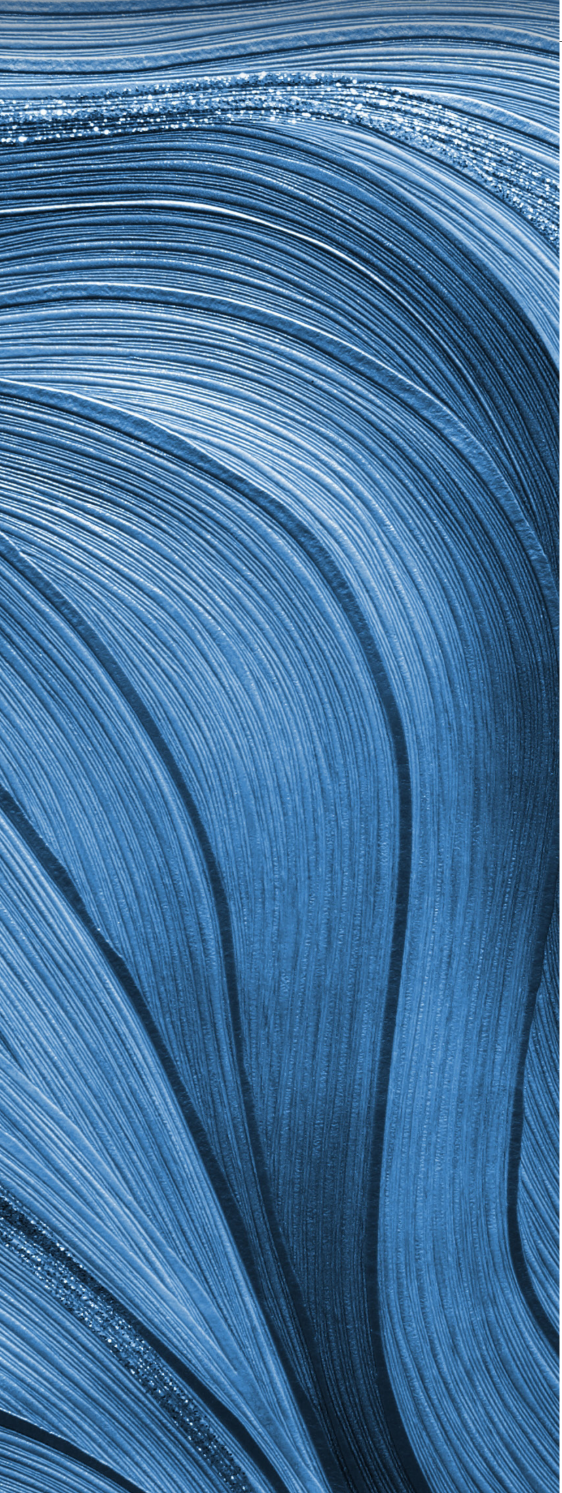
INSIGHTS

JANUARY 2024

GLOBAL OUTLOOK 2024

LEADING VIEWS ON THE YEAR'S KEY HEDGE FUND TRENDS



ANYTHING BUT BORING

Welcome to Hedgeweek's 2024 Global Outlook.

This report provides 14 dynamic and insightful perspectives on the key trends, trades and themes which will shape the hedge fund industry in 2024.

2023 was a year of adjustment for markets and the global economy, as the higher-for-longer mantra took hold – and then loosened as inflation steeply declined in the last quarter, boosting stock markets and bringing rate cuts into view.

The market and geopolitical events of last year epitomise the difficulties facing hedge fund traders – and the futility of predictions. Continuing war in Ukraine, monetary policy surprises, renewed conflict in the Middle East and the US regional banking crisis were all separate events which had a significant impact on last year.

But there is optimism that the new environment facing the industry may be as promising as it has been for a while. That is the view of Adam Singleton, CIO of Man FRM's hedge fund investing unit, who sees the structurally higher inflation ahead combining with greater volatility and interest rate uncertainty to provide fertile trading territory.

"There are good reasons to be more positive about the returns to hedge funds and other active strategies over the next few years than for much of our careers," he tells Hedgeweek (see page 7).

In many ways hedge fund performance in 2023 was the reverse of 2022, when managed futures, macro and multi-strategy led the charts. Last year, fixed-income market volatility hit CTA returns and caught out some big macro trades, while multi-strategy returns were highly dispersed, though positive.

Credit strategies stood out in 2024, while equity-based strategies had a better year. Relative value approaches tended to prove effective during the flux.

How do investors view the terrain? Kier Boley, co-head of alternative investment solutions at Swiss LP Union Bancaire Privée, highlights long/short credit and macro as strategies of interest in 2024 (see page 12). James Medeiros, president at Investcorp-Tages, says that active trading and liquid strategies should prosper, and also highlights macro in particular (see page 13).

Asset allocation decisions will now be made against the backdrop of a risk-free rate, essentially a defunct concept in the post-2008 era, offering a healthy return. However, Trium Capital's co-CEO, Donald Pepper, makes the point that recent inflation should make investors question if sitting in cash is indeed a low-risk option. "Negative real rates can seriously damage your financial health," he says (see page 10).

What about niche ideas, markets and themes? SkyBridge Capital's Anthony Scaramucci makes the bull case for digital assets after the sector was besieged by scandal in 2023 (see page 16). For Lee Robinson, founder of Altana Wealth, the Venezuela trade is his key focus this year (see page 17).

While central bankers were at the forefront in 2023 – and will remain so in 2024 – the year ahead will see politics dominate, with elections likely in the US, UK, India and many other countries, and more than two billion voters going to the polls in a new record. Politics invariably shapes economic conditions, and therefore the climate facing GPs and LPs.

Thank you to our contributors for your insights and forecasts. To all our readers, we wish you happiness and prosperity in 2024. One thing is for sure – it won't be boring.

WILL WAINEWRIGHT
HEAD OF HEDGE FUND RESEARCH

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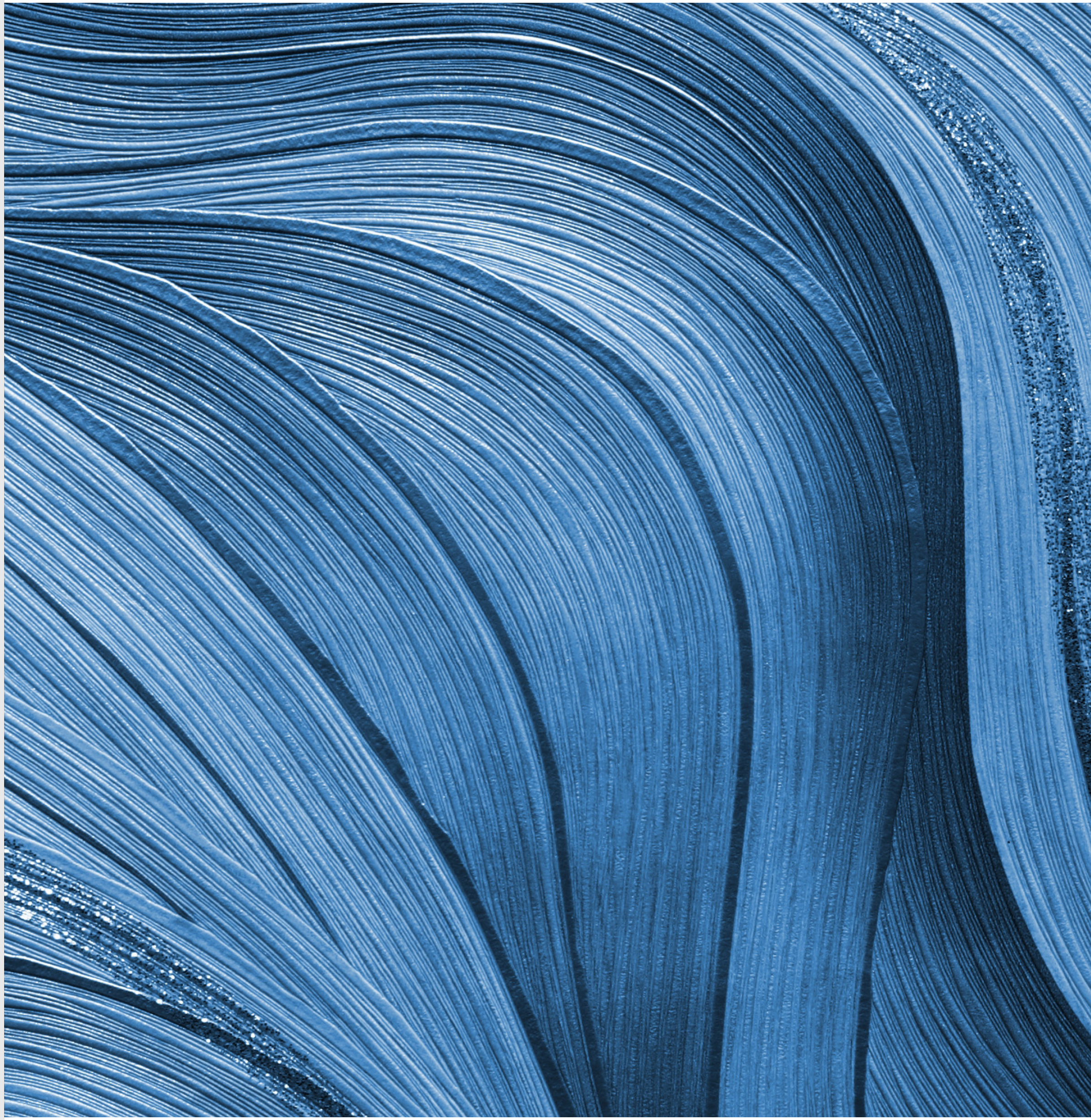

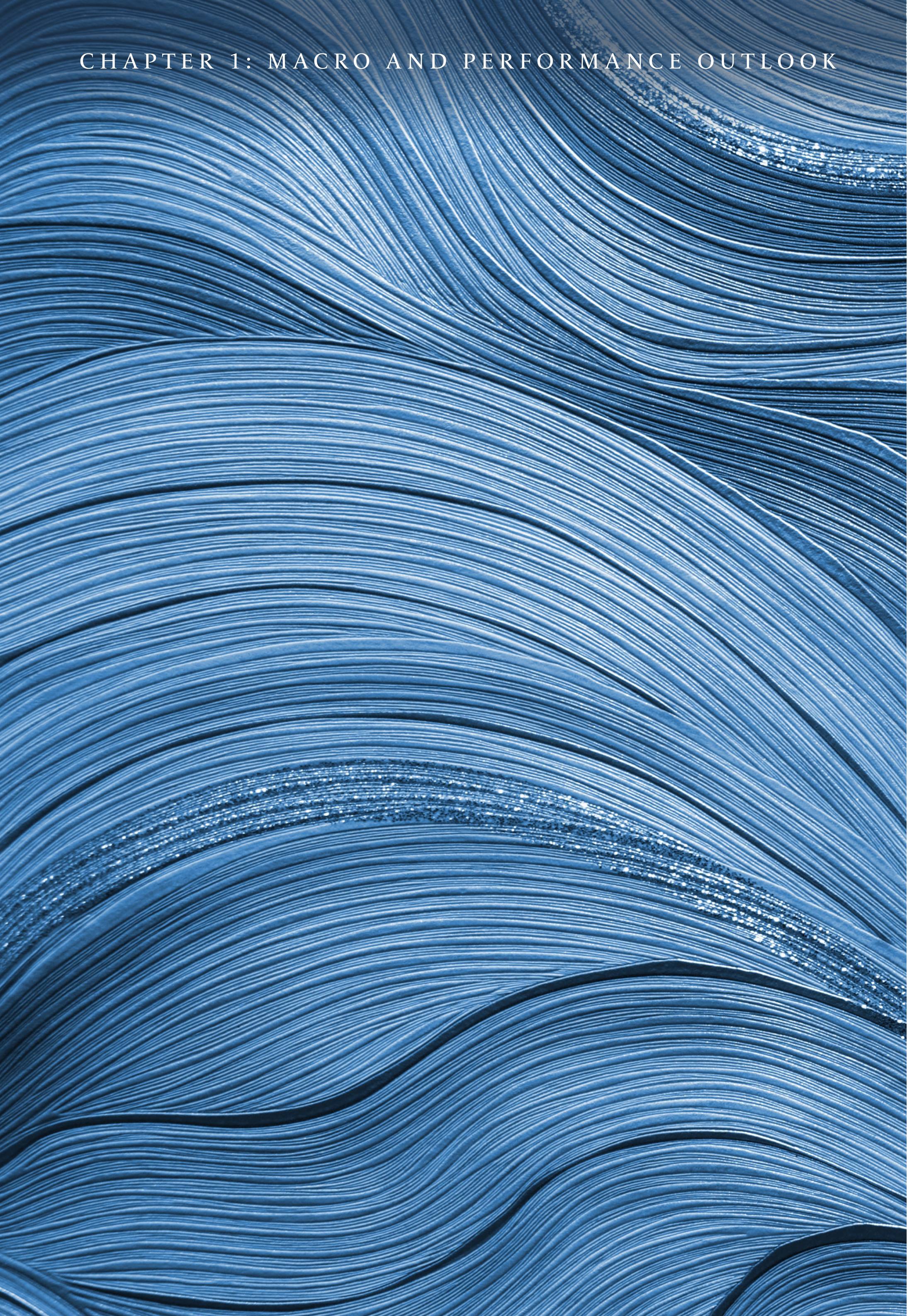

MACRO AND PERFORMANCE OUTLOOK

Leaders from Man FRM, M&G Investments, Quest Partners and Trium Capital give big-picture views on the key forces at play in 2024.

> *"Despite the recent rally, almost all financial assets are priced to deliver a reasonable return"*

DAVE FISHWICK
HEAD OF MACRO AND MANAGER OF THE EPISODE STRATEGY
M&G INVESTMENTS

The world is an extremely surprising place. You only need to look back to the start of 2022 where the Fed was saying, and market participants believed, that interest rates weren't going to rise until 2024. Yet any financial commentator will tell you that the ensuing surprise 500+ bps of interest rate hikes was "obvious" given the inflation problems the world was dealing with.

It's a part of being human – we do not deal well with uncertainty and cope with these surprises by re-imagining history. However in doing so, and getting comfortable with the past, we tend to become overconfident about our predictions of the future, thus exposing ourselves to being surprised again and again.

Financial markets are a collective manifestation of how we react to these surprises – markets aren't efficient, they are merely human. The problem we face as investors is that we are human too!

In order to avoid some of the human behavioural responses, we need to put barriers in place to stop ourselves from doing the very things that we believe cause inefficiencies in financial markets. At the core of the Episode strategy is a framework that embraces the idea that the world is an extremely surprising place.

The framework is anchored by valuation on one hand, that prevents us from getting carried away by the latest fad or bubble, and a behavioural or tactical element on the other, that seeks to be contrarian in phases where the market rapidly reassesses its long-term beliefs about an asset's risk properties (what we call 'episodes').

The combination of these two elements can be particularly potent at generating returns through different market environments, by buying into panic in attractively priced assets, and selling complacency where valuations might be stretched.

An assessment of the valuation landscape today would suggest that despite the recent rally, almost all financial assets are priced to deliver a reasonable return into the medium term. Aside from a few select markets (such as Japanese cash and bonds), valuations are either in line with, or attractive, versus an assessment of their very long-term neutral levels.

However, a key risk to valuation signals is that the economic fundamentals underpinning said valuations are shocked. In the case of bonds, beliefs about inflation still embed a return of 2-3 pct inflation in the developed world, rather than anything more problematic. While for equities, forward earnings yields imply a return to high single digit EPS growth, despite no growth in 2023.

About M&G Investments: Fishwick manages the $4bn global macro strategy episode for London-based funds house M&G Investments, which manages more than £303bn ($389bn) across its range of strategies.

ADAM SINGLETON
CIO
MAN FRM

"There are good reasons to be more positive about the returns to hedge funds"

One should always be guarded when making predictions about the future in finance. But we believe that there are good reasons to be more positive about the returns to hedge funds and other active strategies over the next few years than for much of our careers.

This comes down to three key interconnected beliefs; firstly, that inflation will be structurally higher, secondly, that this will keep asset volatilities higher on average, and thirdly that policy makers will respond with interest rate levels which are higher and less certain than for much of the last 20 years.

To expand on these points: Despite market events that caused pockets of volatility, the years from 2000-2020 were an era of structurally low inflation. We now face a global landscape with (at least) four material reasons to believe that inflation will be structurally higher:

1. Decarbonisation and the fight against climate change will require enormous amounts of capital expenditure.

2. The diplomatic landscape is arguably more precarious than at any point since 1989, with globally increased spending on defence budgets and protectionist political agendas.

3. Inequality in developed market economies has reached extremes not seen, in some cases, for nearly 100 years. Fixing this will again require government spending.

4. Government debt balance sheets are becoming unsustainable and most central banks would, off-the-record, tolerate slightly higher inflation to reduce the size of the debt burden in real terms.

We believe that structurally higher inflation will lead to more episodes of higher market volatility as markets digest inflation surprises, such as those seen in 2021 and 2022. Those years were coincident with high levels of hedge fund alpha. Indeed, it is telling that the drop off in equity market volatility during 2023 has coincided with lower levels of hedge fund alpha.

Central banks should react to this structurally higher inflation regime with higher interest rates on average and this also generates opportunity for hedge funds. One of the purposes of higher rates is to restrict liquidity in markets, and relative value strategies are in many cases designed to harvest the premium associated with providing liquidity to markets. It makes sense to us that this premium should expand when liquidity is scarcer. We have seen this phenomenon in several areas, from the spreads paid on insurance-linked securities, to loss adjusted yields on structured credit, to risk-arb spreads in liquid markets.

As a note of caution to the optimism above, we also think that this environment could increase the risk within hedge fund strategies, so our central case is now that both the expected return and the expected risk from hedge funds should increase over the next few years. However, given that most well-constructed hedge fund portfolios typically undershoot on their realised volatility, this is likely to be a tolerable development.

About Man FRM: Based in London, Man FRM is the world's largest publicly traded hedge fund company, running $161.2bn across its range of alternative and long-only products. Man acquired FRM in 2012.

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As we have learned from the past, the biggest risk is often the one that no one is contemplating or pricing in.

Mike Harris
President, Quest Partners

> *We are set for a more "normal" environment going forward*

MIKE HARRIS
PRESIDENT
QUEST PARTNERS

After 15 years of policy supported economic prosperity created by unprecedented low interest rates and pro-growth policies, we are set for a more "normal" environment going forward. This unwinding will take an unpredictable path and may lead to more market volatility as the world reacts to monetary policy changes, slower economic growth, geopolitical conflict, and budgetary challenges.

In a world that has become overly accustomed to cheap money, it is not too surprising that one of the largest drivers of markets last year was changing monetary policy expectations and that will certainly continue into 2024. Like the central banks, investors will be extremely focused on growth, employment, and inflation data as they attempt to forecast the policy path and timeline to looser conditions. As a result, we continue to expect to see elevated volatility around major economic data releases.

Even though the market may think that a "soft landing scenario" is in the works, inflation is still present in the labor market and the cost of bringing supply chains onshore is high as de-globalization continues. The economy has slowed on tighter credit conditions which means that a recession could still be in the cards for next year. As consumers struggle with higher financing costs and lower levels of savings, their spending declines which ultimately leads to weaker corporate earnings. Across the globe, Germany and China have gone from leaders of the pack to economies to watch when it comes to weakness.

From a geopolitical standpoint, the world had to come to terms with the fact that we are in the midst of two major global conflicts. In addition to the ongoing war between Ukraine-Russia, the risks around a second conflict could increase exponentially if the Israel-Hamas war expanded to include Hezbollah and/or Iran directly. A worst possible scenario would include China taking advantage of a distracted America to advance its agenda in the South China Sea. Beyond the obvious toll on societies when human lives are lost in combat, fighting wars today is also incredibly expensive from a fiscal standpoint which may put further upward pressure on supply chains and inflation, making it challenging for central banks to begin easing interest rates.

Governments around the world have been increasing their deficits for years as their spending increases year after year. When interest rates were low, the costs of financing these deficits were more manageable but have grown quite expensive over the past year. In addition to the deficit problem, governments are also having a difficult time living within their means as many struggle to balance their budgets. The upcoming US presidential election will serve as a platform for intense debate between political parties on this crucial issue.

As we have learned from the past, the biggest risk is often the one that no one is contemplating or pricing in. Regardless of which risk surfaces, volatility typically expands rapidly in a crisis which should provide discretionary and systematic macro strategies with opportunities to profit and provide valuable diversification in investors' portfolios.

About Quest Partners: A New York-based managed futures firm, Quest Partners specialises in tail risk evaluation and pricing. The firm was founded in 2001 and also runs a dedicated short-bias program.

DONALD PEPPER
CO-CEO
TRIUM CAPITAL

"Cash is not king"

In the first half of 2023, liquid alternatives broadly underperformed, with many strategies yielding returns below what investors could get merely by sitting in cash. Many believed they were 'getting paid to wait', and in H1 this view was justified. However, normal service resumed in H2 2023, with many liquid alternatives delivering returns helpfully above respective risk-free rates.

Looking to 2024 and beyond, the question facing investors is this: can you afford to ignore the diversification benefits of liquid alternatives, when there are solutions that can be expected to deliver genuinely uncorrelated, cash-plus returns over a cycle?

Historically, liquid alternatives typically yield returns of cash plus roughly 3-4%. This target, though challenged in recent times, remains a benchmark for evaluating performance. The responsibility of fiduciaries and the adherence to investment principles underline the need to strive for real rate outperformance over time.

We suggest that investors' inclination towards cash and cash equivalents can also be partly attributed to anchoring and recency biases. A return of above 5% in GBP and USD and around 4% in Euro appears attractive in the context of rates being close to zero (and negative in Euro) during the decade of 'financial repression', with the 'There Is No Alternative' (TINA) mindset driving investors towards equities and other risk assets.

However, the reality of significant inflation should make investors question if sitting in cash is indeed a low-risk option. Negative real rates can seriously damage your financial health!

In an era where inflationary pressures and shifting monetary policies are challenging traditional investment strategies, the ability to discern and leverage the expertise of managers capable of delivering true alpha becomes crucial. In a challenging 2023, we still saw some liquid alternatives managers achieving above cash, above inflation returns.

The current environment underscores the importance of identifying and investing with these managers, who can deliver a diversifying return independent of market direction.

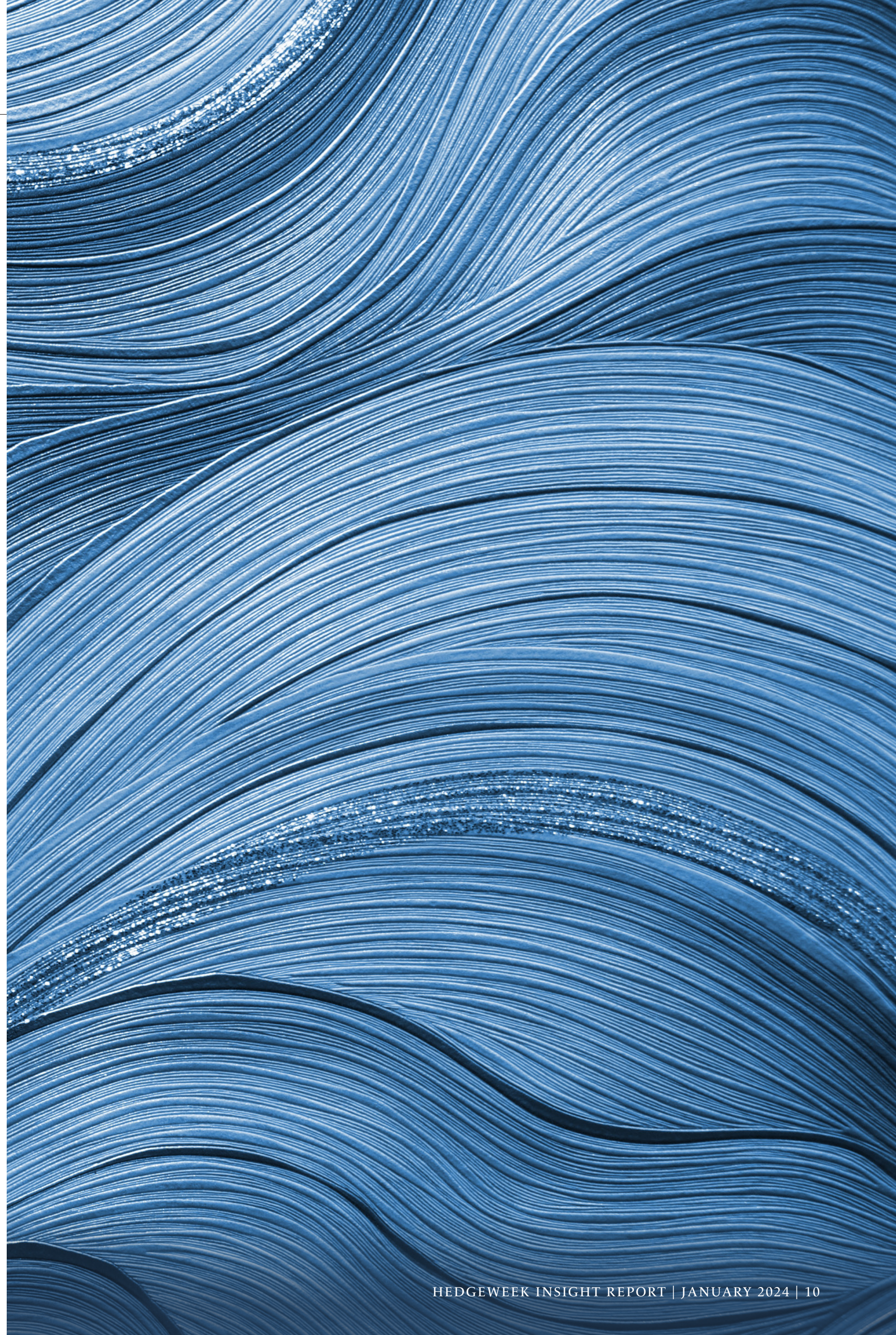
The end of QE, as well as bringing an end to ultra-low interest rates, has also increased volatility in global markets. This volatility is something many global macro managers have been able to take advantage of. We expect this volatility to continue in 2024 and beyond. Indeed, 2024 is also the 'year of the vote' – where half of the world will hit the polls. We can expect a lot of dispersion, geopolitical uncertainty and investment opportunities for global macro funds, such as the Trium Epynt Macro Fund and our Larissa Global Macro Fund. We are also positive on merger arbitrage, where spreads have widened compared to the historic range, creating a significantly more lucrative opportunity set. Alongside this, we expect regulatory headwinds, which have largely been priced in, to dissipate.

Cash is not king – if real returns from cash, having deducted inflation, are negative, then persisting with a high allocation may leave the king with insufficient return to buy any new clothes, and rather than 'TINA', should perhaps be called the 'Emperor' strategy!

About Trium Capital: London-based Trium is a platform which partners with portfolio managers to launch and grow specialist liquid alternative and ESG funds. It runs a range of hedge fund strategies, from credit to macro.

ALLOCATOR VIEWS

LPs in Europe and America give their take on prospects for key hedge fund investment strategies in the coming months.



It should be a very good environment for active trading strategies

JAMES MEDEIROS

PRESIDENT

INVESTCORP-TAGES

Predictions are a difficult business, but I think the 2024 environment will be dominated by the new post-zero rates environment. We have had more than a decade of extraordinary monetary policy, and one of the results of low rates was a huge move towards passive investment versus active, and towards private assets over liquid.

Throughout that period many asset classes traded within tight volatility ranges. So it's not surprising that in that environment it was good for passive and privates.

Now the pendulum has kind of swung in the other direction very firmly. All of a sudden, every market is moving. Stocks, bonds, currencies and commodities, and others, are displaying volatility again. That should certainly be good for things like active trading and liquid strategies.

It should be a very good environment for active trading strategies. It doesn't mean everyone's going to get it right, but big picture, it should be a very good environment for macro.

Macro has two prized attributes: it can make absolute returns, and it can do so in an idiosyncratic or a non-correlated manner. Diversification plus returns is the order of the day for allocators at the moment.

It has been challenging for long/short equity, which constantly gets compared – rightly or wrongly – to equity indices. I don't think that's a fair comparison, but that's just the reality. It is a crowded market and a tougher market, but managers can succeed if they differentiate themselves – whether through sustained absolute returns, true alpha such as from a short book, or as a regional or sectoral specialist which will be important as divergence emerges across economies.

Investor expectations have definitely shifted now rates are higher. It's the new bogey, the elephant in the room. If you're a hedge fund which for the last 10 years compounded at 6%, 7%, 8%, that looked OK. Now allocators want high single to double-digit type returns. There are also knock-on effects – many hedge fund strategies are cash rich. And so a lot of investors are talking about carving out performance fees on cash or having a cash hurdle in terms of performance fees. There's a major push on that within the LP community.

We have limited exposure to privates in our business. After being out of favour, I think liquid strategies have become more attractive on a relative basis. I'm not saying liquid investments will take over but there will definitely be more of a balanced approach and some money will move out of privates. Private credit could be the exception, which is still seeing a lot of interest.

About Investcorp-Tages: Investcorp-Tages has offices in London, New York and Milan and specialises in actively managed alternative investments, including external manager allocations, internally managed strategies and partnerships such as seeding and UCITS.

KIER BOLEY
CO-HEAD AND CIO OF ALTERNATIVE INVESTMENT SOLUTIONS
UNION BANCAIRE PRIVÉE

> *Dispersion between good and bad companies and sectors should increase in the months to come*

Within the hedge fund industry two strategies that we have a constructive outlook for 2024 are credit long/short (primarily high-yield focused funds) and global macro. Within credit markets spreads have tightened substantially in 2023 and are back to average levels from a historical perspective. The drivers behind this have been largely technical in nature, including a shrinking high-yield universe in 2023 due to rising stars (i.e. high-yield companies upgraded to investment grade) and a lack of new issuance as companies look to put off refinancing until rates start to fall.

At the same time, default rates have started to increase and bond exchanges – which is another term for restructuring, but which does not formally count as a default – have increased sharply so far in 2023.

As such, in 2024 we could see spreads at index level remain the same, with positive technicals pushing spreads tighter, but deteriorating fundamentals pushing spreads wider, as not all companies and sectors will be impacted in the same way. As a result, dispersion between good and bad companies and sectors should increase in the months to come. This environment should generate plenty of opportunities for credit long/short strategies.

Credit long/short funds typically build portfolios of long and short positions in developed market, high-yield corporate debt, generating returns from both high coupon income and capital appreciation. Managers aim to be long on a bond when they expect the credit quality of a company or index to improve, and short on a bond when credit quality is expected to deteriorate. For the top tier of credit long/short managers our expected return over the next 18 months is net 9 to 11% p.a. driven by a combination of positive net interest carry, capital gains through active trading and idiosyncratic manager alpha.

For global macro managers, expected returns are highly sensitive to central banks' interest rate policies, primarily the US Federal Reserve's.

If interest rates remain higher than the market is currently pricing, profitable trades will be longer-term broadly positioned short rates and long USD – even with the recent market pull back. Conversely, if the Fed has to cut rates aggressively then typically trades that are positioned long the front end and carry based strategies that take advantage of yields compressing are popular. In FX, a US economic exceptionalism theme has led to USD strength for much of 2023, so Fed cutting could see relative USD weakness. Finally, EM assets are also a source of expected P&I as many of these countries have already undertaken significant tightening and with inflation stable, this provides local central banks with room to cut rates. As with credit long/short, our expected return for the top tier macro managers over the next 18 months is net 10 to 14% p.a. driven by a combination of high returns on unencumbered cash, high carry, potential rate compression and idiosyncratic manager alpha.

About UBP: Swiss private bank Union Bancaire Privée has invested in hedge funds since 1972. Its Alternative Investment Solutions businesses offers a range of products and services across hedge funds and private markets for private and institutional clients.

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If interest rates remain higher than the market is currently pricing, profitable trades will be longer-term broadly positioned short rates and long USD.

Kier Boley
Co-Head and CIO of Alternative Investment Solutions

> Investors should be getting at least mid-teens returns from hedge funds to justify the investment

MICHAEL WEINBERG

SPECIAL ADVISOR TO THE
TOKYO UNIVERSITY OF SCIENCE ENDOWMENT

The hedge fund industry has been through some major changes. Broadly speaking, in the time since we ran capital at Soros during the first tech bubble, the industry has gone from being nascent to mature. Any future flows into alternatives are likely to be driven by private wealth, rather than institutional investors. Though even that will likely be to private markets, rather than to more complex and tax inefficient hedge fund strategies.

That said, with the hedge fund world, one of the best opportunity sets is likely to be in stressed/distressed credit. This will be driven by the astronomical rise in rates, with SOFR having gone from close to zero to 5% within just over a year and banks' diminished ability to lend. There will be a slew of good companies, with bad capital structures, i.e. that can no longer afford their debt coverage. This will provide a massive opportunity to lenders who have capital to provide, and can get equity-like returns with credit-like risk, senior in the capital structure, with strong covenants and low loan-to-values.

Are we now in a "macro age" where the market volatility/geopolitical turbulence makes a macro-centred approach more important? I think so. I was a portfolio manager at Soros, with those that we consider macro legends, and mentors. Macro is inherently cyclical, where by definition, as George Soros used to say, there are times when one needs to go for the jugular, meaning make big trades, and other times, to sit on the sidelines. This could very well be one of those times where geopolitics, onshoring, divergent inflation, monetary and fiscal policy could provide outsized opportunities for macro funds.

But the higher rate environment also impacts expectations of hedge fund returns in multiple ways. For starters, cash returns have gone from near zero to 5% in no time. Prior to that, if a hedge fund made high single digits with low risk, when cash was zero it was attractive. Now, that would be a low single digit return after the return from cash, and far worse if taxable at a high rate.

Investors should be getting at least mid-teens returns from hedge funds to justify the investment. Otherwise, if they can invest in senior secured credit, high in the capital structure with similar equity-like returns, but with bond-like risk why take the risk in hedge funds? Investors talk about a term premium in long-term Treasuries. We would argue there should similarly be one in hedge funds. In our view, with rates at 5%, investors should even be considering cash hurdles for hedge funds.

About Michael Weinberg: A specialist in asset allocation, Michael is Special Advisor to The Tokyo University of Science Endowment and Adjunct Professor of Finance and Economics, Columbia Business School.

ANTHONY SCARAMUCCI
FOUNDER AND MANAGING PARTNER
SKYBRIDGE CAPITAL

"The events of 2023 will lead to much-needed regulatory clarity in 2024"

After a year marred by scandals and fraud, trust in the digital assets industry is at an all-time low. Despite the chaos, I still believe blockchain and crypto will disrupt traditional finance by encouraging institutional adoption of blockchain infrastructure and creating more decentralization in the global financial system.

My firm, SkyBridge Capital, made a big bet on the crypto industry back in 2020, and many people questioned our decision during the recent bear market. Like I always say, everyone is a long-term investor until they experience short-term losses. These short-term losses haven't deterred us at SkyBridge – if anything, they have only reaffirmed our conviction in the digital asset industry because we believe in the real-world utility of the technology. As we enter a bull run in cryptocurrencies at the tail end of 2023, we anticipate this conviction to translate into strong performance for SkyBridge.

The past year was fraught with criminal trials, bankruptcy filings and SEC scrutiny of the crypto industry. We view this from a glass-half-full perspective, and believe the events of 2023 will lead to much-needed regulatory clarity in 2024, particularly regarding the classification of which digital assets are considered commodities versus securities. This clarity will drive institutional investors, such as hedge funds, pension funds and banks, to see cryptocurrencies as a trustworthy investment vehicle.

Along with clarity, I predict that the institutional adoption of bitcoin and other digital assets will be accelerated by the SEC's approval of the spot Bitcoin ETF in early 2024. This investment vehicle will restore trust in the industry and traditional financial institutions will get in on the action. Having these assets supported by institutional industry giants, will bring a spotlight to the powers of the underlying technology of the blockchain and its potential to transform the world as we know it.

Beyond what regulatory clarity will bring to the industry, economists are predicting that, despite an uptick in economic activity and job growth in the second half of 2023, the United States will still likely slip into a mild recession in 2024. Traditional assets will be impacted by this market volatility; however, Bitcoin and other cryptocurrencies will increasingly be identified as opportunistic investments.

As we head into 2024, an election year, and continue to experience economic uncertainty and geopolitical tension, investors will be forced to be more open to alternative investment ideas, including digital assets. Bitcoin is becoming more like digital gold and will be viewed as a safe haven amid rising global conflict and economic upheaval.

It's for these reasons that I remain more bullish than ever in the future of this industry.

About SkyBridge Capital: SkyBridge Capital, based in New York, is an alternative asset manager investing across markets including digital assets, hedge funds, private equity and public equity.

KEY TRENDS, TRADES, AND OPPORTUNITIES

From AI to digital assets, from the UK to Venezuela, what opportunities are managers focused on in 2024?

> *"This is still the most attractive asymmetric sovereign debt opportunity in the world"*

LEE ROBINSON
PRINCIPAL AND CIO
ALTANA WEALTH

On 18 October 2023 the US government announced a partial lifting of the sanctions imposed against Venezuela. The price of Venezuelan sovereign debt bonds jumped from around 11 cents up to 19¢. That was very good news for my investors. But that was just the first step as the fundamental positive economic news has yet to be fully reflected in bond prices.

Given Venezuela's extraordinary natural assets and potential riches this is still the most attractive asymmetric sovereign debt opportunity in the world. I have been calling it the Trade of The Decade since Altana launched our fund in June 2020 and even at 20¢ I can still see an asymmetric return of five to seven times over the next few years.

In 2019 when President Trump imposed sanctions, Venezuela was experiencing a severe economic crisis with hyperinflation, a drastic reduction in GDP, 44% unemployment, political unrest and mass migration. The government bonds had been trading in the 35-40¢ range but with US investors and hedge funds banned from buying bond prices plummeted to 6¢. Some of the state-owned PDVSA bonds even hit 2¢.

It could have been a lossmaking trade but it was not a hard call. The sovereign debt was never going to zero. Even Cuban debt trades at 4¢ and with all due respect that island only has cigars, sugar, rum and the Buena Vista Social Club to export. Venezuela has the largest oil reserves and the eighth largest natural resources in the world.

At some point in the future sanctions were going to end and the Venezuelan government (whether the Maduro regime or a new democratically elected president) would restructure. Historically that has been around the 80¢ mark often with added interest on the defaults.

Currently Altana owns over 1% of Venezuelan sovereign debt with a face value of over $500m. There is still a way to go but the country is in a better place today than 2019 on all metrics. In our opinion, bonds are still cheap and once short-term profit taking subsides, and large fund buyers have accumulated positions, we expect prices to return to above 2019 levels. The next likely catalyst is a reweighting in emerging market bond indices scheduled for January 2024.

But Venezuela is just the tip of the asymmetric iceberg. Whilst we do see such opportunities intermittently, every so often there are multiple distressed investments available. Think 2001-03, 2007-09. And right now.

About Altana Wealth: London-based Altana was founded by hedge fund industry veteran Lee Robinson in 2010. It specialises in a range of niche strategies and employs 30 investment specialists in London and Monaco.

VAL ZLATEV
PORTFOLIO MANAGER AND PARTNER
ANALOG CENTURY MANAGEMENT

"The fundamental factors that made 2023 so ripe for alpha generation will persist in 2024"

The fundamental factors that made 2023 so ripe for alpha generation will persist in 2024 and throughout the next several years; namely, elevated interest rates, declining inflation, and a resilient consumer economy. In many ways, the current environment is similar to the period from 1995-1999 – the only other time the Fed orchestrated a soft landing after sharply increasing rates to 6% in 1994.

The economy was robust, and inflation was measured despite limited rate cuts following 1994. To be sure, valuations for many hard technology stocks today sit in the 10-25 price to earnings ratio range, unlike the 200-400 range of the late 1990s. However, just as productivity increased after 1994 in part due to widespread adoption of the internet and e-commerce, there is a good chance productivity will grow after 2023 due to the adoption of generative AI.

Over the past five years in the hard tech space, the leading businesses that have significantly outperformed have been those enabling three transformative technologies – artificial intelligence, electric vehicles, and sustainable factory automation. Specifically, semiconductors, communications equipment, and hardware have recently driven alpha generation.

Companies like Apple and Cisco grew and flourished in 8% rate environments in the 1980s. In the 1990s, the internet boomed with 6% yields. Today, the large, transformative technologies like generative AI that are still very early in their development in a 5% rate environment are creating alpha opportunities.

In higher interest rate environments, investors pursue high quality companies with visible earnings growth, high margins, and robust cash returns that have the capability to invest in continued strategic expansion without relying on high-interest bank loans. Meanwhile, poor-margin businesses cannot afford to invest and grow.

This was the case throughout 2023 and going forward we expect the performance gap between winners and losers to widen. Given this backdrop, the dispersion in fundamentals should continue to lead to strong alpha opportunities. Great companies are great regardless of macroeconomic volatility.

Despite a sharp rise in interest rates in 2023, holdings with AI exposure rose sharply as global demand for artificial intelligence capabilities continued to grow and surpass prior expectations. Nvidia and the other companies enabling and benefiting from artificial intelligence – the biggest technological change in our lifetime – will continue to benefit as the sector matures.

Already, AI's potential to drive productivity improvements is evident. Just look at Shopify's announcement that they have already incorporated one million lines of AI-generated code in their business – a significant increase, particularly considering an average coder writes just ten lines of code per day.

At Analog, our investment process is designed to identify winners across inflecting end markets where technology leaders typically enjoy increasing earnings power, regardless of the macroeconomic environment. We are bullish on artificial intelligence, electric vehicles, industrial automation and electrification, and advanced networking and communications. Mature to declining markets, including personal computers, smartphones, hardware assemblers, distributors, and telecom operators, provide ample short opportunities.

About Analog Century Management:
New York manager Analog invests in publicly traded equities across hard technology sectors. It operates three strategies with gross deployed capital of about $1bn across long-only, market neutral and long-short strategies.

AI will play an important role in the future of the hedge fund industry

ADRIAN DE VALOIS-FRANKLIN

CEO

CASTLE RIDGE ASSET MANAGEMENT

Artificial Intelligence is a broad concept of enabling machines or systems to sense, reason, act or adapt like a human.

At Castle Ridge Asset Management, we believe true AI must also be able to self-evolve to new and unknown environments; it cannot be static. Castle Ridge is a Deep Tech laboratory and hedge fund manager that is exclusively focused on self-evolving AI-powered investment strategies.

Castle Ridge's proprietary WALLACE AI platform continuously learns and evolves by analysing vast financial market data (fundamental, technical, news, and sentiment). The experienced AI team at Castle Ridge developed a new AI approach called Geno-Synthetical Algorithms (GSA). Using GSA, WALLACE uncovers unique market patterns far deeper than typical quantitative or systematic strategies.

The program is the culmination of over 20 years of research into what works and, more importantly, what does not work when trying to apply AI to financial markets. What sets it apart is its transparency and ability to explain every decision it makes. To achieve explainable AI, Castle Ridge avoids off-the-shelf black box machine learning approaches such as traditional neural networks and deep learning. These are acceptable tools to train static large language models (LLMs) or generative pre-trained transformers (GPTs), for machine vision (the definition of a human face or cat doesn't change), or to teach an AI to play chess or Go.

However, what happens if the rules of chess change at every turn? Suddenly, you need an AI that can learn and adapt to an ever-changing environment. This is the challenge that static machine learning techniques face when applied to the complex world of financial markets – ultimately, they work until they don't. To solve this problem, Castle Ridge developed an entirely new approach to evolutionary computing.

WALLACE uses our proprietary GSA to model survival of the fittest in nature. Overnight, it created thousands of generations of virtual portfolio managers. Each virtual PM has different characteristics, with the most fit breeding to create an even stronger generation of PMs.

The potential impact of this kind of technology on the global hedge fund industry is obvious: it replaces an army of human portfolio managers and analysts.

Through this powerful AI, Castle Ridge built a multi-manager hedge fund in a box. Traditional multi-strats must identify and hire hundreds or thousands of human managers in "pods," layering fees for the end client. Castle Ridge achieves low correlation and diversification of return streams at a fraction of the operating cost to the legacy players, as a pure-play AI hedge fund.

It's clear that AI will play an important role in the future of the hedge fund industry globally and that machines are set to replace people in many key functions in the space.

About Castle Ridge Asset Management:
Toronto-based Castle Ridge specialises in artificial intelligence. Its AI-powered platform continuously learns and evolves by analyzing vast quantities of financial market data, removing human bias from the investment process.

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The current environment is similar to the period from 1995-1999 – the only other time the Fed orchestrated a soft landing after sharply increasing rates to 6% in 1994.

Val Zlatev
Portfolio Manager and Partner, Analog Century Management

LIAD MEIDAR
FOUNDER AND MANAGING PARTNER
GATEMORE CAPITAL MANAGEMENT

We believe 2024 may usher in 'The Great British Buyout'

Longstanding macroeconomic tensions, which began in late 2021 and continued through 2023, have been driven primarily by spikes in inflation and interest rates, heightened geopolitical risks, and resultant tightening of financial conditions. Over this period, the discount on UK equities relative to US peers widened to nearly 50%, due to a confluence of post-Brexit challenges, pension de-risking and misguided government policies.

Small- and mid-cap companies in the UK have been disproportionately hit, with liquidity in those segments severely drying up. Importantly, take-private activity over the past year has ground to a halt, as financing for private equity-led buyouts has become increasingly expensive and difficult to obtain.

We believe these dynamics will persist into the new year; however, at some point in 2024, we expect markets to reach an inflection point when financing conditions will start to ease up.

In this environment, we are focusing on two key event-driven opportunity sets.

The first is cherry-picking strong UK businesses trading at deep discounts and providing a high margin of safety, and pushing for actions which unlock value. These could include running a sale process, returning capital to shareholders or changing listing venues. Indeed, we believe as financing markets re-open, they will do so first for companies with strong cash flows, and these will be the top take-out targets for private equity funds. We believe 2024 may usher in 'The Great British Buyout' – the start of a multi-year period where an unprecedented number of UK companies will be taken private at healthy premiums.

The second is rescuing distressed companies that are 'hitting the wall' on funding and cannot access capital markets. We seek to identify companies which have had historically sound operations but are experiencing solvable operational or governance challenges and struggling to obtain new financing. These situations allow us to build controlling stakes, either outright or effective, through take-private transactions or planned de-listings, and actively set the businesses on a new course. We believe there will be many such opportunities over the coming years for this strategy, which we view as 'all weather' due to returns being reliant on the effectiveness of our turnaround effort rather than on changes in market conditions.

In short, we expect 2024 to be a year of significant opportunities for highly active and engaged investors.

About Gatemore Capital Management:
London-based Gatemore manages an activist strategy focused on turnarounds, recoveries, and growth opportunities to create value across both public and private markets through deep engagement.

> *The year 2024 is likely to prove a challenge for African USD bonds*

SIMON QUIJANO-EVANS
CHIEF ECONOMIST
GEMCORP

Like 2022, the past year has been a roller-coaster ride for markets. But, in spite of all the extremes, emerging markets fixed income (FI) assets have fared relatively well compared to their peers in developed markets. What's more, EM local currency bonds, a bellwether for volatility, stood their ground in 2023 and even held up, in USD terms, with an oft-quoted adversary for EM FI, namely the US high yield sector.

So, what does this all mean for 2024? Theoretically nothing, given history shouldn't tell us anything about future performance. However, one clear lesson from recent years is that EM fixed income assets have become a force to reckon with and are thus an interesting set of instruments for global investors to consider holding in their diversified portfolios.

Indeed, this isn't just a market phenomenon, it is the result of evermore prudent and pro-active stances adopted by many EM policymakers, whether at the fiscal or monetary policy level. Numerous EM central banks, especially in Latin America, showed clear foresight and hiked rates ahead of the Fed as of 2021. This has not only enabled their currencies to outperform most developed market peers in 2023, it also means that many EM local currency FI instruments can look out for some more performance as EM central banks cut rates in line with expected Fed rate cuts. All the more as the latter can still surprise markets with more than currently expected rate cuts in 2024.

That bodes better for the 2023 major underperformers, including the likes of the Turkish lira and possibly even the Ghanaian cedi and the Sri Lankan rupee, assuming the latter remain along their path of debt restructuring.

Which brings us to the world of EM hard currency bonds. A tougher backdrop, given their price action has again depended so much on the whims of US Treasury bonds. Yes, EM USD bonds have delivered return versus volatility profiles that can compare with that of US HY bonds. However, one often hears of the lack of analytical capacity as a hindrance to investing in EM bonds, especially those of sub-Saharan Africa. It may thus come as a surprise to many that African USD bonds have been outperforming most of their regional peers in EM on a cumulative basis since January 2022.

The year 2024 is likely to prove a challenge for African USD bonds, given a pick-up in principal payments compared to recent years. However, if the Ghanaian, Zambian and Ethiopian restructuring processes are wrapped up (which looks increasingly possible from a timing point of view) and US bonds yields fall more meaningfully (with the developed market growth picture looking evermore challenging), African USD bonds could outperform EM peers in 2024.

About Gemcorp: London-based Gemcorp is an emerging markets-focused asset manager specialising in investments in high quality growth opportunities in developing economies. It uses a range of approaches, from direct lending to private equity.

SONNY DOZIER
CO-FOUNDER
HUNTING HILL DIGITAL

> *Brands ignoring digital assets risk foregoing significant growth opportunities*

As has been true for prior disruptive technologies, the initial wave of growth and adoption for digital assets was driven by a 'vice' industry. In this case, speculative day trading of cryptocurrencies pumped up by unregulated and unscrupulous market participants culminated in a sharp, but relatively brief downturn, known as 'crypto winter' beginning in late 2018.

Markets recovered, beginning in late 2019, only to fall prey to speculative excess and another sharp downturn beginning in early 2021, as hopes of 'institutional adoption' were dashed when many of the most established crypto-native market participants were exposed as overleveraged frauds. The silver lining is that this more protracted recent downturn has provided space for advancements in blockchain technologies absent the spotlight and elevated risk of speculative excess and has given rise to hope that practical use cases will drive the next wave of growth for the industry.

Beneath the hype and volatility, digital assets are the latest in a series of step-change technology innovations enhancing online experiences and represent a particularly compelling opportunity for consumer lifestyle brands.

Blockchain technologies enable monetization of intellectual property via tokenisation thereby extending a brand's relationship with its consumers into virtual goods, services, and experiences as well as enabling all sorts of hybrid physical-virtual engagement opportunities. However, these benefits will not accrue automatically.

The history of retail and consumer brands is littered with those that failed to adapt to prior disruptive innovations – from the World Wide Web to ecommerce to mobile connectivity. As has been the case before, brands ignoring digital assets risk foregoing significant growth opportunities and fading into irrelevance versus those able to adapt.

In addition to providing consumer brands a vehicle for offering virtual goods, digital assets present the potential to tokenise loyalty programs, opening greater opportunities for consumer engagement through services and experiences and increasing the value of rewards to the consumer.

Tokenisation of loyalty programs signifies not only a technological shift but also a transformative change in how brands interact and transact with consumers between points of purchase in both the real and virtual worlds. Tokenised rewards are more versatile and valuable to both consumers and the brands – affording greater liquidity, increased network and partnership opportunities, and enhanced visibility into consumer preferences and behavior.

In much the same way that the advent of ecommerce forced retailers to become software developers, realizing the potential of tokenised economies will force lifestyle brands to acquire digital asset management capabilities, either by building internally or through partnerships. As brands and other businesses venture into this tokenised virtual world, firms outside the financial sector will increasingly look to digital asset management partners for help navigating new challenges.

While the learning curve is steep and there is much still to figure out, embracing tokenisation and digital assets promises to unlock entirely new (virtual) worlds of opportunity for consumer lifestyle brands and their consumers.

About Hunting Hill Digital: Hunting Hill Digital launched its digital asset management services and strategy business with an investment from BaseLayer Ventures, an early-stage venture capital firm, in 2023.

HEDGEWEEK

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