2020 saw hedge funds successfully weather the political, social and economic turmoil brought about by the coronavirus pandemic to generate their biggest rise since 2009, at the height of the Global Financial Crisis.

Last year’s near-12 per cent advance not only represented an emphatic return to form for an industry which has often struggled with lukewarm performances in recent years, but also offered a compelling case for this occasionally-maligned and frequently-misunderstood sector’s inclusion in investors’ portfolios.

As the global economy launches a tentative recovery from the coronavirus crisis, and a new US administration led by Joe Biden prepares to make a significant step-change from the Donald Trump era, 2021 is certain to be another eventful and unpredictable year for hedge fund managers at all ends of the strategy spectrum.

Hedgeweek’s annual Global Outlook aims to take the temperature of this most cosmopolitan of communities, gauging how managers of all stripes intend to deal with the assortment of investment and operational challenges – and opportunities – confronting their firms this year.

The report delves deep into the key issues affecting equities, credit, macro and more, and charts how evolving trends in ESG and diversity are reshaping the industry. With hedge funds riding high on the back of a strong 2020 showing, and active management and trader skill set to take centre-stage, the report also weighs up how investors’ expectations are likely to play out this year.

With economic uncertainty and the potential for further market disruption and episodic volatility looming on the horizon, this year’s Global Outlook offers a timely mix of lively, forthright and - in keeping with the spirit of this business - often-contrarian views and perspectives on the direction of travel of this industry. We hope you enjoy it.

All of us at Hedgeweek would like to extend our gratitude to all those who took time out of their busy schedules to offer their valuable insights in this year’s report.

I wish everyone a safe and successful 2021.

Hugh Leask
Editor, Hedgeweek

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One potential scenario could be stagflation – weak growth coupled with rising inflation. There we would expect directional and relative value opportunities across currencies and commodities to increase and we would expect more dynamic trading strategies to be able to navigate the likely turbulent markets in the medium term.

Razvan Remsing, Aspect Capital
Those investors expecting indeed hoping this year will be somewhat of an anticlimactic follow-on from the dramatic one that came before are in for some shock. Rather than looking back at the tumultuous events of last let me explore how they have set the scene for 2021 to prove no less consequential.

Even before the pandemic, Beijing had been re-orientating China’s economic and financial gearing. It had, for one, been unstitching the dollar from China’s bilateral trade beyond the US. Beijing had signed currency swap arrangements widely around the world and had periodically reduced the dollar’s weighting in the basket of currencies against which it carefully managed its own specie. Rather than see this process paused by coronavirus, we saw it accelerated and it will continue to manifest itself through 2021. So much so that the dollar’s trade weighted slide through 2020 will become all the more evident and so too a steepening in the US yield curve.

What this means for those nations pegged to the greenback and in particular Hong Kong, as well as commodities long priced in it, will I believe challenge investors across all asset classes. We will have to wait to see how President Biden, his Secretary of the Treasury and the FOMC react to all this.

Whilst many have regretted mistakenly predicting disorderly decline in the dollar and Treasuries, I have never seen so many stars aligned making 2021 the year these related denouements happen.

Over in Europe, a disorderly decline awaits a Turkish lira, all of whose efforts to peg against the dollar have ended badly. With the euro caught in a vice where it strengthens against the dollar as well as currencies closer by, one wonders what if anything the ECB can do to reflate the Eurozone. With Brexit having finally been performed investor attention will shift to what the rise of other recalcitrant EU members, will mean for that body.

What macroeconomic and geopolitical developments do you expect will influence the investment landscape for hedge funds in 2021?

DAVID GORTON
Chief Investment Officer, DG Partners

The Covid vaccine is “medium term” very good news, but the economy has suffered a profound demand shock and a sharp rise in unemployment which creates large risks. The Fed will need to keep rates low across the curve and continue to expand its balance sheet well into the recovery. This is likely to keep 10yr yields in a relatively tight range in H1 ’21 and with limited carry make for subdued FI returns. The second half of the year could prove more challenging for central banks and their nascent adoption of “average inflation” targeting. Huge pools of savings, expansionary fiscal policy and pent up demand will likely see inflation worries resurface, particularly if commodity prices continue to rise. Rates will be less useful as both a source of alpha and a hedge in a traditional portfolio. Hence returns from foreign exchange and commodities will be increasingly important.

An incipient recovery and abundant liquidity will meet many commodity markets that are just awakening from long run bear trends and a concomitant lack of investment over a number of years. This suggests that commodities can continue their Q4 ascent. The dollar is harder to read. On the one hand, the rekindling of animal spirits and growth expectations we expect, may support a stronger dollar. On the other, a rapidly expanding monetary base may undermine it. It will be crucial for traders to avoid any early noise in the USD and to be aggressive as and when a trend is established.
How do you anticipate central bank action influencing global markets in 2021?

RAZVAN REMSING
Director of Investment Solutions, Aspect Capital

There is an argument to be made that central banks have been the major protagonists of the equity market recovery so far in 2020 and they will find it very hard to extricate themselves from having to continue to provide more support. Equity markets may well continue their euphoric rally for some time but once the pandemic recedes, investors may well find that the global economy is still marred by problems that both predate and those that have been exacerbated by the crisis.

One of the likely side effects of this extraordinary ultra-easy monetary policy could be the return of inflation, the question being when not if. Additionally, bond markets may no longer provide the same level of income, with yields so depressed, nor risk mitigation in the face of equity crisis. So, one of the more pertinent questions for 2021 and beyond is what investment strategies could provide a surrogate role for bonds in a traditional portfolio.

One potential scenario could be stagflation – weak growth coupled with rising inflation. There we would expect directional and relative value opportunities across currencies and commodities to increase and we would expect more dynamic trading strategies to be able to navigate the likely turbulent markets in the medium term.

Alternatively, equity markets could continue to recover but not without setbacks as the pandemic and its effects will still be around for a while. Against that environment, we are continuing to research and expand the use of alternative data sets to more readily pick up on changes in sentiment or market regimes – an area of research that has already served us well during 2020.
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How do you see monetary and fiscal policy influencing the US marketplace in 2021?

BEN MELKMAN  
Founder & CIO, Light Sky Macro LP

Monetary and fiscal stimuli have been the cornerstone of the US economic recovery in the second half of 2020. Direct deposits from the Treasury to US households allowed disposable income to grow sharply during the crisis in spite of a record increase in unemployment. The fiscal deficit in 2020 has reached a record 15 per cent of GDP. Simultaneously the Fed’s balance sheet has grown by over USD3 trillion since the start of the Covid crisis in March 2020 i.e. also 15 per cent of GDP.

In other words, the Fed has de-facto funded the bulk of the US fiscal expansion, injecting an unprecedented amount of US dollar liquidity in the financial system in a very short amount of time. This has brought US real rates towards historically negative levels, boosting multiples of the broad US equity market beyond what economic fundamentals would be implying. The US equity market has already brought forward the pricing of future earnings growth via the rates rally towards the zero lower bound. Market capitalisation to GDP is already reaching record levels consistent with anaemic equity returns in coming years.

As the consensus view for 2021 is overwhelmingly a bullish one based upon the view that Covid vaccines will allow the full reopening of the global economy and will liberate pent-up demand, Light Sky Macro (LSM) worries that a large part of the 2021 trade has already taken place in the second half of Q4 2020. In fact, LSM sees significant risks for the US equity market on the horizon for 2021.

First and foremost, the US is already past the peak of monetary and fiscal stimulus and the market may suffer from withdrawal symptoms. Under current law, the CBO estimates that the expiry of emergency fiscal measures put in place to respond to the Covid crisis will result in USD15 trillion of fiscal tightening i.e. 75 per cent of GDP. The hurdle to experience large positive economic growth in the face of this type of fiscal headwind is massive. The likelihood of a mixed Congress makes it very unlikely that a large and durable fiscal package can be delivered to avoid a fiscal cliff.

Second, the Fed is already past the peak in terms of pace of its QE purchases.

At the current pace, the Fed will buy in 2021 almost half the amount of Treasuries and MBS than it bought between March and December 2020. Fed QE has unintended consequences for the banking system: by growing bank reserves it also grows banks’ balance sheets, making them subject to heightened regulatory constraints (higher GSIB scores, bloated leverage ratios). The path of least resistance for the Fed is therefore to taper its QE purchases over time rather than to increase them.

Third, a large part of the global recovery in H2 2020 was helped by China, playing the role of The Engine of Global Growth thanks to an efficient Covid management and to a very large fiscal stimulus boosting aggregate credit growth. China has already made it clear that this pace of credit growth would be unsustainable in 2021 and that it would need to reduce its aggregate macro-leverage. In other words, the China credit impulse is most likely to turn negative in a few months, implying downside risk to global economic momentum. The market also likely underestimates the extent of the geopolitical frictions that will persist between the US and China under a Biden administration.

Finally, the key risk would be an acceleration of inflation. If the US ends up with further melt up in industrial commodity prices, it would rapidly see growing signs of inflationary pressures, which would decompress long yields and accelerate the tapering of fiscal and monetary stimuli. Beyond this cautiousness surrounding the US equity market, 2021 should validate the end of US exceptionalism and continue to be negative for the US dollar.

A combination of expensive US equity market relative to the rest of the world, a record twin-deficit, the extent of negative 2yr real rates in the US relative to the rest of the world, a large supply of US dollars into mid-2021 on the back of the reduction of the Treasury cash balance ahead of the debt ceiling deadline, and foreign investors having bought about USD15 trillion of US assets over the past decade on the back a regime of US exceptionalism (creating a risk of capital outflows towards more attractive markets) are all factors that should weaken the US dollar structurally, even if US equities deliver poor equity returns.
Looking forward into 2021, what history shows us is that big de-grosses, and the flushing out or clearing of positions, often leads to a conducive environment for stock picking. We remain of the opinion that fundamentals will return.

James Orme-Smith, Sandbar Asset Management
What are the major opportunities and risks for alpha generation in equities in 2021?

JAMES ORME-SMITH
CEO, Sandbar Asset Management

One clear observation from last year is how much stock moves were driven by factors rather than fundamentals. Historically-unique factor moves in March and November made markets particularly tricky for fundamental stock-picking strategies, combined with high market volatility correlations. That’s been masked somewhat by the headline levels of the S&P 500 and major indices, as many hedge fund returns have been driven by beta and factors as opposed to stock alpha.

In November, you also saw extreme moves in short covering, as various quant and systematic funds were triggered to cover their shorts and sell their longs, which can be a pretty nasty mix.

So looking forward into 2021, what history shows us is that such big de-grosses, and the flushing out or clearing of positions, often leads to a conducive environment for stock picking. We remain of the opinion that fundamentals will return. In 2021, what one would hope – and this is certainly a message we give to investors – is that, based on previous events, normality returns and fundamentals matter. Things to look out for would be a fall in correlations, stabilisation of market volatility, and stabilisation of factor volatility.

All stockpickers would be making these observations, and trying to identify the point at which markets normalise and return to trading on fundamentals. One catalyst for that may be full-year earnings and forecasts for 2021, which begin at the end of January.

If your investment process is based on stockpicking and fundamentals, then fundamentals need to matter, otherwise you end up being a thematic investor or a sector-based investor where you’re just making a directional bet on, say, tech or big healthcare, or any other sector.

There are certain sectors that clearly were structurally-challenged pre-Covid and even more structurally-challenged post-Covid – airlines, aerospace, for instance. Time will tell how quickly people get back on flights, but all the data indicates people aren’t flying at the moment: the cash burn at these companies continues, heaping even more pressure on certain companies’ ability to meet their cost of borrowing.

We maintain our focus on companies’ balance sheet strength, market position, market share and the key fundamental drivers of the industries in our investable universe. We have a reasonably short-term investment horizon of three to six months, and a large diversified portfolio of around 100 longs and 100 shorts, with each pair tagged with a clear pay day catalyst.

There have been over-corrections on both sides. There has been exuberance on the long side, and there’s probably been over-pessimism on the downside. The pendulum often swings too far one way in either direction. What we’re trying to do is get a measure of balance, of what is going on at the fundamental level.
DAVID AMARYAN  
Founder & CEO, Balchug Capital  
Emerging markets should get more attention this year, especially Russia, which was an underperformer in 2020. With the highest dividend yield and a growing tech sector it offers the most attractive risk/reward among the EMs. We also expect more companies to go public in 2021, which should increase the depth and attractiveness of the Russian market. Individual local investors in Russia are becoming very involved in financial markets, causing greater volatility, but also better liquidity. The increased interest in renewable energy is not temporary hype, but the beginning of a new era. The general market still does not fully comprehend how large of a sector this could be and how big of a demand there will be in the near future.

The era of the traditional energy is coming to an end. Most countries realise this and are already pushing for new regulations to prepare their society for this. Even the oil majors are starting to reposition themselves and are rapidly looking for new opportunities in renewable energy.

Solar, wind, hydrogen, even uranium will be in high demand. This of course includes electric vehicles as well, which is set to become a major industry and take up a large portion of the capital markets.

Of course, the road is going to be bumpy. Not every company is going to succeed. But this is normal – we are in the early stages. The ones that do succeed will become major players.

In the early ‘90s, who would have thought that we will be going through a large-scale technological revolution? Who would have thought that “a website” could be worth several times more than Exxon or that top 5 US companies will be tech companies (and the 6th one Tesla)?

Tech was not the only sector that Covid-19 “forced” into a rapid growth. Biotech is another sector that is going through a phenomenal change and I believe that it will have an outstanding year in 2021. We should also see a lot of consolidation in this sector. We especially like immunology and gene therapy.

It is also worth looking for hidden gems in the value sector. Value will start performing in 2021. We like healthcare, industrials and financials. And watch out for high beta oil names – I believe that there is a bigger chance of us seeing oil at USD60, than at USD30.

KERIM CELEBI  
Head of Research, Brummer Multi-Strategy  
Looking ahead, over the next several years, there are important structural tailwinds for an increase in volatility and dispersion within and across asset classes and countries. One important change in dynamic is the gradual transition from a long period dominated by homogenous monetary policies to more heterogenous fiscal dominance. Central bankers have over the past decade adopted similar policies at roughly the same time, whereas politicians both across and within countries are different, operating under different frameworks. Furthermore, the margin of error for politicians and central bankers is decreasing. Monetary/fiscal policy coordination needs to be effective in keeping both inflation and interest rates within a reasonably small span. Too inflationary or too deflationary environments can have costly implications for the economy. The economic system is becoming increasingly fragile.

There are many different scenarios that can play out in the coming years. Given this uncertain backdrop, diversification will be even more important. We are looking to add market neutral sector specialists in the long/short equity space where we see significant disconnects between asset prices and fundamentals with accelerating technological disruption having a compounding effect on companies’ fundamentals across all sectors. Those sector specialists who have a more in-depth understanding of these dynamics stand to benefit and we are reviewing a broad and deep global talent pool.

Brummer’s investment objective is to construct an all-weather portfolio designed to generate strong risk-adjusted alpha irrespective of market environment. Our approach has worked well over the last 18 years, and we have continued to successfully navigate this year’s significant volatility and rotations in the market. We look forward to the opportunities and challenges in 2021.
AYUSH ANSAL
Chief Investment Officer, Crimson Black Capital

As of December 2020, most fund managers would accept we are in a bubble in equity valuations. Investors are faced with a difficult situation where equities are overvalued, bonds yield nothing and a hot IPO market perpetually generates a sense of dread among investors as they see first timers and Robinhood traders generate massive anecdotal returns featured in the media.

In retrospect, valuations, retail enthusiasm and the IPO market are hallmarks of the current valuation bubble that continues to be propelled by monetary policy during the most devastating recession of our generation.

So where does that leave private investors, fund managers and allocators?

I believe we are going to see increasingly defensive positioning with lower net and gross exposures as valuations get further away from acceptable levels. The role of a quantitative investment system driven by new age technologies such as AI is also best highlighted during a correction, as these strategies always lag behind in intense bull markets as they attempt to avoid exposure to crowded trades.

The role of ESG in portfolios is also likely to continue to evolve. Broader studies of ESG effectiveness are always used to discredit ESG’s ability to generate superior returns but these studies are not useful in illustrating the best use of ESG.

As the number of ESG data providers continues to balloon, the greatest challenge in ESG remains in selecting the correct data provider for the particular firm and industry to generate genuine insights. A broad approach where companies are compared across sectors using a static ESG framework rather than a dynamic one are not likely to be useful over the long term, especially in a quantitative environment where the easy availability of computing power has made granular dynamic approaches a lot more viable.

The silver lining for investors remains that Trump has not managed to secure a second term. While Trump’s fiscal policy was attractive for investors, that level of tax cuts was unlikely to be repeated if Trump had gained a second term. Under Biden, investors benefit from increased certainty and reduced protectionism, both opening the door for recovery and growth through increased business fixed investment and enhanced trade with partner countries.

BARRY NORRIS
Founder, CEO & CIO, Argonaut Capital

I very much think that the great surprise about 2021 is that it’s going to look more like 2020 than 2019. At the moment, people are just assuming 2021 will look like 2019. I don’t think that’s the case.

One of the reasons why it won’t be the case is that by the time you get around to the summer Covid will have been going on for 18 months. Had we gone back to normal in April or May last year, we probably would have had a v-shape recovery.

But if we’ve had 18 months of virus suppression and lockdown, people learn new habits and new behaviour.

Working from home is a habit that a lot of companies have come out and said is permanent. Also, if you’ve moved to doing most of your shopping online, it’s unlikely you’re going to go back to thinking an afternoon at the shopping mall or the supermarket is an interesting use of your time. So even if Covid goes away, you’re still going to get this K-shaped recovery in industries exposed to Covid.

Offices are the new shopping malls; online retailing and shopping from home is here to stay. Residential property is going to do fantastically well over the next decade.

What we’re seeing at the moment is a big group-think cacophony to tell you to buy value. But this is a top-down call that says the world is normalising – it is not inspired by people who are finding stocks that from the bottom up appear to have better prospects. I would note that since the financial crisis, the return profile of value has generally been consistently poor and then you get one or two months where value massively outperforms before being consistently poor again.

I would say that even if you believe in a return to normality this year, there’ll be a better entry point probably around May time. By then we will see whether the economy will normalise because over the next six months we’re going to be subject to lockdown restrictions irrespective of whether the vaccines work or not from a clinical perspective."
Chapter 3
Credit insights

“We believe that caution is warranted in certain parts of the credit market such as levered loans and unsecured corporate debt and there might be opportunities in others parts such as asset-based lending where capital is less readily available and banks have scaled back their traditional financing activities significantly.”

Albertus Rigter, Astra Asset Management
What is your outlook for the credit markets in 2021?

PAVEL MAMAI
Co-Founder & Managing Partner, ProMeritum

The fundamental factor underlying our outlook for this year is that of the world normalising. We think that vaccines will probably be rolled out in developed markets as expected. Emerging markets vaccination will be slower, but the narrative will become more positive once developed markets vaccination campaigns are running full steam ahead. Mass vaccination will allow people to start getting back to their normal lives, which means getting fully back to work and social activities. That clearly means a boost to global GDP growth, which will mean higher earnings, more demand for commodities, higher tax revenues for governments, etc. The latter point means 2021 will also likely be the year that some countries in the emerging markets space start to see their credit fundamentals improve again.

Despite the improving global macro backdrop, we believe developed markets central banks will keep printing money, and that money will keep looking for new places to go. Emerging market high grade yields and spreads, which are already getting a bit uncomfortable, are going to get more uncomfortable. In our view emerging markets high yield and local will see further inflows. Oil credits will see serious fundamental improvements, which should be further reflected in bond prices.

The biggest risk is that the medical solution to the pandemic does not work, either because of vaccine effectiveness, virus mutations, or logistical challenges. Geopolitics could also be a concern. The obvious candidates would be US-China tensions, US-Russia tensions, Russia-Ukraine, Belarus-Russia-US-EU, US/Saudi/Israel-Iran. We think that the US sanctions policy is going to get a complete rethink, and that there may be a more multifaceted approach to countering Russia or China going forward, we are probably just one bad Russian behavioural outburst away from a tough US response on the sanctions front.

Inflation could also surge and/or Treasury yields could rise too fast. This is a risk given the amount of fiscal and monetary stimulus, but 1) there has been a lot of monetary easing over the past decade, and the only inflation that has been created so far is for asset prices; and 2) if yields rise too fast, the Fed would undoubtedly step in.

What is your outlook on distressed credit for 2021?

ANTHONY ANTONELLI
Director, Research/Macro, Greylock Capital Management

Greylock Capital anticipates a major rebound in emerging market growth in 2021, but recognises that the economic damage to many vulnerable economies has been severe and will prompt numerous sovereign restructurings and distressed situations.

On the optimistic side:
• Vaccines and therapeutics will ignite animal spirits and GDP growth rates of 6 to 8 per cent are possible across numerous emerging market economies.
• The lagged effect of fiscal spending and monetary measures taken in 2020 are fully felt in 2021.
• Key emerging market sectors such as tourism, energy, industrials, and commodities are poised for substantial improvement in 2021.
• Chinese growth tends to have a high correlation with emerging market growth and China has been booming. Moreover, trade war tensions may ease under a new administration.
• A weaker dollar eases funding burdens for indebted EM governments and higher EM interest rates attracts foreign capital looking for a home in the face of negative global rates.

On the negative side:
• Numerous countries were already struggling prior to the pandemic and their credit profiles have only suffered further.
• Budget deficits and debt levels have been historically large and in growing cases are unsustainable.
• Several EM economies are showing incipient evidence of inflation as low interest rate policies may have reached their limits for countries with weak currencies.

In summary, 2021 will be yet another dynamic year with sharp recovery stories for most in emerging markets, but a substantial supply of distressed debt opportunities to evaluate will be evident.
What opportunities and challenges within global credit markets do you perceive for 2021?

PETER STAGE & HAMMAD KHAN
Senior Managing Directors, Europe, EIF Investments

2021 will be the year that economies start to recover from the pandemic, aided by the influx of governments’ monetary and fiscal support. Businesses which are not prepared for the new post-Covid world will struggle to survive unless they adapt. This applies to all sectors including the financial sector, which is rapidly evolving with the growing emergence of digitalisation and cryptocurrency. Certain sectors, such as energy, retail and travel may take longer to recover because of the secular trends created by the virus. We should expect defaults in vulnerable sectors, although these may not be as bad as people may have expected.

In the financial sector, we are likely to see the stronger names take advantage of the wide-open capital markets by bolstering their balance sheets. We do not expect corporates to re-engage in aggressive activities, such as stock buy-backs via debt issuance. Instead, we believe that regulators will be very cautious around balance sheet risks for the near future. The European and UK banking sectors are in a strong position. Banks entered the current crisis with record levels of capital, strong asset quality and ample liquidity. This year, most banks have built capital, and from a credit perspective, seem to be in positions of strength. We predict that the credit markets will continue to improve, and that isolated incidents of defaults or bankruptcies will not be systemic.

We see the opportunities in the banking sectors as being driven largely by consolidation and the creation of a banking union or capital markets union. In particular, we feel the small bank and insurance space will benefit from this consolidation.

RAJ DAVE
Portfolio Manager, Torgos Credit Opportunities Fund

2020 was characterised by a boom in risk asset markets and a dire global economy. 2021 is potentially set up for a booming global economy coupled with tougher trading conditions that will most likely result in marginal gains in risk asset returns. While we expect a continued normalisation in the global economy, we believe we are moving from an ‘everything goes up’ rally to a more discerning investing environment whereby dispersion in stock and credit markets should help drive returns.

We expect to focus on idiosyncratic event driven opportunities where returns are driven by specific catalysts – reorganisations, turnarounds, management changes, asset sale/spin-offs and capital structure/liability management solutions – and expect that area to represent a more fertile investment environment. The biggest risk to markets, in our view, is a meaningful sell off in the treasury market, which, while we do not expect, we are mindful of as we position our portfolio.

ALBERTUS RIGTER
Partner & Member of the Investment Team, Astra Asset Management

There appears to be a growing disconnect between fundamentals and asset prices. Although Moody’s expects corporate default rates to continue to rise into the first quarter 2021 both in the US and Europe, spread implied default rates are not reflecting that. We believe that caution is warranted in certain parts of the credit market such as levered loans and unsecured corporate debt and there might be opportunities in others parts such as asset-based lending where capital is less readily available and banks have scaled back their traditional financing activities significantly.

Once rising default rates trickle through to structured credit markets, Astra believes that BBB CLOs remain vulnerable to rating downgrades. Given that the senior part of the CLO capital structure is still attractive both relative to, say, highly rated government debt and in comparison to pre-2008 levels, investors may very well take advantage of the superior risk-reward ratio in AAAs and divest from BBBs, causing the AAA-BBB spread to widen.

The Covid-19 pandemic has created numerous opportunities in subordinated bank debt. While Astra has allocated to the sector since Q2, we have more recently shifted focus to add structural leverage to the same underlying exposure, for example through TruPS CDOs. In addition, we see a strong demand for rescue and/or bridge loan solutions and companies are willing to pledge high quality assets to access flexible short term financing.
There is certainly evidence that having a proactive approach to managing ESG does improve a company’s resilience, and that being adaptative in the face of change and market volatility will benefit in terms of seeing increased demand, whilst those in less sustainable economic activities will witness demand destruction.

My-Linh Ngo, BlueBay Asset Management
How might the current appetite for ESG among hedge fund managers and investors evolve in 2021? Is there potential for crowded trades and short selling opportunities?

KARIM LEGUEL
International Head of Investment Specialists for Hedge Funds & Alternative Credit Solutions, JP Morgan Asset Management

It’s not about just being long in companies that score highly on ESG, and shorting badly-rated ESG. It’s more about driving alpha around themes.

What we’ve done in our fund that we launched on the sustainable side is go to managers and customise managed accounts around sustainable themes.

We feel there is an alpha opportunity across trends where we can achieve, over cycles, similar returns to equity markets because of that alpha component, which we think is higher than the average of the market.

Health and wealth is a big sustainability theme, and within that, access to cheaper healthcare, so we can be long companies that are achieving that.

In China, for instance, Alibaba Health is the largest online healthcare company and has been benefitting from recent government policy initiatives which have allowed online prescription drug sales and encouraged prescription outflow from hospitals to retail markets. This is allowing Chinese consumers access to faster and cheaper healthcare.

We also had a short in a very large biotech company where their existing product pipeline is basically a higher-cost drug. They’re going to be negotiated down in terms of pricing by hospitals in the US, and that will impact them. They are on the wrong side of that health and wealth trend, of having cheaper and more efficient access to any kind of healthcare, whether it is prescriptions or testing.

We see more of that, rather than, say, just shorting a bad oil company. I think that kind of investing is harder to implement. It may be negative on the ESG score, but those companies can still incorporate changes and improve.

Of course, we can be long on a company that’s really switching in terms of energy efficiency or moving towards renewables, as well as shorting something that is on the wrong side, but that’s not specifically a theme on the short side.

JIM NEUMANN
Partner & Chief Investment Officer, Sussex Partners

ESG investing has gone from being something most thought was a good idea, but with a definition being nebulous and execution therefore not clear, to actionable, albeit in various forms. Many institutions now have directives to allocate some portion of assets into the broad ESG space. What is changing and will change more is the certainty of how to do this as more standardised vehicles become available.

The appetite for ESG at this point is fairly pent up but being relieved by new vehicles and standardisation behind ESG definition. If the first iteration of ESG was simply getting invested in qualified investments, the second wave, which has begun in earnest, is measurability of the good or impact these investments have against their objective(s). In particular, impact investing with clear measurement of not just the financial return but with some sensible measure of achievement versus a defined ESG goal is taking hold of investors’ agendas.

Investors are often choosing to focus on specific objectives, like those outlined in the United Nation’s Sustainable Development Goals.

For example, SDG 14 - “Conserve and sustainably use the ocean, seas and marine resources for sustainable development” – might lead to investment in an impact fund that targets this by investing in projects or companies addressing the myriad issues from plastics pollution to sustainable fisheries to all the derivatives.

Investors now are seeking both an absolute market competitive return and a measure of success versus the SDG.

The early days of selling the carbon producers and buying the green companies may have worked but the expression has evolved. This may lead to crowded trades in the public markets as new viable firms become investable. This is being met by investors moving down a level from public companies into private growth firms. On the short side the jury is out as to what shorts help to achieve the ESG objectives and a case can be made for shorting bad actors as a way to encourage compliance.
MY-LINH NGO
Head of ESG, BlueBay Asset Management

Overall, whilst much uncertainty remains as to how 2021 will pan out and how much of that will continue to be dictated by the coronavirus (although news of a vaccine gives hope), ESG investing should continue to build positive momentum. The pandemic has firmly put a dent in the ‘we would if we could’ or ‘it’s too hard’ excuses, as it has shown what is possible in terms of the pace and scale of change when the world is faced with an existential threat.

Specific ESG themes I’d flag include further action by governments, central banks and regulators on ESG policy and regulation, in particular the emphasis is on ‘greenifying’ the financial system and designing significant fiscal stimulus plans with green recovery as a core feature, as well as the need for ESG data, and a need for disclosure as a means to obtain this. The fixed income market will move more centre stage, as sustainable finance in the form of the ESG labelled bond market will continue to surge, further helping align issuers and investors around sustainability goals.

Social issues will remain in focus as the world continues to adjust and adapt to the ‘new’ normal, experimenting with new flexible models of working and requiring greater efforts to engage and motivate staff, and ensure health and wellbeing. Efforts will also be on addressing social justice and inequality. With a new US president, there is also renewed confidence that the world’s largest economy will re-enter the Paris accord and put America back on track. There is certainly evidence that having a proactive approach to managing ESG does improve a company’s resilience, and that being adaptive in the face of change and market volatility will benefit in terms of seeing increased demand, whilst those in less sustainable economic activities will witness demand destruction.

Not surprising then that ESG assets have grown, with 2020 seeing record inflows into ESG funds. Given this trend, it’s logical to ask if there is a danger of an ESG pricing bubble, with companies showing inflated valuations not necessarily supported by sound fundamentals.

Whilst there is a risk of this occurring, the data analysis conducted to date hasn’t shown this to be the case. Outperformance of strong ESG performing companies have not been driven by increased valuations, rather the higher pricing observed is justified as such companies demonstrate better investment characteristics, with high correlation with factors such as quality and profitability.

That’s not to say the risk does not remain, especially with the increasing scale of demand chasing what is still relatively limited supply. But it’s important to recognise other factors may also be at play: aside from ESG dynamics, there is a wider theme of the hunt for yields which will lead to more investors piling into lower rated names.

All this points to the need for investors to be disciplined and practice robust fundamental research and considering valuations.

ULRIK FUGMANN & EDWARD LEES
Co-Heads of Environmental Strategies Group, BNP Paribas Asset Management

Investor appetite for using ESG to address non-financial risk is mainstream and here to stay. Standardisation efforts have proved difficult and keeping a subjective interpretation of ESG may even be beneficial as it balances the ‘how’ (policies in place) and the ‘what’ (actual footprint).

Varying biases can creep into ESG rating systems, for example within environmental analysis, where carbon intensity often is expressed as carbon/enterprise value. Clearly, this leads to a systematic bias away from value companies in favour of other styles such as growth, which has performed strongly for more than a decade, whereas over much longer time periods, value has been the superior style. If value does outperform in 2021, ESG portfolios with this implied bias could underperform the broader market and/or portfolios guided by other metrics. ESG should not guide portfolio allocations, but be used as a tool for comprehensive risk assessment of a company.

Passive ESG portfolios and ETFs are undoubtedly guided towards the same names, leading to crowding, in particularly within European equities where most ESG flows have been seen for some time.

Whilst this potentially leads to crowding, in particular within the large caps that are constituents of passive portfolios, ETFs and many institutional products, this is less pronounced lower down the market capitalisation spectrum. Some crowding can be with good reason as companies providing solutions to particular environmental challenges and climate change are experiencing rapidly expanding markets, consumer demand, regulatory support, technology-induced cost reductions and vast commercial opportunities, with a changing landscape of winners and losers.
While 2020 got off to a tough start and managers generally had a difficult start to the year, especially those in the structured credit space, the last eight months have been very positive, and managers have seen some of their best performance in years. We expect the trends of the past eight or nine months to persist in 2021. We believe those investors that are sticking with or adding to their hedge fund allocations should be happy with 2021.

Ray Nolte, SkyBridge Capital
Do you think investors’ performance expectations are changing with respect to hedge funds?

YEHUDA SPINDLER
Managing Director, Head of Research, Optima Asset Management

It’s an interesting question. It may be that investors’ performance expectations are not so much changing but that the “fit” for hedge fund investors’ portfolios is being expanded and/or re-evaluated. Hedge funds by their very name imply just that, a hedge against risk. As we see fixed income returns being more and more challenged due to historically low interest rates and the inability to provide the “anchor to windward” they have in the past, investors are looking to hedge funds as an alternative.

The reality is that most hedge funds have performed somewhere in between stocks and bonds historically, with the majority of the long-term performance being garnered during periods of market stress. It may just be that hedge funds’ real value and investor expectations are becoming more aligned given current market dynamics.

How have investors’ expectations of hedge funds’ performance and fees been altered by the unprecedented events of 2020?

HEINRICH MERZ
Head of Hedge Funds, Pictet Alternative Advisors

2020 generated a performance gap across hedge funds in many ways as unprecedented as the economic and regional impact of Covid-19. Several of the results ran counter to investors’ general expectation back in January. Discretionary macro managers proved their worth navigating the March shock after several years of modest returns. Technology specialists capitalised on their early identification of the switch to work-from-home then rotated into a broadening opportunity set.

They broadly avoided the November momentum sell-off. Asia-based equity long/short managers proved surprisingly stable, benefitting from the region’s strong alpha environment and effective pandemic response. On the negative side, 2020 was the second year in succession to question the supposed invulnerability of large systematic funds.

If 2020 made one thing clear, it is that selection and quality remains key. This translates to investors’ approach to fees. 2020 underscored the benefit of taking a nuanced approach. A willingness to pay a premium for solid risk management and alpha generation proved more effective than ‘low fees at all cost’ and hedge fund replication.

All in all, the opportunity set for hedge funds remains strong going into 2021. It is also increasingly broad. In 2021 attention will progressively move from positive vaccine trial data to the distribution challenges entailed by a programme to vaccinate the planet. As it does, investor and corporate attention will switch from managing Covid-19’s impact to dealing with its aftermath.

As economies revert to growth, they will do so at widely different speeds. Divergence across regions will become evident. Sovereigns will face the challenge of paying the Covid-19 bill. The implication of unprecedented monetary and fiscal stimulus and the uneven adjustment paths followed, will maintain high volatility in Rates & FX creating a continued fertile environment for Macro strategies.

The wind-down of furlough programmes and rising taxes will impact corporations. Any fiscal stimulus that does come to stem the pain will be targeted at infrastructure and biased to de-carbonising industries. While consumer spending will benefit from a ‘pent-up’ demand bounce, the trends the pandemic accelerated will broadly stick. Continued equity price dispersion will be the result, supporting Equity Long /Short. Both distressed and activist strategies are expected to benefit from the greater need for operational & balance sheet restructuring across industries, a state of affairs that also supports merger and capital arbitrage strategies.
INVESTOR INSIGHTS

SAMANTHA ROSENSTOCK
Head of Investment Research, Man FRM

In the wake of the Covid-19 pandemic, its progression, and its aftermath, volatility and sector dispersion are expected to remain elevated, which should be supportive of overall hedge fund performance in 2021.

However, this positive outlook is occurring at a time where the asset class has experienced an extended period of underwhelming performance. Investors’ general disappointment with long term performance, frustration with fees, and general fatigue from the complexity associated with hedge fund investing, has led to manager consolidations as well as allocators demanding innovative products. We have seen inflows to hybrid products such as targeted and customised hedge fund solutions. Simplified solutions like risk mitigation and income generation mandates, quantitative alternative risk premia products and co-investment fund offerings have gained traction in recent years to provide reduced fees and long-term diversification benefits to institutional portfolios.

The unprecedented events of 2020 appear to have accelerated investor demand for customised and hybrid offerings. It has also triggered a re-evaluation of institutions’ long-term investment goals. For many, this has meant that ESG and Sustainable Development Goals (SDG) related initiatives have taken centre stage and allocators are increasingly justifying the fee burden of alternatives in relation to these goals.

Thus, in 2021, we expect that the disaggregation of sub-strategies and individual trades from the fund offerings will continue to support customised solutions and co-investment offerings, that lower cost alternative replication strategies will continue to innovate and that the larger hedge fund sector will develop new and fresh ESG/SDG solutions to meet allocators needs and transform the way they access hedge fund returns.

RAY NOLTE
Managing Partner & CIO, SkyBridge Capital

As we end 2020 and enter 2021, we are observing a greater dispersion in investors’ attitudes toward hedge funds. In the past where there have been clear shifts in view, with investors either more positive or negative, this year we are seeing investors either moving away from hedge funds and reducing their holdings or increasing their allocations to hedge fund managers. In general, it appears that institutional investors seem to be increasing their weightings while individuals are reducing their exposures. It also appears that institutional investors area looking at the space from an asset and risk allocation prospective while individuals are tending to follow performance. The net effect of this seems fairly minimal with increases in allocations largely offsetting the outflows for the industry.

As for fees we see very little movement. Fees seem to be stable at current levels. The one concession we have observed is managers that are below their highwater marks as a result of the March sell off are in some cases offering investors the opportunity to invest without a performance fee until the funds get back to their pre-pandemic levels.

We anticipate a fairly good year for hedge funds in 2021. While 2020 got off to a tough start and managers generally had a difficult start to the year, especially those in the structured credit space, the last eight months have been very positive, and managers have seen some of their best performance in years. We expect the trends of the past eight or nine months to persist in 2021. We believe those investors that are sticking with or adding to their hedge fund allocations should be happy with 2021.
What types of strategies will you be focusing on in 2021 that you feel will be best able to deliver the desired target risk/return objectives for your investors?

MARC DE KLOE
Partner, Theta Capital Management
2021 looks to be an interesting year given a significant amount of rotation for us over the last couple of years. We have positioned ourselves along four core strategies, in most cases with managers we have known for many years and have developed a long-term relationship with, and in some cases specific access or fee arrangements as a result of this relationship.

• Distressed strategies as a consequence of the opportunities created by the onset of the Covid-19 pandemic. Currently with an overweight position in structured credit with managers focused on US consumer credit especially mortgages. We have been preparing for this for nearly two years;
• Digital Assets with a focus on blockchain technologies; a space that we have been involved in since 2017. Having built relationships with the leading managers, projects and investors in the space we feel we have an edge;
• Specialist managers in the equity space that are perhaps off the normal radar screen and are not on the usual PB lists. They come to us through our family office and specialist investor network;
• Large platform managers; where we have a long-term relationship and access. These managers act as stable and solid returning managers. Access, knowledge and understanding is key here.

Given how we are positioned now, we feel that we are in a position to outperform a typical 60/40 portfolio going forward.

CHARLOTTE THORNE
Founding Partner & Co-Chair, Capital Generation Partners
Discretionary macro was a focus last year and will continue to be in 2021. Managers are beginning to deliver in this strategy area, after a somewhat fallow period. Equity long/short is a fairly new area of interest for us, we didn’t do a huge amount of investing there but we think the short opportunities are becoming interesting. We continue to view hedge funds as being important to our clients’ portfolios.

YEHUDA SPINDLER
Managing Director, Head of Research, Optima Asset Management
While we continue to look for high calibre managers that should also benefit from secular tailwinds, the reality is that we are always looking for unique and compelling managers that can add value to our portfolios regardless of style or strategy. In a multi manager structure, each of our managers has a specific role based on the needs of the particular portfolio. Therefore we’ll onboard managers with different risk/return objectives.

For directional portfolios, we remain constructive on technology and healthcare equity specialists, as well as low net/multi strategy vehicles for our absolute-return mandates. From a geographic perspective, we plan on increasing our Asia exposure given the region’s strong growth prospects coupled with attractive valuations. Conversely, we continue to be underweight Fixed Income as an asset class and European managers on a regional level.

MICHIEL MEEUWISSEN
Co-Head of Alternative Strategies, Kempen Capital Management
On the back of Covid-19 we are seeing a surge in defaults and fallen angels that lead to a new distressed debt cycle. Default volumes are already approaching 2009 record levels and rating agents expect defaults rates to double into 2021. Fallen angels volumes have already set a new record and are leading to both shorter-term opportunities and future defaults of size. Historically, such an environment has led to fruitful opportunities for distressed debt and we expect this time will be no different. In light of the sheer volume of corporate debt – BBB-rated corporate debt tripled since 2009 - and central bank activity we expect this distressed cycle to be more drawn out, leading to a multi-year period of above average returns.

It is important to take an agile approach to the opportunity set via specialists that invest from stressed to distressed to defaulted bonds, and that can drive the outcome of restructuring processes. We have been increasing our allocation to distressed debt, both in our multi-strategy offerings and via a dedicated FOF to take advantage of the opportunity set.

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Chapter 6
New trends

“Business-as-usual is over – our professional and personal lives are forever changed by the events of last year. One outcome has been the shift towards companies addressing the broader needs of their employees – that will ultimately improve morale and retention and save costs. My hope is that this kind of awakening to employee needs will motivate hedge funds to permanently improve their focus on how to keep employees satisfied and happy with their work.”

Tracy McHale Stuart, Corbin Capital Partners
What new trends will emerge in the hedge fund industry in 2021? What changes from 2020’s new operational and investment climate will continue?

TRACY McHALE STUART
CEO, Corbin Capital Partners
Firstly, I strongly believe active management is back. Just as in the broader economy there were winners and losers, that also came into play in manager portfolios. Results across the industry were a mixed bag; dispersion within and across strategies was extraordinary last year. Credit was weak, equity strategies were strong, but within strategies dispersion was super high. That creates a real opportunity to add alpha. Secondly, the turbocharged momentum around ESG, paired with the twin earthquakes of Covid and the Black Lives Matter movement, has been a wake-up call regarding the fundamental role that it can play in our own business resilience.

There is especially a focus on the ‘S’, or social, element in the hedge fund business. On diversity and inclusion, the same issues have finally grabbed the industry’s attention. Our industry is starting from such a low base on diversity that there’s only room for upside, and hedge funds are open to guidance, which is great.

Business-as-usual is over – our professional and personal lives are forever changed by the events of last year. One outcome has been the shift towards companies addressing the broader needs of their employees – that will ultimately improve morale and retention and save costs. My hope is that this kind of awakening to employee needs will motivate hedge funds to permanently improve their focus on how to keep employees satisfied and happy with their work.

As a woman I have been focused on diversity for a long time, but never with the same intensity as we have now because of the events of 2020. Covid and the Black Lives Matter movement really converged to get everyone’s focus around this, and finally the hedge fund industry is moving on it.

It’s complicated but you ignore ESG and diversity at your peril. It is very difficult to do well and it’s a messy space – but the flipside of that is these are the early days so there are lots of opportunity for active management.

Among hedge funds, consensus is building that ESG and diversity not only mitigates risk, it strengthens resilience, drives success, enables us to better price risk and allocate capital.

WILLIAM CALLANAN
Founder & Chief Executive Officer,
Syzygy Investment Advisory
The crisis has accelerated and revealed new trends as 2020 redefined how hedge funds and investment businesses think about outsourcing in terms of adapting to the challenges of the past year. Competition and return pressures foster innovation. The mega-trend themes of “unbundling” that we have all experienced and utilised in software, music and cable television, for example, that will find manifestations in our industry. This is immensely important for the operating leverage it can create in an investment business. There is no reason asset and investment management should be exempt from these trends.

Contextually, what does unbundling mean as it applies to our vertical? It will be the continued trend of outsourcing that began with middle and back office functions but will now extend to investment roles and responsibilities. It is a powerful operating model for the structure of an investment business that is actually more decentralised and distributed in nature. For the client facing aspects of the business and investment process, it is the ability to provide more “on-demand”, bespoke product solutions to create alpha. Call it AaaS (Alpha as a Service) in the manner in which Saas (Software as a Service) and TaaS (Transportation as a Service) already exist as such powerful operating models. The fundamental drivers are the same as in other industries - how to maximise the cost efficiency, time efficiency and capital efficiency for your clients.

Many CIOs and CEOs are now realising the limitations of what is being carried as a high fixed cost infrastructure. Practitioners can see that a key lesson from ‘20 is the ability generate meaningful investment performance with less cost, whether that be office space or travel for example.

This reality is driving an even more diligent and rigorous focus on cost/benefit in terms of time allocation of CIOs. Indeed, this has obvious implications for the value proposition of outsourcing for the organisation as a whole, which is why the concept of an outsourced CIO/CSO is gaining significant momentum in the industry.
LAURENT LE SAINT
Managing Partner, Metori Capital Management

We believe that the opening of Chinese markets will reshape international institutional investors’ portfolios. The total value of China’s stock market climbed to a record high of more than USD10 trillion in October 2020. It now represents around 25 per cent of the US’s nearly USD39 trillion. Chinese regulation accompanied that expansion by gradually opening equity and bond markets thanks to the QFII (Qualified Foreign Institutional Investor), RQFII and stocks connect programmes.

Futures contracts are about to follow the same route. According to a 2018 FIA report, 24 of the 40 globally most traded agricultural and metal contracts are traded in China. While those futures markets were mostly closed to foreign investors, 2020 saw several important regulatory changes. Futures contracts and private funds are becoming eligible to the QFII programme. This will open the China futures market to foreign investors, either directly or through offshore managed futures funds. However, there is still a way to go. The list of QFII eligible futures contracts is to be released by the exchanges and this may take several months.

For some years now, Metori has been one of a handful of foreign-owned CTAs running a trading strategy for mainland Chinese investors in the local futures markets. CTA returns have been consistently strong for these local investors (our China Trends strategy is up over 40 per cent in 2020). Such performance has unsurprisingly caught the attention of institutional investors in Europe and North America. We are already seeing an increasing number of enquiries from sophisticated investors seeking access to our Chinese CTA. Due to their performance and diversification potential, Chinese Managed Futures represent an attractive investment opportunity. With its Chinese “WFOE PFM” (China-based Private Fund Manager operating as a full subsidiary of a foreign entity), Metori is well prepared to help offshore investors catch this opportunity.

ANNE-SOPHIE D’ANDLAU
Partner & Deputy CEO, CIAM

We suspect that ESG and diversity and inclusion will become much more present trends in the hedge fund industry this year, as large institutions’ interest in these matters increases. Asset managers will have an increased role in accompanying companies around the world on their transition towards more Environmentally-friendly activities, with a more englobing Social approach and within a proper corporate Governance framework. This will help create long term sustainable returns.

We expect to see more new ESG fund launches from both the bigger hedge funds as well as the smaller managers to respond to the increased demand. On a different level, we think that Europe could become more attractive to investors, as this year should bring us to the end of the tunnel on Brexit, the sword of Damocles over Europe for the past four years. This could lead to a rerating of European assets. Exemplary and more professional governance will become an even greater focus in 2021, with a push towards strong, competent, and responsible board structures, so as to ensure a better, more sustainable future for companies. In order to have the capacity to manage future problems – pandemic, climate change, human capital, sustainable strategic decisions – companies will need people that are capable of taking the right decisions and effectively manage risk. These topics will certainly attract more and more attention from investors, and in particular, we predict an increase in ESG activism.

GUSTAF HAGERUD
Managing Director, Ress Capital

If you are an investor in hedge funds, the key takeaway from last year is that the best strategy you could have followed, without any prior knowledge of the Covid-19 pandemic, was to sit on your hands and avoid any dramatic action. Looking forward, when deciding upon the allocation to hedge funds, investors must ensure they know how their own portfolio performs in relation to the performance of their hedge funds. Scenario analysis will be key here: what happens to the strategy, the portfolio and the hedge funds during periods of big market movements and, importantly, negative events. If you were invested in hedge funds in the spring and they performed worse than the rest of your portfolio, you were in a position of relative weakness. The global business cycle is clearly a significant risk factor and so investors are increasing looking to mitigate this by allocating to uncorrelated strategies which are not impacted by negative events in the market such as life settlements, which we specialise in.

In the new business working climate, there will be greater risk control and comprehensive scenario analysis will play a larger, more important part. There will be a stronger desire from investors to understand the risk exposure of the underlying strategy of the hedge fund, and for investors to understand what the manager is doing, their investment philosophy and the kind of risks they are taking on in the fund. There will be increased interest in how they are creating their alpha and whether their alpha is actually just levered beta. After the global financial crisis, many investors allocated to tail risk funds as a hedge against a black swan event, but these funds were often consistently down. Looking to the new business environment in 2021, a better hedge would be uncorrelated strategies that consistently deliver returns.
The role of technology and digital transformation in fund success

Sentieo works with hundreds of hedge funds, mutual funds, private equity firms, and Fortune 500 Corporations. Each and every one of these organisations has felt the impact of the global pandemic. They also have something else in common: an accelerated focus on technology.

We’ve seen a major trend play out in the last year. Organisations that were already set up to enable their teams to work remotely didn’t skip a beat at the outset of the stay at home orders last spring. Efficiency and output of the research process are the lifeblood of every fund – large or small – and those with robust technology stacks enabled their high performing, socially distant teams to continue to collaborate effectively.

But what does a robust tech stack look like – surely most funds are leveraging technology for research and communication? The simple answer is that while most have begun the digital transformation, many are still left back in the 90s using static terminals for research, shared drives to store documents, Teams/Slack/Symphony for informal communication and email for formal file transport and notes. The ultimate outcome of the research process is a successful investment decision, but this requires more than siloed research and notes shared over email or worse, saved in personal drives that are often lost when an analyst moves on. Next-generation technology providers must support the complex workflows of hedge funds and provide the auditability necessary for compliance. A unified research management platform can help accomplish all of this.

Analysts are able to build a better thesis by having all the core components (inputs, data, etc) of the research management process in one centralised place with the ability to share and collaborate ideas in real time. Integrated analytics and model building tools can surface new investment opportunities, and seamless sharing of information with colleagues – no matter where they are located – facilitates collaboration to produce stronger ideas and recommendations. A strong research management platform supports this.

For portfolio managers, a unified platform facilitates standardisation of the research process, for example the structure and requirements for a thesis, and visibility into research activities and outputs for continual improvement of analyst workflows and results. Fund leadership gains greater confidence in investment decisions and the protection of intellectual property with a centralised and standardised research process and platform for content management.

While it could be argued that digital transformation had been underway for some time, this global pandemic was a catalyst for change. Having the world shift to fully remote work overnight expedited what was for some a slow process. There is little doubt, however, that those with unified systems that facilitate collaboration have come out on top. By supporting the entire workflow these funds have consistently delivered better outcomes across the board – for analysts, portfolio managers, and fund leadership. It’s been a strange and difficult year; however it has also accelerated digital transformation and created lasting changes which have and will continue to improve the way we work for years to come.

Mark Coriaty
Chief Revenue Officer, Sentieo

Sentieo is a financial and corporate research platform for executives, investment analysts, and researchers that offers them the insights, speed, and confidence they need to make informed strategic decisions so they can outperform the market and gain a competitive edge. Sentieo uniquely brings together into a single, modern platform the previously disparate tools of financial document search, market and alternative data, modelling and analytics, with a research management system. This enables organisations to deliver better research results, save hundreds of hours of time for analysts, and meet compliance requirements. Supporting a global customer base, including over 500 institutional investment firms and Fortune 500 corporations, Sentieo delivers a unique opportunity for corporations and investment firms to find better insights to drive winning decisions.

www.sentieo.com

Mark Coriaty
Chief Revenue Officer, Sentieo

Mark serves as Chief Revenue Officer at Sentieo, overseeing global sales, alliances, and customer success. Prior to Sentieo, he spent over 13 years at Eze Castle Integration, a hedge fund technology and cloud services provider, where he was responsible for the company’s strategic direction while also managing the global sales, marketing, partnerships, and client service teams. Mark also served in senior business development and fintech consulting roles at KPMG Consulting and Fidelity Investments.
The coronavirus pandemic has brought considerable challenges to the way hedge funds and asset management firms do business, with far-reaching consequences for cybersecurity, data safety and business communications. The need for fully flexible working around the pandemic continues to change. Collaboration tools have been key to successful working environments as staff need to work in the same way and securely, regardless of location.

In the early stages of the pandemic, the major tech challenges centred around endpoint security. Individuals may have been using personal devices for professional purposes, and the prevalent model was of decentralised security and centralised data. We no longer look to secure a network or server in the same way. Endpoint security is now key, and every device needs security protection. With so many entry points to firms’ applications and data, managing the security at the end point has been at the forefront since early 2020 across the sector.

These challenges have generally been overcome across the market, and RFA has been ahead of the curve with our MDR and AI tools. Most of our clients were already using an iteration of the cloud to harness their data, but some have advanced their programmes to embrace what the cloud can offer in terms of data management. RFA have always been supporters of a public or hybrid cloud offering, and by having our own Security Operations Centre (SOC) we offer an end-to-end secure cloud-based solution to our clients which has helped them – and us – during the upheaval of the past 12 months.

The hedge fund community faced the challenges of 2020 head-on, and I have every confidence that it will do the same through 2021. In my view, none of the technology changes that firms have deployed over the past year have been negative. Looking ahead, I expect them all to remain - whatever the future shape of the workplace. Some of our clients no longer have office space but many are hoping for a 100 per cent back-to-work model in the long term. As a result, the advances in collaboration tools, data and security support all of these.

I would reiterate that collaboration is key - from the basics of file-sharing and communication tools to the development of bespoke solutions for better data management and processing tools for a longer-term flexible workflow architecture. There has been some debate as to whether this increased tech and cybersecurity spend among hedge funds will throw up further barriers to growth among smaller, emerging and start-up managers.

 Outsourcing has been talked about a lot in 2020 by firms and regulators alike, and I think the idea of partnering with outside expertise is now seen as an important part of our industry. This is particularly relevant to start-ups and smaller firms who have a lean number of permanent staff. Against a backdrop of increased migration to the cloud, I believe the fully cloud-based model offers not only flexibility to start-up hedge fund managers but also uninhibited growth as a cloud solution is 100 per cent scalable.

RFA recently moved to bigger offices in Berkeley Square and we now offer a permanent or fully flexible home to start-up funds – whether it’s a fully functioning desk or simply an attractive meeting space to host clients and investors. We continue our trajectory of worldwide growth and are supporting our clients with their technology, even during this period in which long-term business planning is proving challenging.

George Ralph, Managing Director, RFA

RFA is the technology partner to alternative investment firms who require end-to-end cloud, cybersecurity, infrastructure and application solutions. RFA is a global, next-generation MSP with a distinguished 30-year pedigree

Unlike other industry offerings, RFA does not put firms “in a box”; its culture of innovation and thought leadership empowers businesses to compete how they want to – securely.

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