Abstract

With progressing transparency of investment activity and structure flexibility, hedge fund has provided investors an attractive investment option. The hedge fund market in Asia appears to have room for further expansion with improving regulatory environment and increasing availability of different products in retail establishments. The research objective is to provide the general investing public and the hedge fund industry in Taiwan more insightful information of how sophisticated investors in Hong Kong relate to hedge fund investment, in order to provide more references for individuals’ hedge fund investment decisions and reflections for the industry to improve marketing strategy. Due to the likeness of the financial climate in both markets, Taiwan could use existing successful implementations and references in Hong Kong for better preparation for hedge funds to enter.

A few important factors influencing both mutual fund and hedge fund investment decisions have been identified from previous researches and surveys conducted by academic scholars and industry professionals. A hedge fund survey is conducted to test these factors and further evaluate other causes influencing hedge fund investment decisions. A total of 31 sophisticated investors in Hong Kong, mostly financial professionals, with 45% current hedge fund investors have participated.

Regression statistics analysis is used for the correlation between the multi-dimension construct measurement towards each factor and the actual percentage of investment in hedge fund of the investors. “Investment risk” has shown moderate positive correlation. “Investment return” and “past performance” have shown fair degree of positive correlation. “Investor’s understanding”, “transparency” and “skill and experience of fund managers” have shown very little or no relationship.
Non-parametric statistics analysis is used for the testing of the multi-dimension construct measurements of the factors between current hedge fund investors and non hedge fund investors with p-values. The measurement of “investment return” for current hedge fund investors is greater than non hedge fund investors. The measurements of “investor’s understanding”, “investment risk”, “past performance”, “transparency” and “skill and experience of fund managers” of current hedge fund investors are not greater than non hedge fund investors.

“Skill and experience of fund managers” has been ranked as the most important factor influencing individual hedge fund investment decisions. “Investor’s understanding” has been ranked as the most important aspect that needs improvement for the hedge fund industry. For current hedge fund investors, 43% have hedge fund investment which accounts for 15%-30% of their total assets. Seventy-two percent of current hedge fund investors are likely to increase allocation to hedge fund investment. Sixty-four percent of non hedge fund investors are likely to invest in hedge funds.

This thesis comes to the conclusion that these factors are clearly variables that influence investor’s hedge fund investment decisions. Nevertheless, investors are advised to have thorough understanding of the characteristics specifically related to hedge funds when making investment decisions. It is hoped that the hedge fund industry and regulators would incorporate these aspects for hedge fund product design and marketing. This thesis proposes several aspects to the investors and hedge fund industry in Taiwan with suggestions.