

EDITORIAL NOTE



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The AIMA Journal is always worth reading, but it feels like this 30th Anniversary edition, with its focus on the future of the hedge fund industry, carries within it some particularly important messages for us all now and going forward.

As I write this in the middle of August, we have enough perspective on this turbulent year to say that hedge funds have, by and large, delivered for their clients during these initial stages of the coronavirus crisis and the industry feels in good shape. The question for us now is how to build on this resilience and move with strength into a world dramatically reshaped by the events of 2020.

One thing that comes out of many of the excellent pieces in the journal is that one of the impacts of the coronacrisis has been to accelerate a number of trends that were already visible within the industry prior to the pandemic. We have all had stark reminders this year of the importance of understanding the liquidity of your positions; investment in technology, and particularly in systems that create flexibility while maintaining control; the need for smart, creative thinkers within an organisation; and the value of robust risk management systems.

We knew all this before the virus hit, but recent months have been a powerful confirmation of hedge fund business models that prioritised infrastructure, technology and diversification. It feels like the industry has applied the lessons it learnt from the 2008 Global Financial Crisis and is now largely more stable and able to withstand periods of intense volatility such as we experienced this spring.

Reading the newspapers, you might not know that hedge funds had negotiated the crisis in such relatively good shape. There has been a lot of focus on the travails of one or two players while largely ignoring the health of the majority. Hedge fund management is necessarily a Darwinistic environment and the past months have of course been tough for some, particularly those that hadn't continued to invest in their businesses.

Whereas in the early days of hedge funds, it was all about finding the next \$100m manager with a bright new strategy, higher 'costs of production' and general alpha decay have meant that smaller funds have struggled more recently, particularly since the pandemic took hold. Given the scale of investment needed in technology, risk management and infrastructure, we're in an era where barriers to entry in the industry are higher than ever before.

This is to be expected: the industry is maturing, a trend that will only have been exacerbated by recent volatility. You'll read in these pages an obituary of Hans-Willem ("H-W") van Tuyll, a founder member of AIMA and a legendary figure in the history of the hedge fund industry. Among his many accomplishments, H-W was an evangelical proponent of hedge funds becoming more institutional, more grown-up, more regulated in the way they did business.

Hedge funds have come a long way since H-W's time, when, as one of those remembering him puts it, they were viewed as "opaque, unregulated, risky." Leading hedge funds have embraced his vision of an industry that is a transparent and an integral part of the financial markets, and where dependable alpha generation serves to mitigate portfolio risk and provide investors with a source of genuine diversification.

That brings us on to another message that comes from reading this latest AIMA Journal. Whether it is in stewardship and sustainability, in technological innovation, or indeed in how to manage through periods of huge volatility like the first half of 2020, hedge funds have increasingly come to perform a leadership role for the entire asset management industry. These are fast-moving times and adaptability has always been central to hedge funds' business models. That nimbleness and entrepreneurial spirit has helped us deliver through the pandemic-related volatility and it will enable us to continue to lead as we face an uncertain future.

Despite the relative resilience with which the hedge fund industry has made it through the crisis so far, this is not a time for celebration or back-slapping. For one thing, there's the question of diversity, where a lot is still to be done. Hedge funds came of age in an era when financial services were still dominated by attitudes that were often openly sexist, racist and homophobic.

This left a huge hole in the pipeline of diverse talent as quality people were either put off by the financial services culture and never joined, or rightly left the industry after a short period because of how they were treated. In the years since, we have made some progress, but not enough, and now we are past the time for excuses. The hedge fund industry doesn't have nearly enough women, LGBT+ or people from BAME backgrounds, particularly in senior roles, as most people in leadership positions will have been in the industry for 30+ years. It is impossible to shortcut a solution to this historic gap, but we must all focus on building and developing the future pipeline, on empowering staff within our organisations to create change for the better and on offering opportunities to diverse candidates who aspire to join our industry.

There's also the potential for further market and economic pain. As we still appear some way from a vaccine, never mind one that is widely enough used

to create herd immunity, those predicting a return to something like normal life in early 2021 may be left disappointed. The 2008 crisis was about banks and liquidity, this time around it's focused on corporations and the financial and operational leverage they're running, with the potential for further spikes in defaults and restructurings.

The global political landscape is deeply uncertain and the current crisis must not deflect our attention from the need to address climate change. But, having said all this, I'll reiterate that hedge funds are by their very nature the right vehicle for volatile times, able to be proactive where others are reactive, able to adapt swiftly to new conditions, to seize the opportunities offered by advances in technology.

As we look ahead into an uncertain future, we should also take a moment to recognise how far we as an industry have come in the past 30 years and to look forward with a sense of confidence that the next 30 years will be even better for the Hedge Fund Industry.



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