PERPECTIVES

INDUSTRY LEADERS ON THE FUTURE OF THE HEDGE FUND INDUSTRY

Next Generation of Managers Annual Conference, London

June 2018
Perspectives examines how the industry is changing itself in order to remain relevant to tomorrow’s investors.

Based on in-depth interviews with 25 of the leading figures in the hedge fund industry.

Participants include the managers of prominent hedge fund firms, major allocators to hedge funds, and renowned industry academics.
PANELLISTS

Moderated by Tom Kehoe, AIMA

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The hedge fund industry will increasingly offer a range of products to meet the needs of its investors; smart beta and alternative beta will be particularly important.

These products are far less capacity-constrained than alpha, and can be offered for a lower price.

This will allow the industry to absorb more institutional capital, and continue to grow.

Investors will, however, continue to pay for alpha, even as its production becomes more difficult.
THE NEW HEDGE FUND PRODUCT TAXONOMY

DIFFICULTY TO PRODUCE / PRICE

+ HARDEST TO PRODUCE / MOST EXPENSIVE

ALPHA

SECURITY SELECTION
MARKET TIMING

VALUE
GROWTH
MOMENTUM
LIQUIDITY
SIZE
CARRY
TERM PREMIUM
INSURANCE

- EASIEST TO PRODUCE / LEAST EXPENSIVE

PURE BETA

MANAGER UNIVERSE

ALTERNATIVE BETA
(LONG/SHORT)

SMART BETA
(LONG-ONLY)

EQUITIES
BONDS
INTEREST RATES
CREDIT
CURRENCIES

Source: ALMA Research
(Note: not to precise scale)
ARTIFICIAL INTELLIGENCE WILL SOON BECOME CRUCIAL TO THE HEDGE FUND INDUSTRY

1. Discretionary and systematic hedge fund firms will soon need AI capabilities to sort through the vast amounts of data to which they now have access.

2. AI will be particularly important in short-term trading: firms operating in this area will likely need sophisticated AI capabilities.

3. The complexity of financial markets data means that, for the foreseeable future, AI will not be able to replace human investment professionals.

4. Hedge fund firms that do not develop AI capabilities to aid their human employees may soon find themselves at a competitive disadvantage.
GROWTH IN GLOBAL DATA (TRILLIONS OF GIGABYTES)

Source: IDC/Seagate, Data Age 2025 (2017)
Responsible investment will become ever more popular in the hedge fund industry, in a long-term structural trend.

Institutional investors and millennials are particularly concerned that their investments are responsible.

New technology is allowing hedge fund firms to implement responsible investment at a low cost.

In the coming years every hedge fund investor will be able to find a firm offering robust responsible investment.
THE GENERATIONAL DIVIDE IN ATTITUDES TOWARDS RESPONSIBLE INVESTMENT

Percentage of generation saying they invest in companies based on positive impact

32% MILLENNIALS

24% GENERATION X

14% BABY BOOMERS

THE GROWING POPULARITY OF RESPONSIBLE INVESTMENT

Percentage of firms that have seen increased investor interest in responsible investment in the past 12 months

45% NO

55% YES

Source: AIMA/CAIS Research
(Findings based on AIMA investment manager survey held in Q4 2017)
The Hedge Fund Firm of the Future

1. Hedge fund firms will be increasingly staffed by highly quantitative talent, such as engineers and physicists.

2. In attracting the very best and brightest, hedge fund firms will have to compete for top talent with the technology sector.

3. Hedge fund firms are encouraging internal collaboration and flattening their internal hierarchies.

4. Hedge fund firms are creating robust succession plans and working to win the trust of the public.
AGEING HEDGE FUND FOUNDERS

Average age of leading hedge fund founders

61
AVERAGE AGE OF FOUNDER TODAY

33
AVERAGE AGE OF FOUNDER WHEN FIRM WAS ESTABLISHED

Source: ALMA Research
(Based on a population of hedge fund manager principals who founded their firms before 1995)
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