Virtual roundtable: Five years yonder...

After 25 years of rapid growth and change in hedge funds since the foundation of AIMA, a group of leading players from around the world give their views on the outlook ahead for markets, investors and the industry

Compiled by Neil Wilson

Participants

James G. Dinan, York Capital Management

Jamie founded York Capital Management in September 1991 and is the Chairman, Chief Executive Officer and a Managing Partner of the Firm. Jamie is a Co-Portfolio Manager of the York Multi-Strategy, York Credit Opportunities, York Event-Driven UCITS funds, York Sub-Advised '40 Act Strategy, and Portfolio Manager of the York Total Return funds and is the Chair of the Firm's Executive Committee.

From 1985 to 1991, he worked at Kellner, DiLeo & Co., where he became a General Partner and was responsible for investing in risk arbitrage and special situation investments. From 1981 to 1983, Jamie was a member of the investment banking group at Donaldson, Lufkin & Jenrette, Inc.

Jamie is currently the Chairman of the Board of Trustees of the Museum of the City of New York, and a member of the Board of Directors of the Hospital for Special Surgery, the Board of Directors of the Lincoln Center for the Performing Arts, Harvard Business School's Board of Dean's Advisors, the Board of Trustees of the University of Pennsylvania and The Wharton Board of Overseers at the University of Pennsylvania. Jamie received a B.S. in Economics from The Wharton School of the University of Pennsylvania and an M.B.A. from Harvard Business School.

Luke Ellis, Man Group plc

Luke Ellis is President of Man Group plc ('Man'), based in London, and a member of the Man Group Executive Committee — as President of Man, Luke is responsible for managing Man's four investment units, Man AHL ('AHL'), Man GLG ('GLG'), Man Numeric ('Numeric') and Man FRM ('FRM'). Prior to assuming his current role, Luke was Head and CIO of Man's Multi-Manager Business.

Before joining Man in 2010, he was Non-Executive Chairman of GLG's Multi-Manager activities and manager of the GLG Multi-Strategy Fund from April 2009. Prior to this, he was Managing Director of FRM from 1998 to 2008 and one of two partners running the business.

Before joining FRM, he was a Managing Director at JPMorgan in London, and as Global Head was responsible for building the firm's Global Equity Derivatives and Equity Proprietary trading business. Luke holds a BSc Hons. in Mathematics and Economics from Bristol University.

Loïc Fery, Chenavari Investment Managers

Loïc Fery is Chief Executive and co-Chief Investment Officer of Chenavari Investment Managers (www.chenavari.com), a group of regulated asset management companies (London, Luxembourg, Hong Kong, Sydney) focused on credit, debt and structured finance public and private markets.

Loïc created Chenavari Investment Managers at the end of 2007. Since then, Chenavari Investment Managers established as one of the leading alternative credit managers globally; with approx. $5.5 billion assets under management (as of July 31st 2015) and over 100 investment professionals, it is one of the largest independent non-US credit hedge fund managers.

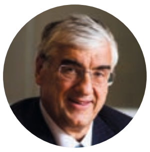
Chenavari Investment Managers' clients include institutional investors, pension funds, sovereign wealth funds and family offices globally. Chenavari credit funds steady performance was recently acknowledged with several industry awards, such as Institutional Investors, Eurohedge and Hedge Fund Magazine.

Prior to setting up Chenavari, Loïc was Managing Director, Global Head of Credit Markets of the investment bank of Credit Agricole. He was responsible globally for Credit, Structured Credit & High Yield activities of the bank, including Trading, Structuring and Sales activities. In 2005, he became the youngest Managing Director appointed to the "Cercle des Dirigeants" of Credit Agricole Group.

Loïc Fery graduated from the French business school HEC and started his career in credit markets in Hong Kong – where he lived for 4 years – while running the Asian Credit Trading desk for Societe Generale. Loïc is often mentioned as one of the market participants who pioneered the development of European credit markets and one of the only independent asset managers who started in Europe since 2007. He co-authored several books on credit derivatives and securitisation topics, focusing on the convergence of credit markets activities and funds/private equity activities. He is also an occasional lecturer on alternative asset management at industry conference and business schools.

Loïc, 41, lives in London and is married with 3 children. As a personal interest, he is the owner of FC Lorient (www.fclweb.fr), a French Premier League football club.

Participants



Sir Michael Hintze, AM, CQS

Sir Michael is the Founder, Chief Executive and Senior Investment Officer of CQS, one of Europe's leading credit-focused multi-strategy asset management firms. He is also a Senior Portfolio Manager.

Prior to establishing CQS in 1999, Michael held a number of senior roles at CSFB and Goldman Sachs. He began his career in finance in 1982 with Salomon Brothers, New York, after working as an Electrical Design Engineer for Civil and Civic Pty Ltd in Australia, where he had also served in the Australian Regular Army in the Royal Australian Electrical and Mechanical Engineers, latterly as a Captain.

Michael has significant and wide-ranging philanthropic interests and to consolidate these, the Hintze Family Charitable Foundation was established in 2005. Since inception, over 200 charities have received funding from the Foundation. Major donations have, amongst others, provided funding to Trinity Hospice in south London, the Royal Naval and Royal Marines Charity, established the chair of International Security at the University of Sydney and enabled the restoration of Michelangelo's frescoes in the Pauline Chapel at the Vatican. The beneficial impact of the Foundation on cultural organisations in the UK include the Natural History Museum, the University of Oxford Centre for Astrophysical Surveys, sponsorship of the Sculpture and Medieval and Renaissance galleries at the Victoria & Albert Museum and the provision of vital funding to the Old Vic Theatre in London, where Michael is co-Chairman of the Old Vic Endowment Trust.

Michael is a Trustee of the National Gallery, the Institute of Economic Affairs and the University of Sydney UK Trust. Michael was made a Knight Commander of the Order of St. Gregory in 2005, subsequently Knight Grand Cross, and in January 2008 he was honoured as "Australian of the Year" in the UK. In November 2009, Michael and his wife Dorothy received the Prince of Wales Award for Arts Philanthropy. In January 2013, he was made a Member of the Order of Australia for services to the community through philanthropic contributions supporting the arts, health and education. In June 2013, Michael was awarded a knighthood in the Queen's Birthday Honours for his philanthropic services to the arts.

Michael is a fluent Russian speaker. He holds a BSc in Physics and Pure Mathematics and a BEng in Electrical Engineering both from the University of Sydney. He also holds an MSc in Acoustics from the University of New South Wales, an MBA from Harvard Business School and received a Doctor of Business and an Honoris Causa from the University of New South Wales.

Omar Kodmani, Permal Group

Omar Kodmani was appointed Chief Executive of Permal Group in 2014, having previously been its President. Prior to this appointment, he was Senior Executive Officer, responsible for monitoring Permal's international investment activities as well as asset gathering initiatives. Mr. Kodmani is also Director of Permal Investment Management Services Limited and Permal Group Ltd.

Before joining Permal in 2000, Mr. Kodmani spent seven years with Scudder Investments in London and New York where he developed the firm's international mutual fund business. Prior to Scudder, Mr. Kodmani worked for four years at Equitable Capital (now part of Alliance Bernstein). He is a CFA® Charterholder and serves on the Advisory Board of the CFA® (UK). He holds an M.B.A. in Finance (Beta Gamma Sigma) from New York University Stern School of Business, a B.A. in Economics from Columbia University and a G.C. Certificate from the London School of Economics.

George W. Long, LIM Advisors Limited

George is the Founder, Chairman and Chief Investment Officer of LIM Advisors Limited; he brings 30 years of financial industry experience to the firm. Before he established LIM in 1995, George set up and ran the Asian division of what became Barclays Global Investors (BGI) in 1990, where he served on the Executive Committee for Barclays Group Asia and the Global Investment Committee in London.

Prior to joining Barclays, George was the Managing Director and Chief Investment Officer of Gartmore Asia, and before that head of Korean operations for Indosuez W.I. Carr Securities. He also worked in New York and Asia for Manufacturers Hanover Trust Company (now part of JP Morgan) as an international banking officer.

George is a former governor of The CFA Institute. He also established the Hong Kong Society of Financial Analysts in 1992 and was its president for 8 years. He also set up the Hong Kong/China Chapter of the Alternative Investment Management Association in 2002 and was its chairman for 5 years. He received the Thomas L. Hansberger Leadership in Global Investing Award for his contributions to the practice of global investment management. George holds an MBA in Finance and an MA in Asian Studies from the University of Washington in Seattle and is a CFA Charterholder.

Mark McCombe, BlackRock

Mark, Senior Managing Director, is Global Head of BlackRock's Institutional Client Business, Chairman and Co-Head of BlackRock Alternative Investors. Mr. McCombe is responsible for driving the growth of BlackRock's institutional business and alternatives presence globally. He is a member of BlackRock's Global Executive Committee and Global Operating Committee.

Mr. McCombe has had an international career in finance spanning more than 20 years. Before joining BlackRock, he served as Chief Executive Officer in Hong Kong, for HSBC. He was also a Non-Executive Director of Hang Seng Bank Ltd, and Chairman of HSBC Global Asset Management (HK) Ltd. Prior to that, he was based in London where he was Chief Executive of HSBC Global Asset Management.

Mr. McCombe has served on a number of finance industry bodies during his career. He was a member of the Risk Management Committee of the Hong Kong Exchanges and Clearing Limited, a member of the Banking Advisory Committee of the Hong Kong Monetary Authority, a committee member of the Hong Kong Association of Banks, and a council member of the Financial Services Development Council (FSDC), an advisory body established by the Hong Kong Special Administrative Region.

Summary of responses

Question	Over the next 5 years:	Sir Michael Hintze	Omar Kodmani	Mark McCombe	Jamie Dinan	Luke Ellis	George Long	Loic Fery
1	Do you think that the hedge fund industry will continue to grow at 10% or more per year?	Yes	Yes	Yes	Yes	Yes	Yes	No
2a	Do you expect hedge funds to outperform equities?	Only on risk adjusted basis	Yes	No	No	Yes/No	Yes	Yes
2b	Do you expect hedge funds to outperform bonds?	Yes	Yes	Yes	Yes	Yes	Yes	Yes
3	Which strategy/region/asset class do you think offers the most opportunity?	Various	Macro/global/multi-asset	Direct Lending & EMs	Japanese Equities	Quant Strategies	Various – inc Credit, Commodities, Macro	European Illiquid Credit/EMs
4	Which segment of the investor base do you expect to see fastest growth in allocating to funds?	Pension funds, SWFs, Insurers, Endowments	Insurers	Pension funds	Insurers	SWFs/Insurers	Pension funds	PFs/Insurers/Family offices
5	Do you expect fund of funds to represent 20% or more of industry assets in five years time?	No	Yes	No	No	Yes	No	No
6	Which type of fund structure do you expect to show the fastest growth over next five years?	UCITS and segregated/bespoke accounts	AIFM	40 Act Mutual funds	40 Act Mutual funds	Depends on regulations	Managed accounts and Co-Investments	Managed accounts and UCITS
7	Do you expect hedge fund management fees to drop over next five years?	Yes/No	No	No	No	Yes – gradually	No	No
8	What is the biggest issue facing the hedge fund industry today?	Hasty regulations	Insufficient Risk	Investors attitude	Size constraints	Quality portfolio managers	Excessive regulations	Regulatory requirements
9	What weighting should investors have of hedge funds in their portfolio?	10 – 20%	20 – 30%	Depends	20 – 30%	20 – 30%	10 – 20%	20 – 30%
10	Will hedge funds have a stronger reputation in five years?	Yes	Yes	Yes	Yes	Yes	Yes	Yes

The hedge fund industry has been growing at approximately 10% a year in recent years. Do you think it will continue to grow at this pace over the next five years?

JAMIE DINAN: Yes – demand for alternatives will continue to grow.

LUKE ELLIS: Recent growth has been achieved despite a very significant and almost continuous bull market in both bonds and equities. For an alpha driven industry to grow while beta is as strong as that gives me confidence that growth can be sustained in the years ahead where it is my view that beta returns are likely to be materially lower.

LOIC FERY: I believe the industry will keep on growing over the next few years. But not at 10% a year, probably more like 3% to 5%.

SIR MICHAEL HINTZE: Yes, however, it is more nuanced that that. As always it is a competitive landscape. Funds that can demonstrate risk-adjusted performance and that are able to meet exacting institutional standards will prevail.

Market returns overall are likely to be more modest, favouring strategies that can be both long and short. There will be a continuation of allocations to assets that can provide diversification, good risk-adjusted returns and demonstrate low correlations to traditional markets.

OMAR KODMANI: Hedge funds provide the best chance to meet future liabilities. Institutions remain still under-allocated to this space; while retail will experience a further surge.

GEORGE LONG: Once investors realise that both long-only equities (especially passive index funds) and long government bonds have limitations, I believe there will be renewed appreciation of absolute return strategies. As we enter a period of greater volatility across all asset classes, I expect the demand for absolute return and diversification to remain strong.

MARK McCOMBE: Yes, we believe the adoption rate of hedge funds by institutions will continue at a similar pace. Hedge funds continue to provide an attractive investment option given their strong risk-adjusted return profile.

Hedge fund strategies have greater flexibility as compared to traditional investments with a much wider range of investment strategies and fewer structural and capacity limitations. We believe investors that do not have exposure will adopt hedge fund allocations and those with allocations may look to increase exposure within their active management budgets.

Do you expect hedge funds to outperform equities/bonds over the next five years (on an absolute as well as risk-adjusted basis)?

JAMIE DINAN: Hedge funds may not outperform equities but will outperform bonds. But I think hedge funds will outperform both on a risk-adjusted basis.

LUKE ELLIS: Performance relative to equities is not really an appropriate way to look at hedge fund returns. Put simply, if we continue to have a bull market then hedge funds are likely to underperform. But if we get a bear market then hedge funds are likely to outperform. So relative or even risk-adjusted relative performance is essentially a prediction on equity performance. For what it's worth, it seems to me doubtful that the next five years we won't see a sell-off in equities at some point – at which point hedge fund compounding is likely to deliver attractive performance.

Performance relative to bonds is a more valid way to assess hedge funds and in this regard I think it is highly likely that hedge funds will outperform. Over five years the only return you can earn from buying five-year investment grade bonds today is the current yield – which, based on five-year US treasuries, is about 1.5% and I think we would all hope hedge funds will outperform that!

LOIC FERY: Over a five-year period, I believe so. But not all hedge funds will.

SIR MICHAEL HINTZE: The risk lies with the risk-free rate benefitting shorter duration, floating rates securities, equity and equity-linked strategies. The next stage of market cycle should favour stock and credit pickers. The ability to short securities should generate a greater return than over the last few years.

OMAR KODMANI: History shows that equities at current valuations (CAPE – cyclically adjusted price earnings) will not return more than +2% p.a. for next five years; and bonds with current starting yields will be hard pressed to do better. The bar is set very low for hedge funds.

GEORGE LONG: Both bonds and equities are over-priced. I expect we will see a period of greater dispersion within equity and bond markets which will provide a suitable environment for a number of hedge fund strategies.

MARK McCOMBE: It is difficult to predict the absolute performance of hedge funds relative to equity and bond markets over the next five years particularly given the level of volatility in the markets driven by a variety of factors including uncertainty around interest rate hikes by the Fed, the steady but slow growth of the US economy coupled with the uncertainty of prominent geopolitical events (Greece, Puerto Rico and China).

Notwithstanding this, we believe hedge funds will outperform both stocks and bonds on a risk-adjusted basis, but there is a possibility stocks will outperform on an absolute basis, with higher volatility.

Which strategy/region/asset class do you think offers the most opportunity over the next five years?

JAMIE DINAN: Japanese equities – because corporate governance reforms coupled with share buybacks and monetary easing create an amazing technical backdrop.

LUKE ELLIS: My personal view is that, generally the market environment is likely to favour quantitative strategies over discretionary ones. There is likely to be lower liquidity in markets going forward as banks continue to withdraw market-making capital. This is likely to result in two key outcomes. Firstly, there may be more room for short-term equity strategies and secondly, macro trends may tend to be extended. To take advantage, I think managers would need to construct complex portfolios with a large number of positions to get the diversification needed and quant strategies tend to be better at constructing complex portfolios and managing the risks they generate.

LOIC FERY: European illiquid credit opportunities and emerging markets will be among the most interesting areas – with a stressed energy market, plus European stressed and distressed corporate credits.

SIR MICHAEL HINTZE: Longer-lock strategies that are able to take advantage of bank disintermediation and regulatory distortions.

Plus: Shorter duration, floating rates securities, equity and equity-linked strategies such as convertibles.

And: Strategies that are able to identify and trade idiosyncratic risk such as credit and equity long/short.

OMAR KODMANI: Macro/global/multi-asset – these strategies are the most flexible, most liquid, most agnostic; and best positioned for sideways markets in bonds and stocks.

GEORGE LONG: High yield and distressed credit will become very interesting as China slows and global growth contracts. Currency volatility will cause problems for countries and companies that will lead to more high-yield and distressed opportunities.

Special situations (such as private convertibles, mezzanine financing, etc) should see a lot of opportunities as markets get more stressed and traditional bank capital becomes more scarce.

Commodities and the mining sector will become very cheap as we see the impact of a slowing China on the major commodity producers and the ending of the commodity super cycle.

Macro trading should see opportunities around currency volatility.

MARK McCOMBE: The large-scale withdrawal by banks from markets and investment-related activities, driven by both regulatory and financial constraints, continues to change the investment marketplace. As a result, lending activity has become more segmented and certain market activities have been disrupted. This has created opportunities to take advantage of prominent price inefficiencies and liquidity premiums for those able to effectively operate in these affected markets. Additionally, capital intensive industries are in need of more flexible capital solutions given balance sheet constraints and large capital expenditure needs. The resultant void of capital has produced very attractive economics for investors able to provide creative capital solutions. Similarly the liberalisation of the financial systems of select emerging markets are creating investment opportunities that skilled investors can capitalise on.

Which segment of the investor base (e.g. pension funds, sovereign wealth funds, insurers, endowments, family offices etc.) do you expect to see the fastest growth in terms of allocations to hedge funds over the next five years?

JAMIE DINAN: Insurers – because they can no longer just hold low-return bonds in their investment portfolios.

LUKE ELLIS: In volume terms, I think we will see the highest growth into the sector from sovereign wealth funds as it is the fastest growing sector with huge assets under management. In percentage terms I think we will see the highest growth from insurers as they are currently significantly underweight.

LOIC FERY: Pension funds, insurers and family offices – due to mismatch of assets and liabilities, particularly in pension funds, and the need for alpha.

SIR MICHAEL HINTZE: Pension funds, SWFs, insurance companies and endowments – seeking yield and good risk-adjusted returns, they also need to meet long-term liabilities and obligations to beneficiaries. Many still have relatively low allocations to hedge funds.

OMAR KODMANI: Insurers – an extremely large investor base with very low starting allocations to hedge funds and significant need for uncorrelated return streams.

GEORGE LONG: Pension funds – as they are also relatively underinvested in hedge funds; and from their continued desire to diversify return streams, particularly with the general de-risking required to manage the assets of imminently retiring baby-boomers.

MARK McCOMBE: Pension funds and defined contribution plans.

Hedge funds have proven to be a valuable tool for investors. While many pension plans have adopted hedge funds, their overall allocations remain smaller than endowments and foundations, family offices and some sovereign wealth funds. We expect continued growth in this segment as they seek attractive investment options that will help them meet their pension liabilities and obligations.

Also, as the industry moves toward modelling Defined Contribution (DC) plans after Defined Benefit (DB) plans, we have observed an increased interest in alternative investments by DC plans. As such, we believe that DC plan assets may serve as an area of growth for hedge funds in the next five years as well.

Assets in funds of funds represent roughly 20% of total hedge fund industry assets. Do you expect funds of funds to represent 20% or more of industry assets in five years' time?

JAMIE DINAN: No – I see further disintermediation taking place.

LUKE ELLIS: The real question is what does one mean by a fund of funds? The vast majority of hedge fund investments are part of portfolios of hedge funds which are in the end a fund of hedge funds. The question, then, is what percentage of clients require support in order to implement their portfolio? In my view most clients need help, certainly more than 20%. And then the question is how much is done by funds of hedge funds and how much by consultants… but really these two are barely distinguishable in many cases.

LOIC FERY: No – [because of the] increasing sophistication of institutional investors who tend to increasingly invest directly into hedge funds.

SIR MICHAEL HINTZE: Direct investment is a growing trend. Larger more successful FoFs are continuing to grow due to their business models that continue to capture institutional flows.

OMAR KODMANI: Direct programs and consultant-led allocations will underperform funds of funds, while the appetite for professional funds of funds guidance from new and existing investors in hedge funds will re-grow.

GEORGE LONG: Not directly, as historical returns have shown that many funds of funds have struggled to prove that they can add value, which is impacting their popularity. Also many institutional investors are building up more capability to manage hedge fund investing in-house. However, as funds of funds transition to a more advisory business, I expect that more direct hedge fund investments will be advised by funds of funds groups.

MARK McCOMBE: We expect the growth rate of direct hedge funds to be faster than the growth rate of funds of funds. Although funds of funds will continue to see growth through customised opportunities and co-investment opportunities developed for investors.

Which type of fund structure (e.g. offshore, UCITS, 40 Act, managed accounts etc.) do you expect to show the fastest growth over the next five years?

JAMIE DINAN: 40 Act funds – that's where there is the biggest unexploited investor base.

LUKE ELLIS: This depends entirely on how regulations develop.

SIR MICHAEL HINTZE: For co-mingled structures – UCITS, due to regulatory trends. For larger, more sophisticated investors – segregated and bespoke accounts, with growth to be driven by larger institutions' desire for tailored investment solutions that meet their risk, return and volatility criteria.

OMAR KODMANI: The trend toward regulated structures is irreversible.

GEORGE LONG: Managed accounts and co-investment vehicles - because hedge fund returns have often not been that attractive and hedge fund fee structures have often been excessive.

MARK McCOMBE: 40 Act mutual funds. The state of retail investments in hedge funds remains young with 3% of US and European retail investors investing today. However, exposure to these investment options is growing rapidly within the retail market and the diversification benefits of hedge funds is fuelling demand. This, coupled with growth in product development and distribution, will result in meaningful growth over the next five years.

Do you expect hedge fund management fees to fall materially over the next five years?

JAMIE DINAN: No - because people will continue to pay for quality.

LUKE ELLIS: I think it is most likely that hedge fund fees will fall but in a very gradual way. All financial industry fees are and will remain under pressure – this is a secular and fundamental change. Within the financial services sector, hedge funds continue to provide what we believe to be a very valuable option – alpha is very valuable and very scarce, so the fees will remain supported by the scarcity.

LOIC FERY: No. Managers delivering consistent returns should not see their fees dropping.

SIR MICHAEL HINTZE: Fees have already seen a decline across the industry so do not expect a further material drop. However, it is more about alignment.

Regulation is driving up costs. [But] investors will continue to pay a premium for managers who deliver superior risk-adjusted returns and are able to provide investment solutions.

OMAR KODMANI: A normalised interest rate environment will alleviate fee pressures. The genuine alpha producers will still command higher fees and increased hedge fund returns will help.

GEORGE LONG: Despite a lot of public discussion of hedge fund fees following the global financial crisis, the actual impact on fees has been minimal. Hedge fund talent is still hard to find and generally investors are still willing to pay. However, as managed accounts grow in popularity, we could see some industry pressure from large investors on fees as their ability to negotiate managed accounts is greater than on commingled funds.

MARK McCOMBE: The resources required to run an institutional-quality hedge fund continue to grow more demanding each year, particularly with the increased level of regulation and associated compliance requirements. For this reason, we do not expect fund management fees to decrease dramatically over the next five years for the most competitive managers.

What is the biggest issue facing the hedge fund industry today - and how should it be addressed?

JAMIE DINAN: The biggest issue is the size of the best investment managers. Those managers need to broaden their investment offerings.

LUKE ELLIS: The biggest issue is the supply of high-quality, well-trained portfolio managers. The first phase of the hedge fund industry was based on the best people from banks and long-only managers switching to running hedge funds so the industry was a big beneficiary of the training provided in the past at banks and long-only institutions. As we look forward, though, it is clear that this supply has shrunk significantly and it will become extremely important for the hedge fund industry to both hire younger people and provide them with the training and instruction required.

LOIC FERY: Regulation requirements with increasing convexity. AIMA is part of the way to address this.

SIR MICHAEL HINTZE: Hastily legislated regulation, and increased cost - limiting competition.

OMAR KODMANI: Not taking enough risk. The industry needs to re-educate investors that flexibility – including tolerance for drawdowns - is a major part of alpha generation.

GEORGE LONG: Excessive regulations and 1) its indirect impact on hedge fund manager expenses and the ability to start a new fund; and 2) its indirect impact on the ability to undertake some strategies.

MARK McCOMBE: On the heels of a three-year equity bull market (with relatively muted volatility), the biggest issue facing the hedge fund industry is the view regarding absolute performance. With this backdrop, certain investors have expressed concerns over the level of absolute performance of hedge funds relative to what they have achieved with equity investments. However, we believe this is mitigated when taken in the context of risk-adjusted performance. Furthermore, we believe hedge fund strategies are particularly well-positioned to take advantage of opportunities that may arise from market volatility discussed previously.

While not completely immune to price volatility as markets adjust, a diversified hedge fund portfolio can help mitigate the gyrations experienced in traditional beta-driven markets. Relative value strategies may be able to take advantage of the disequilibria and inconsistent pricing driven by panicked sellers and heavy cash flows across markets.

Distressed and direct sourcing strategies may provide bespoke solutions to help stressed firms strengthen or rebuild their balance sheets, transition through restructurings, or improve underperforming assets. Long/short managers may be able to anticipate and take advantage of dispersion between companies whose competitive positions shift as rates rise, or find attractive entry points for well-run companies whose securities have been indiscriminately sold. Regional specialists may have the intimate local knowledge necessary to identify potential investments with asymmetric risk profiles, particularly where there may be less competition from mainstream investors.

What weighting should investors have of hedge funds in their portfolios?

JAMIE DINAN: 20 – 30%.

LUKE ELLIS: This depends on the specific investor's investment strategy and goals but I would think generally 20 – 30%.

LOIC FERY: 20 – 30%.

SIR MICHAEL HINTZE: 10 – 20% – [though] depending on investor risk profile.

OMAR KODMANI: 20 – 30%.

GEORGE LONG: 10 – 20%.

MARK McCOMBE: The optimal allocation to hedge funds is highly dependent on the specific client and their risk, return and liquidity tolerances.

Will hedge funds have a stronger reputation in five years' time and be widely accepted as a valuable component of the modern investment landscape?

JAMIE DINAN: Reputations follow talent – and hedge funds will continue to attract and retain the best talent.

LUKE ELLIS: Any weakness in the current reputation of hedge funds come from the 'relative' performance of bonds/equities – but we have had an unprecedented period of bull markets in both bonds and equities created by central banks making money 'free' and driving down future returns. In the next five years the benefit of alpha in a portfolio should become much clearer as beta is likely to disappoint.

LOIC FERY: The frontier between asset managers and hedge fund managers is [already] narrower today. Hedge funds are [increasingly] commodified.

SIR MICHAEL HINTZE: Yes – due to the ability to provide investors with solutions and returns, plus increased transparency and institutional acceptability.

OMAR KODMANI: Yes – they will be validated by an improved risk/return proposition versus traditional assets as well as a better liquidity proposition compared to other asset classes.

GEORGE LONG: In a period where markets have been largely impacted by central bank actions, it has been tough for many hedge fund strategies to outperform simple directional equity and fixed income strategies. The next five years are unlikely to be the same, and a period of relative hedge fund outperformance is more probable.

MARK McCOMBE: The reputation of hedge funds has continued to grow over the last five years and we expect similar growth in the next five years through continued adoption of hedge funds as a valued diversification tool within a total portfolio context.