TRENDS

Hedge fund roundup – trends in the community

Ronen Schwartzman, founder of Ten Capital Advisors, talks to PAM about the current and relevant trends happening in the hedge fund community that every wealthy investor should be aware of

Equity is not a "dirty" word. The S&P 500 has generated 15% compounded return over the last four and a half years. This not only recovered the losses from 2008 but also increased investors' confidence that the stock market is again a place where they can generate meaningful returns over the long term, with a liquid asset class.

As a result, we see increased appetite for long short equity managers. There are some very talented managers that have been beating both the equity markets and the hedge fund industry index in the last few years and are getting traction. Additionally, financial, technology and healthcare have been industries that have been performing particularly well.

For example, there is a New York-based long short equity fund that is focused on the financial sector that has been generating 25% annual return with half the volatility of its benchmark since 2008. There are a few long short equity managers focused on the healthcare sector that have been generating 20% annual returns.

• **The case for event driven strategy** – when the S&P 500 is trading at its all-time high and investors are not compensated for the risk they are taking for investing in the high yield market, investors pay more attention to event driven strategies. In this strategy, the portfolio manager invests in either the equity or the debt of companies, but rather than investing only because the portfolio manager thinks the security is cheap, they invest in the security and across the capital structure because they expect a certain catalyst or corporate event to take place in the near to medium future. Such corporate events include spin-offs, refinancing of a debt, merger or acquisition, reorganization and more. There are a few managers in this category that have been generating 20% annualized returns since 2009 and I expect them to continue and generate great performance in the years to come.

• **The move to multi-manager mutual fund** – a relatively new trend that is beginning is the creation of liquid fund of funds. In other words, the major investment banks and asset managers are bringing a new product to the market, which is a fund of funds that is packaged in a mutual fund format. This allows retail investors access to hedge funds but with a much lower minimum investment then the traditional hedge funds and with a daily liquidity. Some examples include: Neuberger Berman Absolute Return Multi Manager (Ticker: NABAX) and Goldman Sachs Multi Manager Alternatives Fund (Ticker: GRMMX). This, of course, should help the hedge fund industry as it becomes a

more investable space for investors that in the past were not able to allocate money to alternative investments.

• **Money managers** – from hedge funds to long only funds. The costs of starting and operating a hedge fund are increasing. Long gone are the days that two smart investors and a Bloomberg terminal are sufficient to start a business. The increased regulation on the hedge fund industry and the greater emphasis investors put on the operation of the business makes it a more difficult task to launch a fund. Moreover, since 2008 seeders such as Blackstone are writing a limited number of $100m checks and the institutional investors are becoming the major investors in the hedge fund space. They typically allocate to the large hedge funds due to the size of the check they write when they invest. So, if you are a manager of a hedge fund with $30m in AUM, it is a very challenging environment to grow your business, even if you have a strong track record. One of the paths that such managers may choose to take is to become or add a long only product for which they may not charge 2% management fee and 20% performance fee but it may be easier for them to raise assets and sustain their business.

The hedge fund industry continues to be an exciting place. As pension funds and endowments are continuing to increase their allocations directly into funds, the industry is expected to continue to grow; a new pool of talented managers will come to the market and new funds will be opened. And although the industry performance figures will not return to the pre-2008 levels, there will always be a group of talented portfolio managers that will continue to beat the market and its benchmarks, but it takes hard work and time to find them. ■

Ten Capital Advisors is an independent New York based hedge fund advisory company focused on providing customized solutions to its clients regarding their investments in hedge funds. To learn more and take the next step to tailor your own portfolio of hedge funds, please contact Ronen Schwartzman at Ronen@ten-capital.com.