Factors Influencing Hedge Fund Investment Decisions for Sophisticated Investors in Hong Kong

Table of Content

Chapter 1  Introduction ........................................................................................................ 1
1.1  Research Motive ...................................................................................................... 1
1.2  Research Objective .............................................................................................. 3
1.3  Research Question ............................................................................................... 4

Chapter 2  Literature Review ......................................................................................... 7
2.1  About Hedge Funds .............................................................................................. 7
  2.1.1.  Definition of Hedge Funds ............................................................................. 8
  2.1.2.  History of Hedge Funds ................................................................................ 9
  2.1.3.  Types of Hedge Funds and Strategies .......................................................... 12
  2.1.4.  Current Market Conditions ........................................................................... 16
  2.1.5.  Legal and Regulatory Issues ........................................................................ 18
    2.1.5.1  Hong Kong ............................................................................................... 18
    2.1.5.2  Taiwan ..................................................................................................... 21
  2.1.6.  Hedge Funds versus Mutual Funds ............................................................... 22
  2.2  Previous Research ............................................................................................... 25
  2.2.1.  Mutual Fund Shareholders and Characteristics ............................................. 26
  2.2.2.  Factors Influencing Mutual Fund Selection ................................................ 27
  2.2.3.  Mutual Fund Choices and Investor Demographics ....................................... 28
  2.2.4.  The Behavior of Mutual Fund Investors ....................................................... 29
  2.2.5.  BARRA RogersCasey: Introduction to Hedge Funds .................................... 29
  2.2.6.  Implications of the Growth of Hedge Funds ................................................. 30
  2.3  Industry Surveys ................................................................................................. 31
    2.3.1.  Hong Kong Investment Funds Association 2002 Survey .......................... 31
    2.3.2.  Hennessee Group 2000 Survey ................................................................. 34
    2.3.3.  Hedge Fund Center 2002 Survey .............................................................. 35
  2.4  Summary of Literature Review .......................................................................... 36
  2.5  Hypotheses ......................................................................................................... 39
  2.6  Research Design ................................................................................................. 42
List of Figures

Figure 1: Number of Hedge Funds Launched in Asia .................................................18
Figure 2: Investors’ Investment Decision on Hedge Funds .......................................32
Figure 3: Reasons of Investors Not Interested in Hedge Funds ...............................33
Figure 4: Reasons of Investors Making Hedge Fund Investment ................................34
Figure 5: The Association between Factors Influencing Investors and the Hedge Fund Investment Decision .....................................................................................................43
Figure 6: Overall Multi-Dimension Construct Measurement towards Investor’s Understanding ...........................................................................................................(51
Figure 7: Overall Measurement towards Investor’s Understanding and Actual Investment ......................................................................................................................52
Figure 8: Overall Multi-Dimension Construct Measurement towards Investment Return ......................................................................................................................54
Figure 9: Overall Measurement towards Investment Return and Actual Investment 55
Figure 10: Overall Multi-Dimension Construct Measurement towards Investment Risk ..........................................................................................................................57
Figure 11: Overall Measurement towards Investment Risk and Actual Investment 58
Figure 12: Overall Multi-Dimension Construct Measurement towards Past Performance ......................................................................................................................60
Figure 13: Overall Measurement towards Past Performance and Actual Investment 61
Figure 14: Overall Multi-Dimension Construct Measurement towards Transparency 63
Figure 15: Overall Measurement towards Transparency and Actual Investment ....64
Figure 16: Overall Multi-Dimension Construct Measurement towards Skill and Experience of Fund Managers .............................................................................................66
Figure 17: Overall Measurement towards Transparency and Actual Investment ....67
Figure 18: Most Important Factor Influencing Hedge Fund Investment Decision ....69
Figure 19: The Aspect Which Needs Most Improvement .............................................70
Figure 20: Percentage of Investors’ Current Investment in Hedge Fund ...............71
Figure 21: Percentage of Current Hedge Fund Investors Consider to Increase Allocation to Hedge Fund Investment ..................................................................................71
Figure 22: Percentage of Non Hedge Fund Investors Considering to Invest in Hedge Fund ......................................................................................................................72
List of Tables

Table 1: Multi-Dimension Constructs of the Factors Influencing Fund Investment Choices...........................................................................................................................6
Table 2: Descriptions of Hedge Fund Strategies..........................................................................................................................12
Table 3: Differences between Hedge Funds and Mutual Funds ........................................................................................................22
Table 4: Hedge Funds Outperform Mutual Funds in Falling Equity Markets........24
Table 5: Summary of Previous Research and Industry Survey..........................38
Table 6: Definition of the Study Population ..........................................................45
Table 7: Descriptive Statistics for the Factor “Investor’s Understanding” ............51
Table 8: Regression Statistics Summary Output for “Investor’s Understanding” ...52
Table 9: Non-Parametric “Mann-Whitney U” Statistics Test for “Investor’s Understanding” ......................................................................................................................................53
Table 10: t-Test: Two-Sample Assuming Equal Variance for “Investor’s Understanding” ........................................................................................................................................53
Table 11: Descriptive Statistics for the Factor “Investment Return” .......................54
Table 12: Regression Statistics Summary Output for “Investment Return” ............55
Table 13: Non-Parametric “Mann-Whitney U” Statistics Test for “Investment Return” ......................................................................................................................................56
Table 14: t-Test: Two-Sample Assuming Equal Variance for “Investment Return” ....56
Table 15: Descriptive Statistics for the Factor “Investment Risk” ............................57
Table 16: Regression Statistics Summary Output for “Investment Risk” ...............58
Table 17: Non-Parametric “Mann-Whitney U” Statistics Test for “Investment Risk” 59
Table 18: t-Test: Two-Sample Assuming Equal Variance for “Investment Risk” .......59
Table 19: Descriptive Statistics for the Factor “Past Performance” ..........................60
Table 20: Regression Statistics Summary Output for “Past Performance” ...............61
Table 21: Non-Parametric “Mann-Whitney U” Statistics Test for “Past Performance” ......................................................................................................................................62
Table 22: t-Test: Two-Sample Assuming Equal Variance for “Past Performance” .....62
Table 23: Descriptive Statistics for the Factor “Transparency” ................................57
Table 24: Regression Statistics Summary Output for “Transparency” .....................63
Table 25: Non-Parametric “Mann-Whitney U” Statistics Test for “Transparency” ....65
Table 26: t-Test: Two-Sample Assuming Equal Variance for “Transparency” ........65
Table 27: Descriptive Statistics for the Factor “Skill and Experience of Fund Managers” ......................................................................................................................................66
Table 28: Regression Statistics Summary Output for “Skill and Experience of Fund Managers” ......................................................................................................................................67
Table 30: Non-Parametric “Mann-Whitney U” Statistics Test for “Skill and Experience of Fund Managers”………………………………………………………………………………………………………………………68
Table 31: t-Test: Two-Sample Assuming Equal Variance for “Skill and Experience of Fund Managers”……………………………………………………………………………………………………………………………………………68
Table 31: Conservative Rule of Thumb for Interpreting Correlation ..........................72
Table 32: Correlation between Factors Influencing Hedge Fund Investment Decisions and Actual Investment in Hedge Fund………………………………………………………………………………………………………………………………………………………………………………73
Table 33: Hypotheses, Expectations, Results and Decisions………………………………73