INSIGHTS

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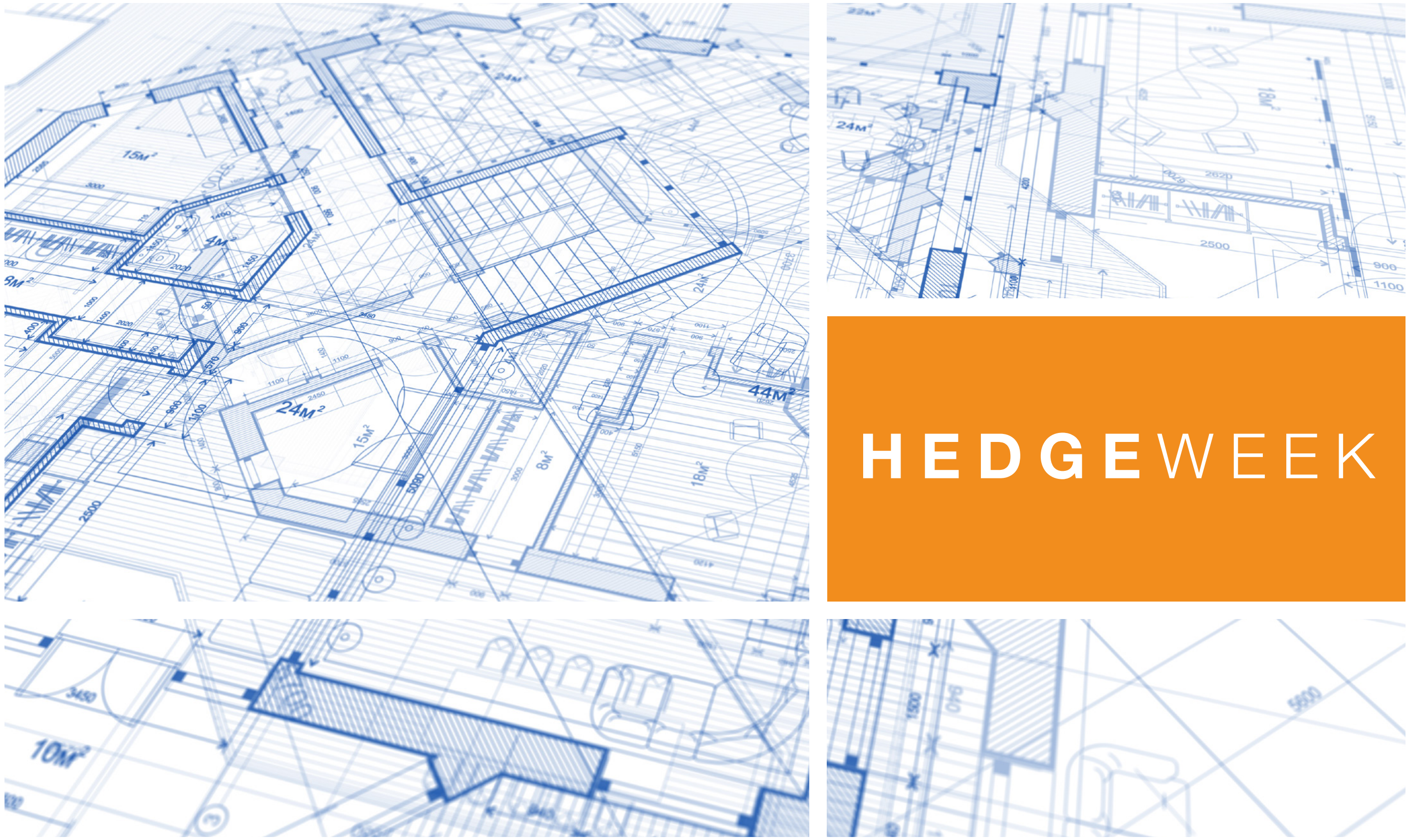
DECEMBER 2024



INVESTOR INTEREST

ALLOCATOR PLANS FOR HEDGE FUNDS AND BEYOND IN 2025

EXECUTIVE SUMMARY

Investor sentiment towards the hedge fund space remains strong after a year of improved performance, shared across almost all strategies. This report, sponsored by Marex, reveals the extent of the positive sentiment, with double the proportion of investors planning increased hedge fund exposure this year compared to 12 months ago.

The $4.5tn industry now sits at all-time peak assets, but positive performance rather than inflows has driven the recent increase. The first section looks at the key drivers of investor sentiment and asks whether positive intentions will be backed up by greater inflows next year.

The outlook is more mixed in private asset strategies, for a mix of well-reported reasons to be explored in the second section. Though investor preferences are shifting, it remains clear that LPs see a continued key role for alternative strategies in 2025.

We hope you find the findings in this report valuable.

WILL WAINEWRIGHT
HEAD OF HEDGE FUND RESEARCH

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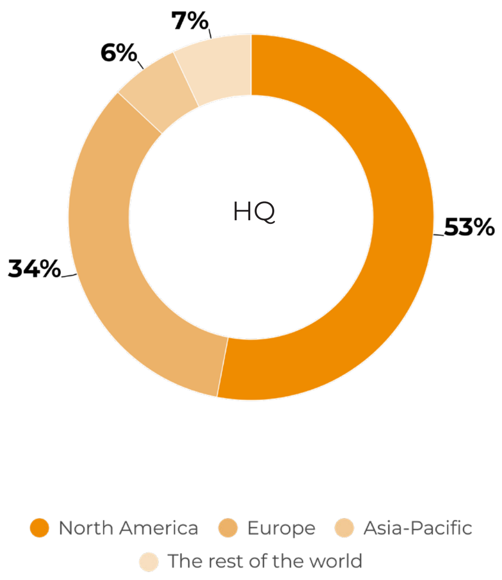
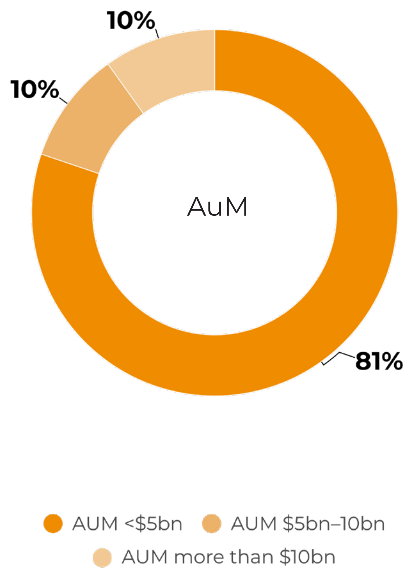
Breakdown of respondents to Hedgeweek's 2025 Investor Survey by firm location and size:





METHODOLOGY

The primary source of data in this report is Hedgeweek's 2025 Investor Survey, conducted in November 2024. More than 80 alternative investment allocators responded, from a range of backgrounds. The vast majority were based in North America or Europe. Further insights in this report were gathered from research and third-party intel in Q4. Please note, percentages have been rounded up or down for readability, and may not add up to exactly 100% in some cases.

KEY FINDINGS

1

Hedge fund appetite accelerates

More than half of investors surveyed by Hedgeweek plan to increase their hedge fund commitments in 2025. That marks a twofold increase on last year, with 54% planning a higher exposure compared to 27% a year ago. Just 3% expect to decrease it (down from 12%) – sentiment could not be much warmer.

2

Quant is top priority

Quant and systematic strategies are the top areas of interest for LPs looking to increase their allocations into hedge funds, with 75% planning to up their exposure in 2025. Global macro (55%), long/short fixed-income and commodities (both 48%) were also popular, while relative value/arb has fallen down the priority order.

3

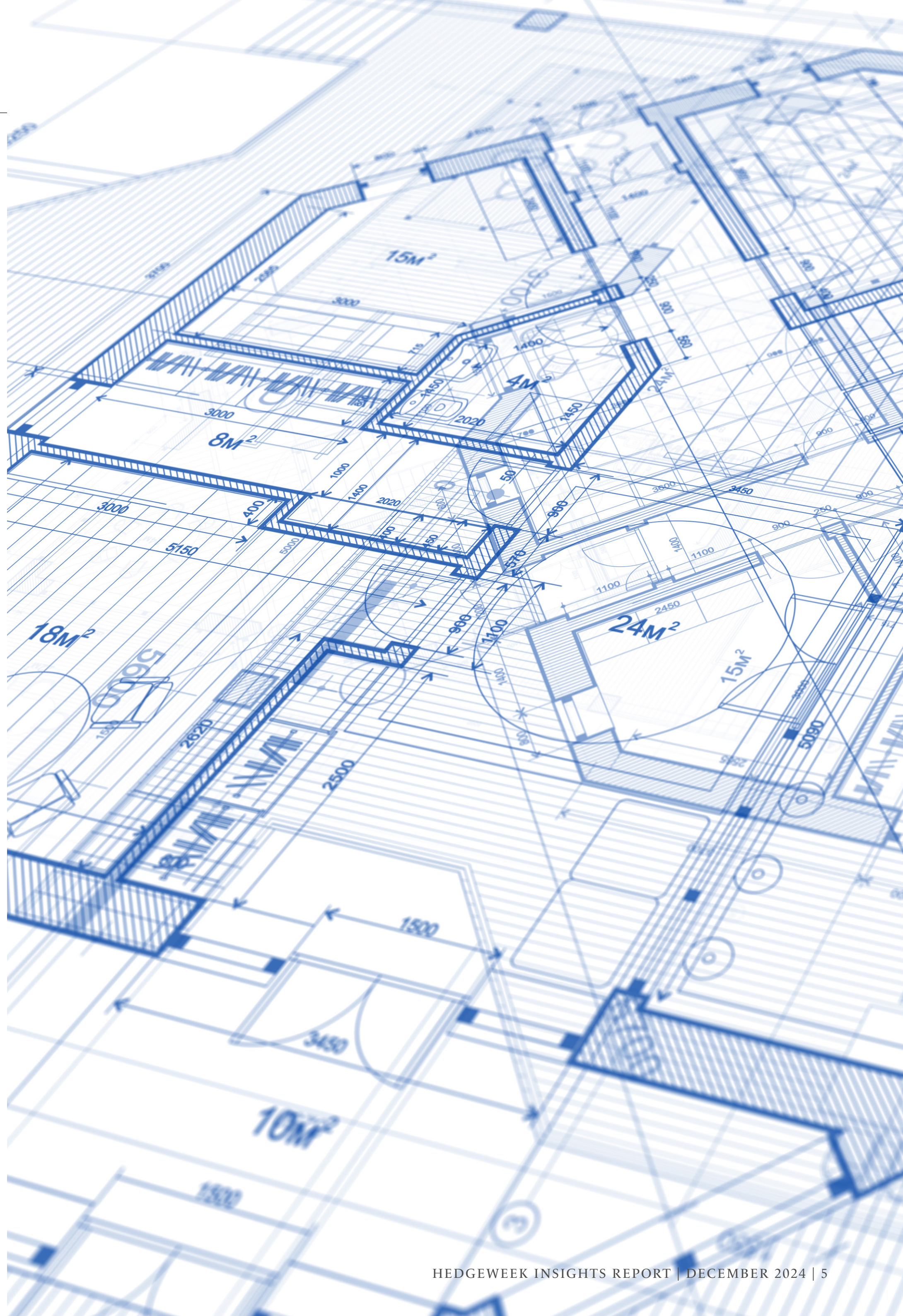
Don’t write off private credit

There has been growing talk of a bubble in private credit but many investors still want to invest more. Direct lending, which constitutes the bulk of the private credit market, continues to be the key driver of growth, with 65% of respondents planning an increase in 2025, and just 12% a decrease. The outlook across private equity strategies, by contrast, is more mixed.

4

ESG becomes less relevant

Three-fifths of investors are asking managers about AI, in line with last year. There was, however, a big change in terms of ESG. Just 23% of investors are asking managers about their approach to this area, compared to 62% last year, when it was just as likely as AI to feature in investor DDQs.



INCREASING INTENTIONS

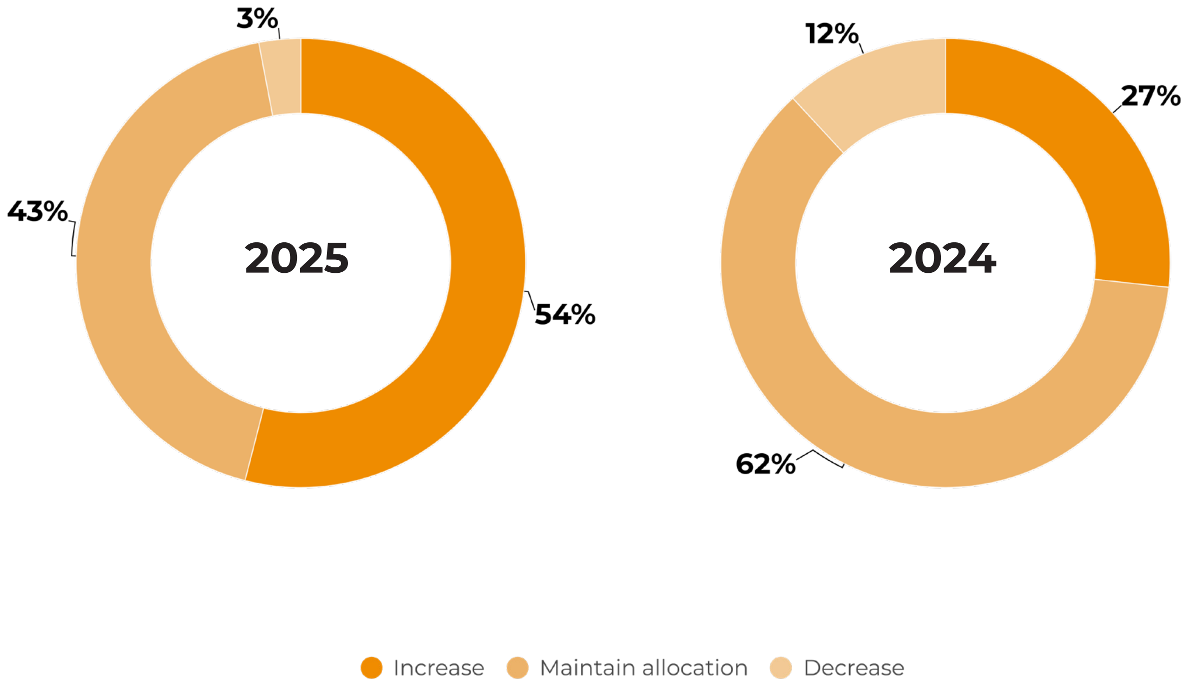
Strong performance has put hedge funds back on investor radars in 2024, but when will flows movement catch up with positive sentiment?

Hedge funds have posted strong returns in 2024, with an average gain of 8.5% after ten months, according to PivotalPath. The industry has hit a new asset peak of $4.5tn (tracked by Hedge Fund Research) and this report reveals positive sentiment around investor intentions to allocate more into the space.

The caveat, as always, is whether those positive sentiments and intentions are matched by actual allocations. Intentions highlighted in prime brokerage investor reports earlier this year have not, so far, been backed up by solid commitments. The fundraising environment remains tough and recent industry events have been dominated by talk of when distributions from private markets strategies will speed up, which should in theory free up space in LPs' alternative allocation buckets.

Nicolas Faller, Co-CEO at Swiss group UBP Asset Management, is among many to have turned more positive on hedge funds this year. “The dislocation in some sectors is so great that the elastic will eventually snap. Hedge fund managers are best placed to take advantage of these new market inefficiencies.”

Fig. 1.1 Investors' plans for their hedge fund allocations in 2025 versus 12 months ago



Source: Hedgeweek 2025 Investor Survey

Several factors make him optimistic about hedge funds going forward: "The positive interest-rate environment, the healthier market situation following the disappearance of many alternative managers, and above all market dislocation, which is now a source of profit for the first time in ten years."

That sentiment is a neat reflection of the findings from Hedgeweek's Q4 survey of alternative investors. Double the number expect to increase their hedge fund allocations next year, 54% compared to 27% 12 months before (see Fig. 1.1). Just 3% expect to decrease it (down from 12%), with the remaining not planning a change. Sentiment could not be much warmer.

Investors have updated their priorities when it comes to strategies of interest in the year ahead. Relative value/arbitrage strategies topped the wishlist a year ago, with 33% planning an increase. That figure has remained constant, but other strategies have become even more popular, led by quant/systematic, which 75% of investors plan to increase more to (see Fig. 1.2).

Digital asset strategies are also popular, picked by 73%. They may benefit from a warmer regulatory attitude towards crypto under the incoming administration of President Trump. Among more conventional hedge fund strategies, global macro (55%), long/short fixed-income and commodities (both 48%) are also extremely popular.

In Man Group's Q4 outlook, Adam Singleton, CIO of external alpha within the London firm's solutions unit, signalled a preference for "micro"

“

Those looking for more hedge fund exposure are hunting idiosyncratic return streams.

Jack Seibald
Global Co-Head of Prime Brokerage and Outsourced Trading,
Marex

quantitative strategies. "Equity dispersion has remained high over recent months and returns from statistical arbitrage and other micro quantitative strategies has remained strong," he wrote.

"Given the range of uncertainties facing the global economy, we expect to see a continued positive environment for [these] strategies if volatility picks up and equity dispersion continues."

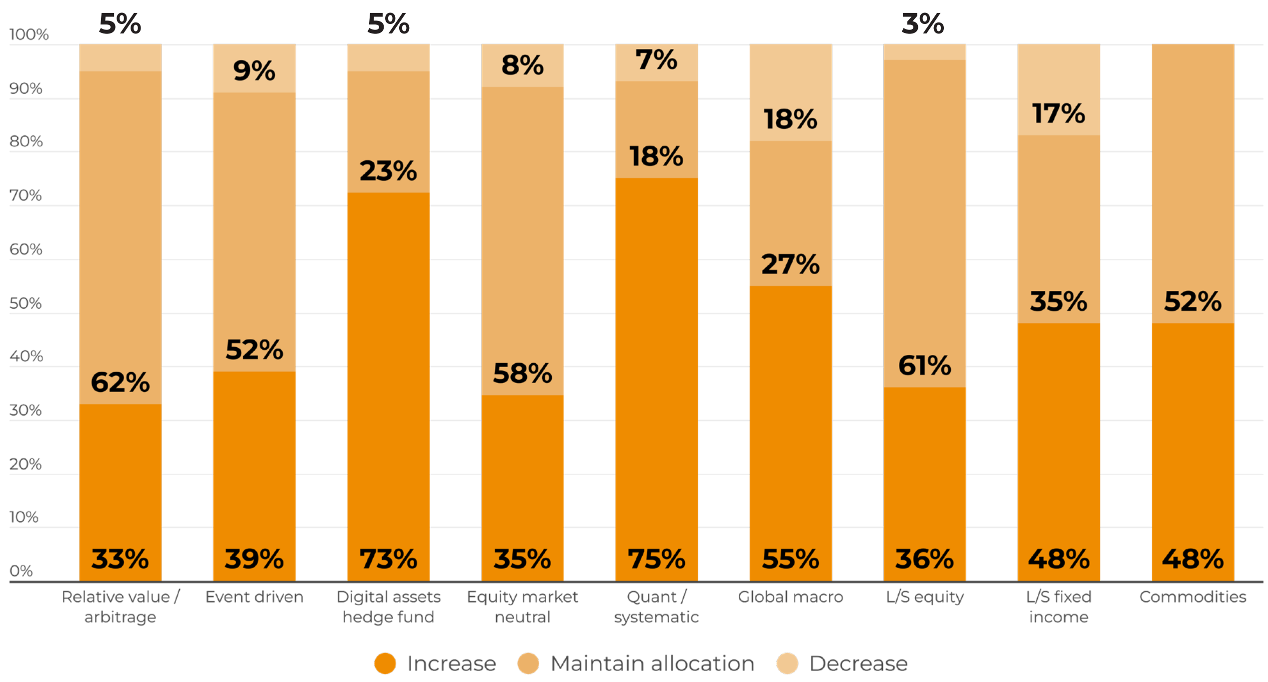
Global macro and long/short credit were two of the three "strategy highlights" (along with insurance-linked securities) picked by K2 Advisors, a unit of Franklin Templeton, in its latest strategy outlook.

"Markets continue to focus on central bank policy, changes in political leadership, and geopolitical tensions, all of which can play in favor of discretionary macro managers."

Brevan Howard proved the power of macro in September, when a greater than expected rates cut by the Federal Reserve triggered market upheaval. Its Master Fund made 5.1%, its best month of the year, which may be surpassed in November after bets linked to President Trump's election win sparked big profits.

Dispersion is the reason for K2's positive sentiment on long/short credit. "We see potential to benefit from an increase in dispersion across single issuers given still-elevated base rates, tight spreads, and prevalence of political, economic and technical risks impacting both public and private credit markets."

Fig. 1.2 Investors' plans for their hedge fund allocations in 2025 – by hedge fund strategy



Source: Hedgeweek 2025 Investor Survey

KEY FINDING

Quant/systematic hedge fund strategies are most in-demand going into 2025.

Most allocators are planning an increased exposure (on a net basis). LPs planning an increase were two-thirds ahead of the number planning a decrease.

68%

Quant/systematic

36%

Global macro

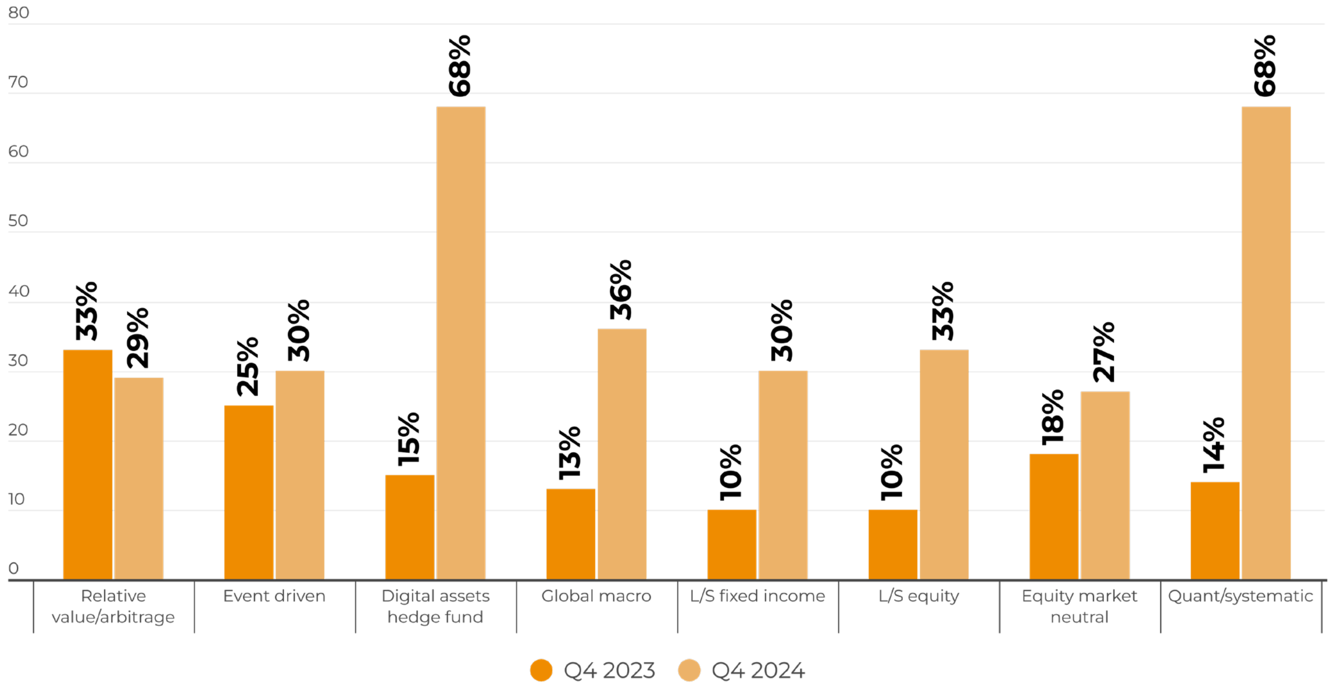
33%

L/S equity

Source: Hedgeweek 2025 Investor Survey. Net sentiment towards strategies measured by subtracting percentage of investors planning to decrease exposure from those planning an increase.

INSIGHTS

Fig. 1.3 Investors' net plans for their hedge fund strategies in 2025 versus 2024



Source: Hedgeweek 2025 Investor Survey (results compared to last year. Forward looking question asked in Q4 about following year)

Calculating on a net basis – by subtracting redemption intentions from subscriptions – again highlights the positivity towards quant/systematic and digital asset hedge funds this year compared to last (see Fig. 1.3).

As the era of higher interest rates continues, allocating to managers which offer a strong return above the risk-free rate was again the top priority, picked by 39% (see Fig. 1.4). Rates may have started to fall from their peak in the US in September but few are expecting a rapid decline, particularly after the election of Trump, whose pro-tariff policies are likely to prove inflationary around the world.

That in turn means the debate around hurdle rates in the hedge fund industry is likely to persist, after the Teacher Retirement System of Texas and other allocators wrote an open letter calling for higher interest rates to be reflected in industry fees.

"We believe incentive payments on true value-add fixes a misalignment that has been present in fee structures throughout the maturation of the hedge fund industry," the group wrote over the summer, calling for cash hurdles before performance fees are charged.

Fees remain a major talking point in the industry, which continues to be re-shaped by the dominance of multi-manager platforms and the higher fee structures (which pass expenses, including trader pay, directly through to the investor).

JACK SEIBALD

Global Co-Head of Prime Brokerage and Outsourced Trading, Marex

How have hedge funds performed this year?

Strongly. We've seen a much better performance by the industry, across strategies, and that is at a time that equity markets have done well. So that is a positive start. And there has been nice diversification: macro funds did well in the turbulence triggered by the Fed's half-point cut. That has probably set the tone for 2025, with more macro turbulence, but offset against that you may well have stocks and other assets rising on the growth agenda of President Trump. Credit is going to throw up a lot of opportunities. All in all, I think there is going to be a lot of market dynamics for hedge funds to harvest new sources of alpha.

How important is the diversification offered by hedge funds?

Absolutely central. The lesson of market events in 2022 is that you can't rely on 60/40 to offer uncorrelated return streams, which increases the case for alternatives. That will be the case even more in the next few years, with a more uncertain geopolitical and macroeconomic outlook. Those looking for more hedge fund exposure are hunting idiosyncratic return streams.

Have investors responded so far with new allocations?

Flows haven't necessarily quite lived up to the promise, for various reasons, including a lot of alternative allocations being tied up in privates. And so getting fresh money into hedge funds is difficult at the moment. But we are continuing to see demand. The difficulty in getting tickets written is still front of mind — family offices tend to be quicker but more institutional organisations have lots of gatekeepers before you get to the actual decision-maker. And the rise of managed accounts has made it harder for funds to grow their commingled vehicles.

“Flows haven't necessarily quite lived up to the promise, for various reasons, including a lot of alternative allocations being tied up in privates.

The platforms have (in common with most single manager strategies) had a strong year, up 8.7% in the first ten months, according to PivotalPath. A key determinant in the debate over fees and performance will be whether single-manager performance can again outshine the multi-managers on a net basis in 2024. It did so in 2023, according to BNP Paribas, after the pandemic era of platform dominance, but a second year would help the single manager fightback.

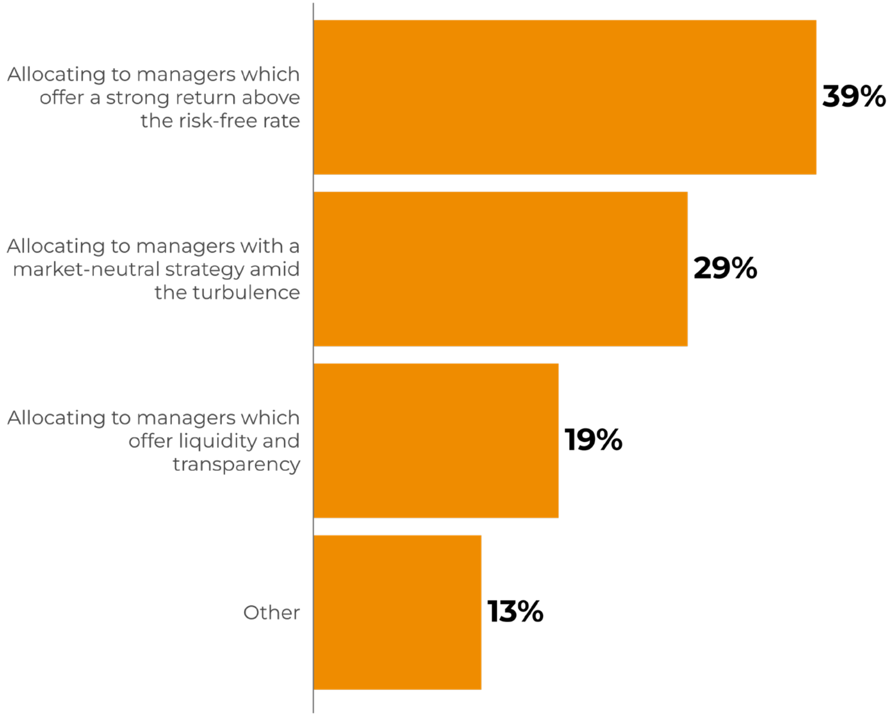
Backing up the preference for systematic strategies, it was telling that UBP positioned systematic multi-strategy (in addition to short term quant) among its most high-conviction strategies in its latest outlook.

“Multi-strategy quant managers can benefit from a wide range of underlying styles including longer-term trades that profit from more sustained regimes shifts, whilst also benefiting from shorter term volatility in markets,” according to Kier Boley, CIO of UBP Alternative Investment Solutions.

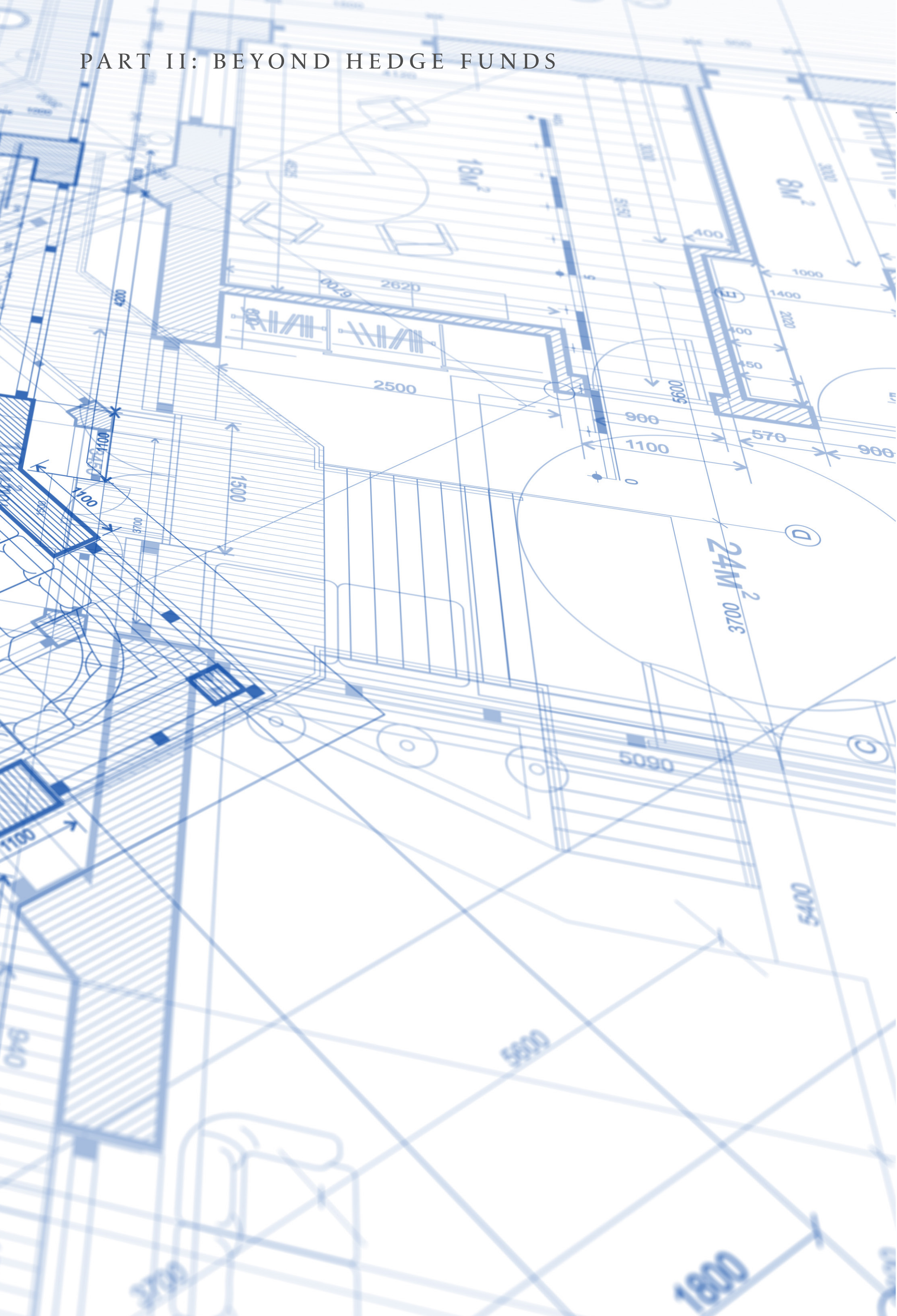
“In the equities space, we are most positive on equity market neutral managers that can use advanced statistical methods such as machine learning to deploy risk across a more diversified set of alphas.”

A focus on quant, and a combination of single-manager firms and multi-manager platforms, looks set to be the path ahead for typical hedge fund allocators in 2025.

Fig. 1.4 Investors’ priority in the ‘higher-for-longer’ environment



Source: Hedgeweek 2025 Investor Survey



PRIVATE MARKET SENTIMENT

Private asset strategies face a more challenging outlook but continue to play a key role in many alternative portfolios

The higher interest rate environment has, as expected, proved tougher for most private market strategies, especially private equity. Deal-making remains slow, making exits more difficult, and there has been a rise in continuation, secondary and other structures which have had the overall impact of extending investment time-frames.

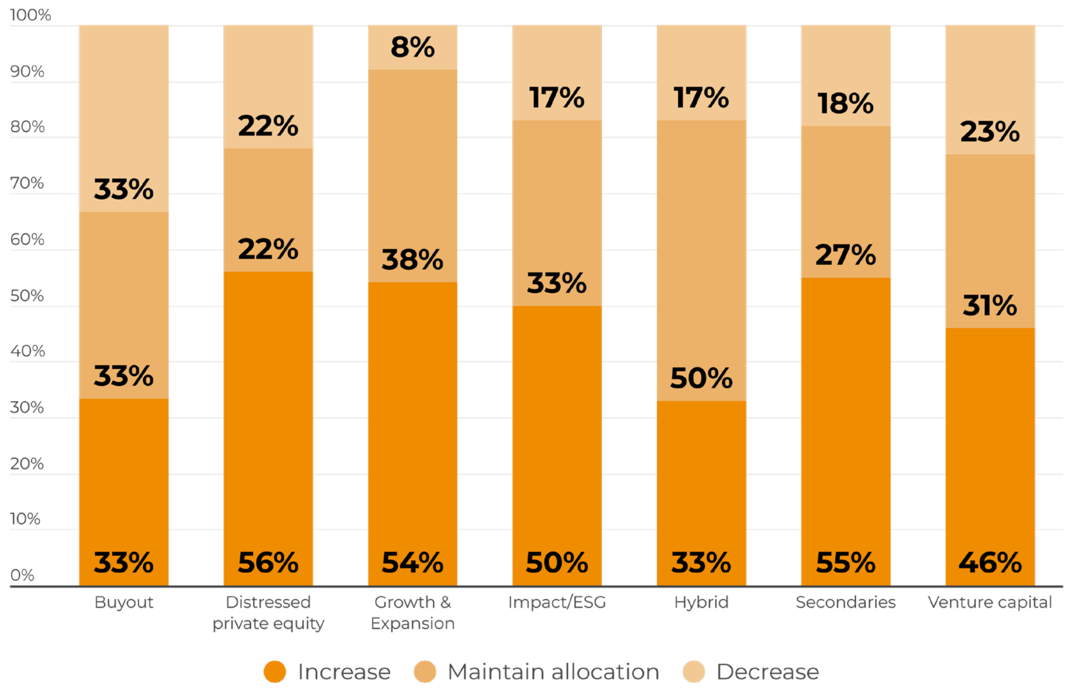
A telling statistic in Hedgeweek's Investor Survey 2025 was sentiment towards buyout strategies, the largest segment within private equity. Just as many allocators expect to decrease as increase their exposure in 2025, with the responses split three ways between increase, maintain and decrease (see Fig. 2.1).

In general, sentiment on private equity lagged hedge fund sentiment, as revealed in the previous section. The two top picks were distressed, where 56% plan an increased exposure, perhaps a reflection of the macro turbulence and tricky corporate outlook, and secondaries, where the number is 55%, in a reflection of greater uptake of these vehicles in the higher rate world.

The outlook is more favourable in private credit, the segment of alternatives which has seen the most growth since the pandemic as asset managers see greater opportunities in extending loans to private companies. Few expect the trend to reverse: assets in the space will rise to $2.8tn by 2028, almost double the $1.5tn figure of mid-2022, forecasts the data provider Preqin. Others think the $3tn milestone has already been breached (see box out, page 18).

Direct lending, which constitutes the bulk of the private credit market, continues to be the key driver of growth, with 65% of respondents planning an increase in 2025, and just 12% a decrease (see Fig. 2.2). Special situations and venture debt strategies are also popular, with 50% of respondents planning an increase to those (and just 7% and 13% a decrease, respectively).

Fig. 2.1 Alternative allocators' plans for their private equity allocations in 2024 – by private equity strategy

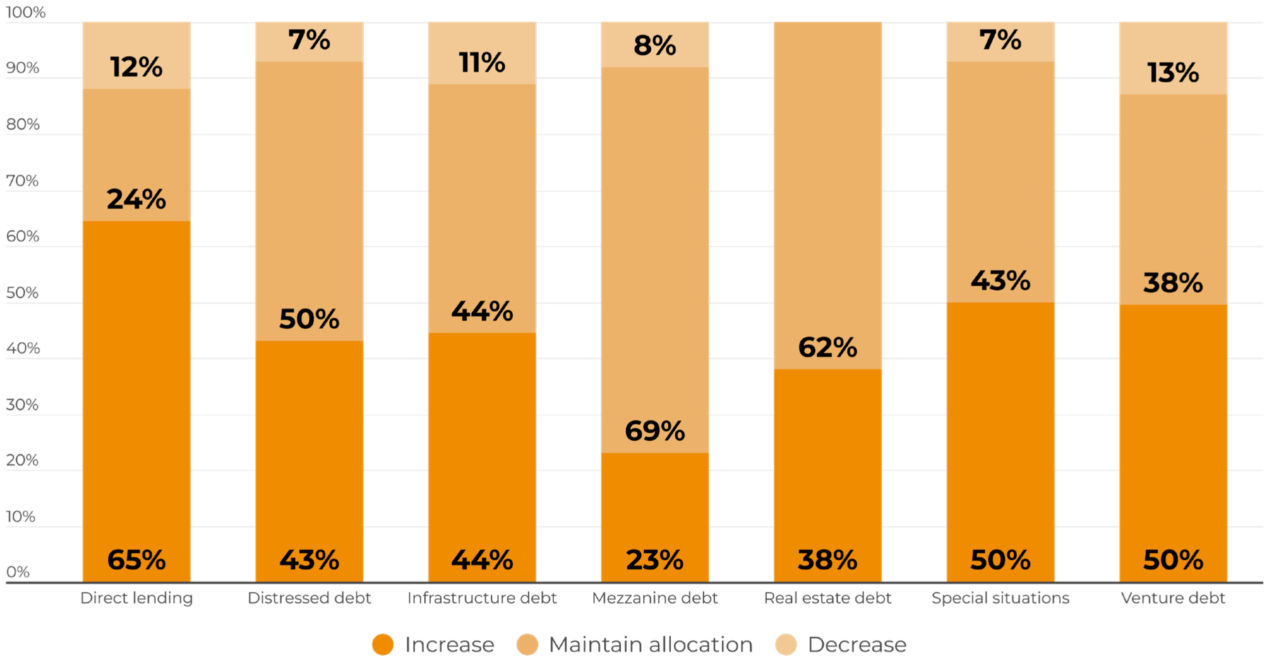


Source: Hedgeweek 2025 Investor Survey

> **The dislocation in some sectors is so great that the elastic will eventually snap. Hedge fund managers are best placed to take advantage of these new market inefficiencies.**

Nicolas Faller
Co-CEO, UBP Asset Management

Fig. 2.2 Alternative allocators' plans for their private credit allocations in 2024 – by private credit strategy



Source: Hedgeweek 2025 Investor Survey

The positive sentiment on private credit may lag hedge funds but remains overall an affirming signal for a segment which has attracted more scrutiny this year, against the context of its rapid growth and more turbulent macro environment. Talk of a private credit bubble has increased and there was alarm at the prospect of quickly falling rates impacting opportunities, though that risk has diminished followed Trump's election.

Jack Seibald, Global Co-Head of Prime Brokerage and Outsourced Trading, sees both sides to the debate over private asset strategies. "We heard recently from foundations on the West Coast which said they were over-invested in privates, and not by choice," he tells Hedgeweek. "But many still see the appeal, so there is some new money entering private equity, though private credit is still very frothy."

It is instructive to note the macro concerns top of mind for investors. The return of a global pandemic, which dominated sentiment and risk radars at the beginning of the decade, is now at the bottom of the list, noted by just 3% (see Fig. 1.3).

Inflation is now the top concern, picked by 19%, which marks a change on earlier this year when a quicker fall in rates was perhaps expected. President Trump's regime of higher tariffs, to be overseen by hedge fund manager Scott Bessent as Treasury Secretary, could bring a return of inflation to after its rapid post-pandemic spike and then decline.

KEY FINDING

Inflation is back as a growing concern for investors planning their portfolio in 2025.

Top three macro concerns for hedge fund investors in Q4 2024 versus 2023:

November 2023

1ST	Recession – global
2ND	Rising interest rates
3RD	Inflation

November 2024

1ST	Inflation
2ND	Recession – global
3RD	Supply chain disruption

Source: Hedgeweek 2025 Investor Survey

INSIGHTS

Private credit already at $3tn, says ACC

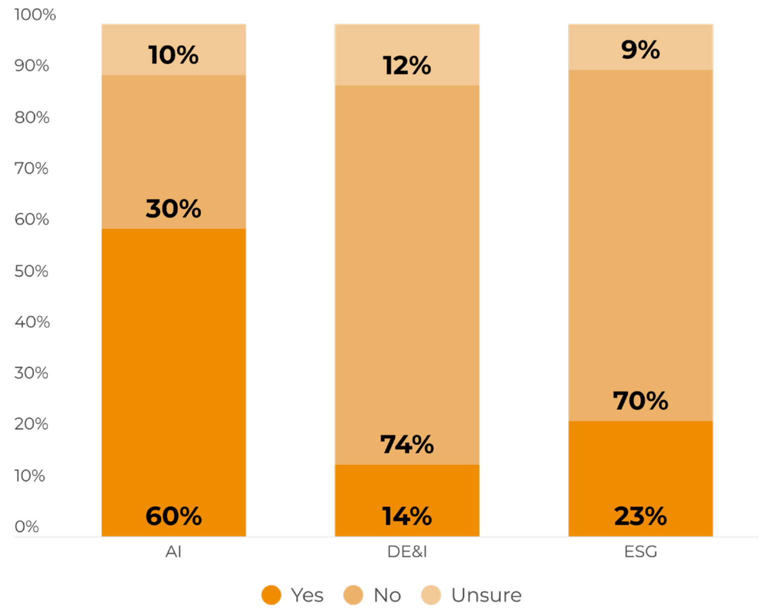
The $2.8tn private credit market figure forecast by Preqin for 2028 has already been breached, according to new research by AIMA's Alternative Credit Council (ACC). In a report published alongside EY, they said the market has surpassed $3tn, with corporate lending responsible for about 60% of overall AuM (and asset-backed, real estate and infrastructure debt accounting for the rest).

Private credit lenders invested $333.4bn of fresh capital in 2023, a big increase on the $203bn deployed in 2022, according to the report. The largest managers were responsible for 80% of the deployment. The research, which drew on data from 53 private credit managers and investors who collectively manage an estimated US$2tn in private credit assets, noted that economic stress on borrowers due to higher rates is reflected through an increase in adjustments to loan terms and valuations.

"Surpassing $3 trillion in assets is a remarkable achievement for the private credit industry, especially in a challenging macro environment," said Jiří Król, Global Head of the ACC. "Our research shows that private credit's stability stems from its strong structural foundations – aligned interests between managers and investors resulting in robust long-term capital backing."

"Whilst institutional money constitutes the main source of financing, retail and insurance capital have played a more significant role," added Vincent Remy, EY Luxembourg Private Debt Leader. "The rapid growth has gathered increased attention from regulators, yet the sector continues to provide a vital source of alternative financing to the real economy which benefits both borrowers and investors."

Fig. 2.4 Proportion of alternative allocators that ask fund managers about AI, DE&I and ESG



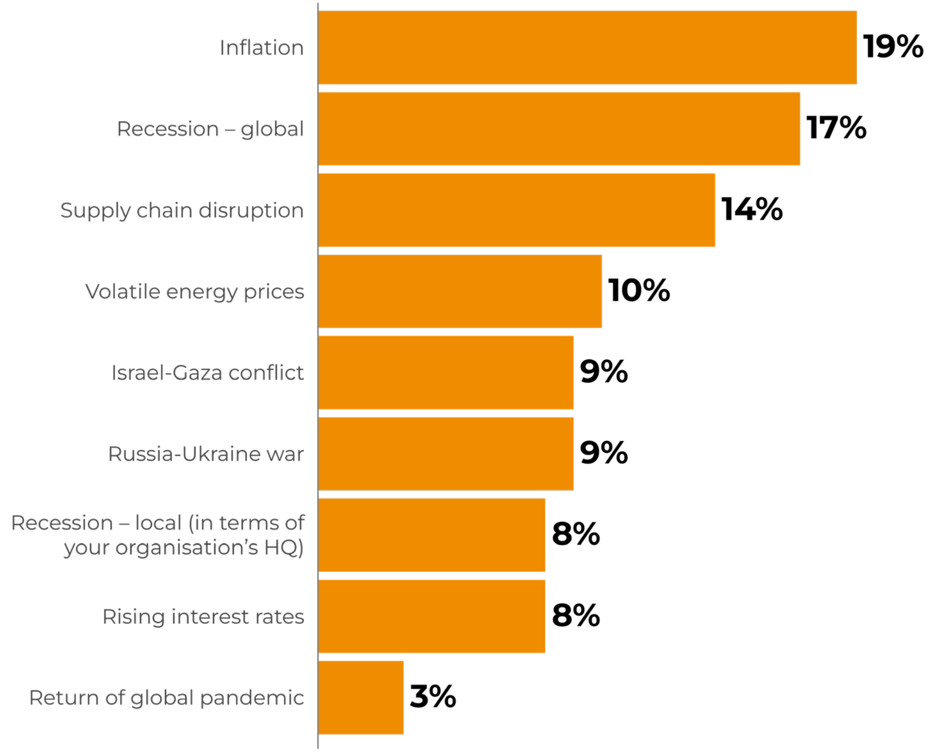
Source: Hedgeweek 2025 Investor Survey

Linked to this are the second and third investor concerns: global recession was highlighted by 17% in a clear sign that expectations of a "soft landing" have declined, while supply chain disruption was picked by 14% in a reflection of changing US politics and greater geopolitical turbulence expected in 2025.

In another telling statistic, the long-term arrival of artificial intelligence (AI) as an area of focus for investor, and decline of environmental, social and governance (ESG) was highlighted in Fig. 1.4. Three-fifths of investors are asking managers about AI, compared to just 14% for diversity, equity and inclusion (DE&I), figures which roughly matched response rates a year ago.

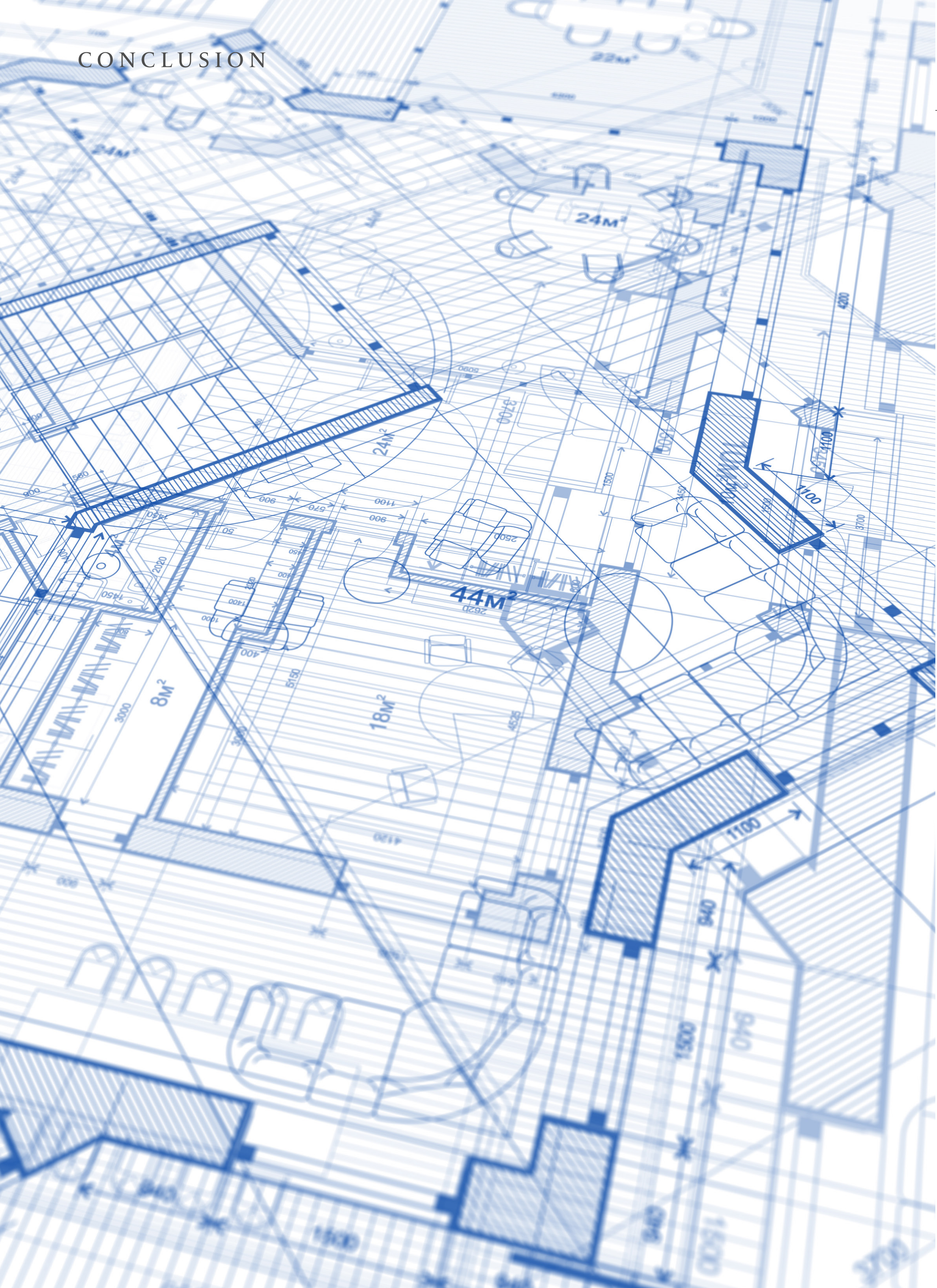
There was, however, a big change in terms of ESG. Just 23% of investors are asking managers about their approach to this area, compared to 62% last year, when it was just as likely as AI to feature in investor DDQs. ■

Fig. 2.3 Alternative allocators' top macroeconomic concerns



Analyst note: Multiple selections permitted.

Source: Hedgeweek 2025 Investor Survey



CONCLUSION

Judging by Hedgeweek's 2025 Investor Survey, the outlook ahead for hedge funds matches, in many ways, that of 12 months ago. Then, a more conducive market environment and changing investor preferences were expected to precede better performance and a rush of inflows.

The first part came true. Performance has been strong across almost all hedge fund strategies in 2024 and there is optimism it will continue next year. Allocations, however, have not, so far, followed. There are many reasons for this, from the vast capital still tied up in private strategies which are taking longer to pay out, to the growing use of managed accounts by LPs which are slowing the growth of commingled vehicles.

While the managed account trend looks here to stay, there are signs of more money about to come into the hedge fund space. The investor appetite is clearly there. The same is true in parts of the private asset market, but sentiment lags. In the new turbulent market and geopolitical environment, with rates expected to stay higher than expected in 2025, LPs want diversification, and preferably in as liquid a format as possible. That will be the argument for hedge funds playing a greater role in investor portfolios next year.

HEDGEWEEK

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