style-type: none"> Invests in a wide range of strategies including convertible arbitrage. Will invest in emerging managers.
Aberdeen Solutions	Fund of Hedge Funds	UK	<ul style="list-style-type: none"> Invests on a global basis and focuses on a wide variety of strategies, including convertible arbitrage. Will consider emerging managers. Invests in a number of US-based managers already and will continue with this strategy.
Mitsubishi Corporation Pension Fund	Private Sector Pension Fund	Japan	<ul style="list-style-type: none"> Invests in hedge funds to create a low risk, well diversified investment portfolio. Focuses on arbitrage, credit, and multi-strategy managers. Invests in funds from across the globe, including the US.

Source: Preqin Hedge Fund Investor Profiles