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JANUARY 2026

BEYOND THE HUNT

HEDGEWEEK® – AIMA ALLOCATOR SENTIMENT REPORT H1 2026

EXECUTIVE SUMMARY

The great manager hunt may be over. What comes next reveals far more about the hedge fund allocations' evolution than the hunt itself.

Six months ago, according to our H2 2025 analysis, 40% of hedge fund allocators were aggressively seeking new managers. Today, that figure has dropped to 18%. In its place, a patient sentiment has emerged – one where 47% of allocators pursue balanced approaches between new and existing relationships, focused on portfolio optimisation rather than wholesale reconstruction.

This isn't a retreat. It's strategic positioning.

Our survey of over 100 global allocators reveals institutions that are done with their portfolio repositioning for now and are focused on extracting value from carefully constructed hedge fund allocations. We can see this in the confidence they have in their portfolios. Just under three quarters of allocators express confidence their hedge fund portfolios will meet or exceed targets. But what goes to the story of patience is that deployment of capital has also become more selective, with 59% planning to keep allocations unchanged compared to 39% six months ago.

More significantly, within six months, allocators are reframing what they want from hedge funds. Diversification now dominates at 76% (up from 70%), uncorrelated returns have surged to 68% (from 49%), while expectations of higher returns have declined from 56% to 29%. This represents explicit recognition that hedge funds' primary institutional value lies in portfolio stabilisation at a time of volatility rather than outsized return generation by taking massive risks.

Part I examines the transition from exploration to optimisation: why confidence and measured deployment coexist, how fund manager selection has shifted toward proven relationships, and why long/short equity has overtaken the macro strategy despite continued geopolitical tensions. We explore the "rationale revolution" – allocators explicitly prioritising diversification and uncorrelated returns over absolute return maximisation.

Part II investigates the structural forces that could shape the industry's next chapter: the moderation of SMA demand after years of strong growth raising questions about whether the market is approaching a peak or simply entering a more mature stage of institutional adoption. We also consider the latest trends regarding fees – is the 1.5/15 structure emerging as a new industry reference point? And finally, we explore a nuanced tension regarding demand for private market investments – while allocators continue to crave exposure to seek exposure to the asset class, they are not necessarily allocating to hedge funds to do so.

The data reveals a market that has moved from disruption-seeking to steady-state operation. For hedge fund managers, this represents both a challenge and an opportunity: prove you can deliver consistent, uncorrelated, risk-managed returns, or face capital reallocation to managers who can.

MANAS PRATAP SINGH
HEAD OF HEDGE FUND RESEARCH, HEDGEWEEK®

TOM KEHOE
MANAGING DIRECTOR & GLOBAL HEAD OF RESEARCH AND COMMUNICATIONS, AIMA

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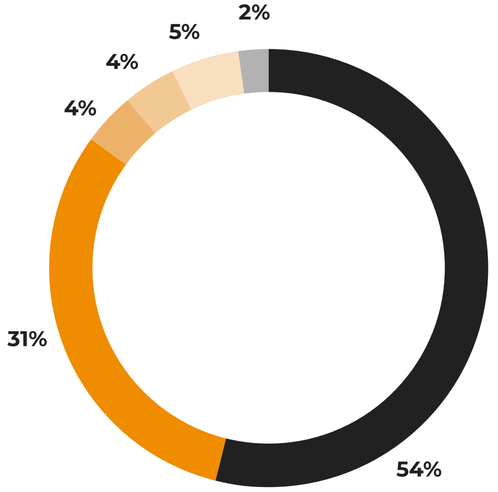
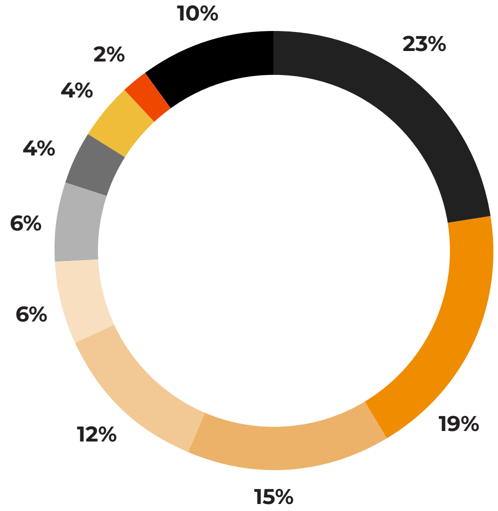
METHODOLOGY

The key source of data in this report is the Hedgeweek®-AIMA H1 2026 Allocator Survey conducted in November and December 2026. The global survey captured responses from over 100 different institutional investors of varying sizes and mandate types. These findings were supplemented by further insights gathered during interviews with named and unnamed allocator sources as well as additional third-party research and intelligence.



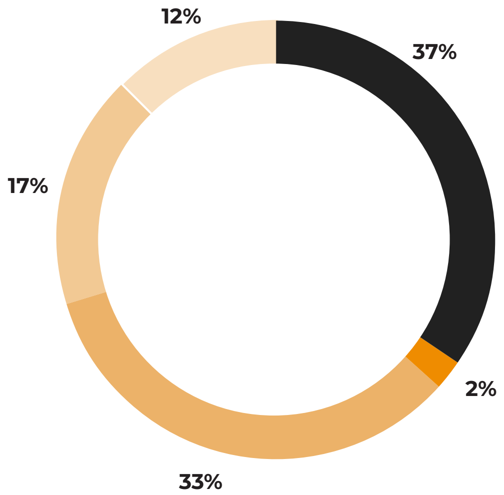
BY REGION

● North America	54%
● Europe	31%
● Asia (Saudi Arabia, UAE, Qatar and Dubai)	4%
● Asia (Hong Kong)	4%
● Asia (Others)	5%
● South America	2%
● Africa	0%



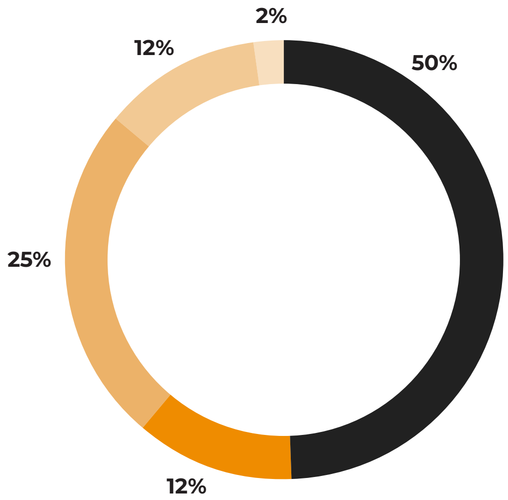
BY INVESTOR TYPE

● Wealth Manager	23%
● Family Office	19%
● Fund of Funds	15%
● Pension Fund	12%
● Multi-strategy Hedge Fund	6%
● Endowment/Foundation	6%
● Sovereign Wealth Fund	4%
● Bank/Private Bank	4%
● Insurance Company	2%
● Other	10%



BY AUM

● Under $500m	37%
● $500m-$1bn	2%
● $1bn-$10bn	33%
● Over $50bn	17%
● $10bn-$50bn	12%



ALTERNATIVE INVESTMENT ALLOCATION

● Over 50%	50%
● 26-50%	12%
● 11-25%	25%
● 1-10%	12%
● 0%	2%

Note: Some percentages may not add to the hundred due to rounding errors or respondents being asked to choose more than one options

KEY FINDINGS

1

Calm After Aggression

Allocator confidence in hedge funds is growing, with 71% expressing confidence or very high confidence in its performance in the next 6 months. But this hasn't translated to aggressive expansion as 59% plan to keep their allocations unchanged (vs 39% six months ago). The industry has shifted from hunt mode to focusing on extracting value from existing positions.

2

Strategic Consolidation

Is the great manager hunt over for now? The percentage of investors primarily seeking an allocation to new managers dropped from 40% to 18%, whilst those taking a more balanced approach between new and existing relationships nearly doubled from 25% to 47%. This suggests a shift in allocator focus from exploration toward optimisation.

3

Risk Management Over Returns

The rationale for hedge fund allocation has shifted quite a bit in the last six months. Diversification (76%) and uncorrelated returns (68%) now dominate decision-making, while "expected higher returns" has declined from 56% to 29%. This indicates that hedge funds are increasingly being viewed by investors as tools for portfolio stability rather than for the maximisation of returns.

4

Long/Short Equity Resurgence

Long/short equity has overtaken macro as the top strategy preference, despite geopolitical tensions remaining the primary allocator concern. Multi-strat strategies have climbed up one spot to fourth place, reflecting continued institutional appetite.

5

The SMA Shift

After several years of strong growth, demand for SMA (Separate Managed Account) structures has moderated. The proportion of allocators expressing a strong preference for SMAs halved from 25% to 11% while the popularity of the commingled funds structure increased from 19% to 35%. This shift in sentiment may reflect a reassessment of the operational complexity and higher cost of SMAs relative to their perceived benefits for all investors who took this survey.

PART I: FROM EXPLORATION TO OPTIMISATION

Confidence surges, deployment steadies, and allocators go back to basics on what they want from hedge funds

Chart 1.1 Confidence in Hedge Fund Portfolios – H2 2025 vs H1 2026

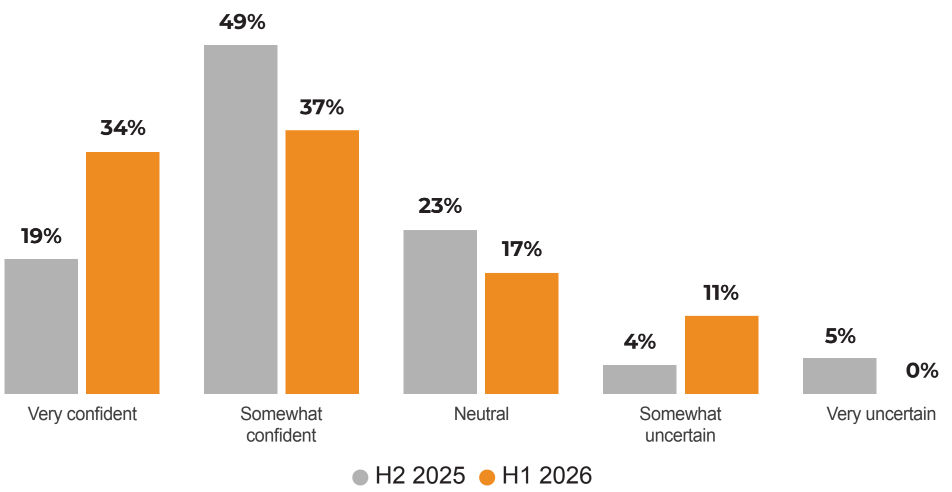
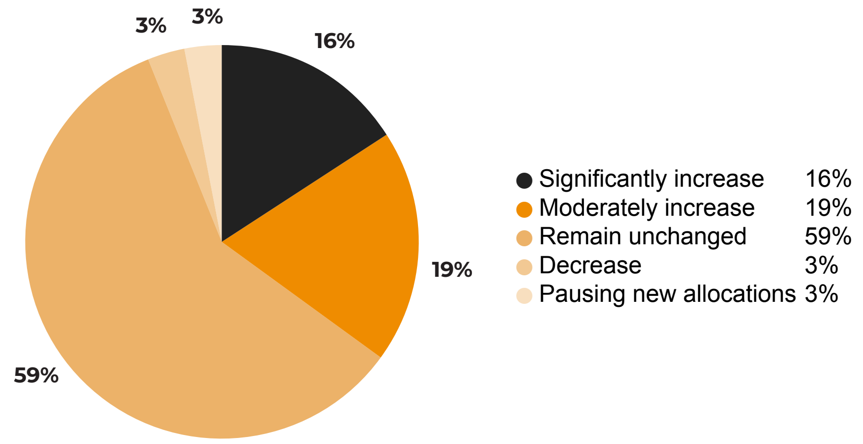


Chart 1.2 Hedge Fund Allocation Intentions – H1 2026



CONFIDENCE AT RECORD HIGHS

Allocator confidence in hedge fund portfolios has increased since our last report in July 2025. 71% of allocators express confidence or very high confidence that their hedge fund investments will meet or exceed targets, with the "very confident" cohort jumping from 19% to 34%.

This confidence surge occurs against a backdrop of hedge funds navigating a roller coaster year in financial markets with respectable judgement. Early industry estimates for 2025 hedge fund performance suggest the industry is on track to deliver its strongest returns of this decade, supported by continued strength in multi-manager platforms and macro hedge funds.

Industry reporting indicates that hedge funds on average exceeded 15% on a net-of-fees basis, underscoring the industry's ability to generate attractive risk-adjusted returns amid elevated geopolitical and policy uncertainty.

MEASURED DEPLOYMENT, NOT EXPANSION

The high levels of confidence among hedge fund investors does not appear to be translating into more aggressive allocation behaviour.

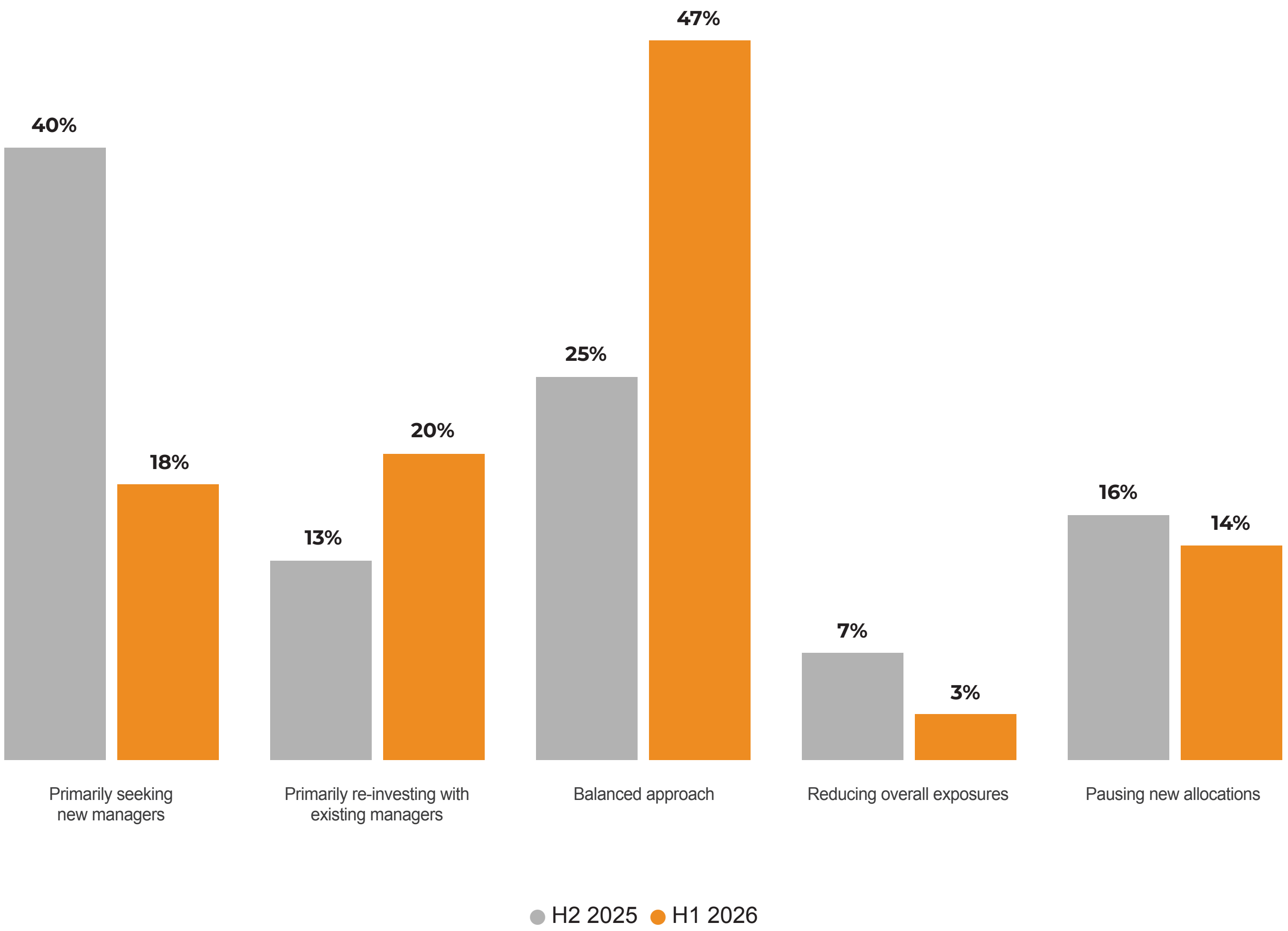
The proportion of allocators planning a moderate increase in hedge fund allocations declined from 43% to 19% , while those considering a significant increase rose more modestly from 7% to 16%. At the same time, nearly 60% of respondents now expect to keep allocations unchanged, up from 39% six months earlier.

This pattern suggests a shift towards a more measured approach. As Tom Kehoe, Managing Director and Global Head of Research and Communications at AIMA, observes: "If these relationships have performed well and investors have had a strong year, there is little incentive to make changes." He adds that allocator relationships with hedge fund managers have become increasingly stable over time, particularly with more established funds that have delivered consistent performance.

This measured approach reflects a shift in allocator behaviour. Many institutions positioned their portfolios during H2 2025's manager hunt might now be in consolidation mode, focused on monitoring performance and extracting value from carefully constructed allocations rather than continuing to deploy aggressively.
The rise in those selecting "significantly increase" option alongside the fall in "moderate increase" suggests some sort of bifurcation. Some allocators are either deploying capital to very specific opportunities or standing pat, with less middle ground for incremental adjustments.

More importantly, some allocators say that they have simply reached their target hedge fund exposure levels for now. Having increased allocations through 2024-25, institutions are now at their desired alternative allocation bands. The focus has shifted from "how much should we allocate to hedge funds?" to "are our existing managers delivering what we need?"

Chart 1.3 Manager Selection Approach - H2 2025 vs H1 2026



FROM MANAGER HUNTING TO RELATIONSHIP OPTIMISATION

The shift from exploration to consolidation is perhaps most evident in fund manager selection behaviour. Just 18% of allocators are expected to be primarily seeking an investment in new hedge fund managers in the first half of 2026, down dramatically from 40% six months ago. Meanwhile those taking a balanced approach between investing in new managers and keeping existing relationships has nearly doubled.

Notably, allocators reinvesting primarily with existing managers has also risen from 13% to 20%, suggesting a move toward quality and proven relationships.

Kehoe notes that the findings from the previous report may have reflected a period of unusually elevated activity for investing in new manager relationships. “What we are seeing in these latest results is closer to a more typical pattern” he explains with allocators adopting a more balanced approach to fund manager selection rather than actively pursuing a large number of new relationships.

One multi-family office allocator echoes this view, observing that while the firm remains open to new manager relationships, “the bar has been raised. Instead of broad manager searches, allocators are increasingly undertaking more targeted reviews focused on specific credibility gaps or emerging investment strategies.

Taken together, this behaviour suggests that the great manager hunt period may be over. The 47% of respondents pursuing a balanced approach points to a more stable and mature allocation environment, compared with the more exploratory activity observed six months earlier.

STRATEGY PREFERENCES: THE LONG/SHORT EQUITY RESURGENCE

Strategy preferences among allocators surveyed don't throw any curve balls but presents an interesting statistic nonetheless. Long/short equity has overtaken global macro as the top preference in the last six months, scoring 6.98 out of 10, followed closely by macro at 6.93.

The long/short equity preference is particularly noteworthy given that geopolitical tensions remain allocators' primary concern. While macro strategies are often associated with political uncertainty and cross-asset volatility, long/short equity offers a different set of portfolio benefits for investors in this environment.

As Kehoe explains, the appeal lies in the strategy's ability to combine equity exposure with active risk management. "A long short equity fund has the flexibility to reduce net market exposure and express both positive and negative views on individual portfolio positions", he says. "That allows fund managers to participate in equity upside while managing downside risk during periods of heightened volatility, like we saw during the past year".

He adds that valuation considerations are also playing a role, "When investors believe parts of the equity market may be fully valued or overvalued, long/short strategies provide a way to stay invested while addressing downside risk and focusing on capital preservation".

Kehoe also notes that long/short equity is one of the most established and widely understood hedge fund strategy. "It has a long track record, and in an environment marked by equity volatility and rising dispersion, it is a familiar and practical tool for many institutional portfolios".

The shift likely reflects several factors beyond Kehoe's observations. First, given how well long/short equity hedge funds have managed to brave sharp selloffs this year, including the one in technology stocks in November 2025 to post gains, it might not present big surprises. Second, capacity constraints amongst top-tier macro managers may be limiting allocator access.

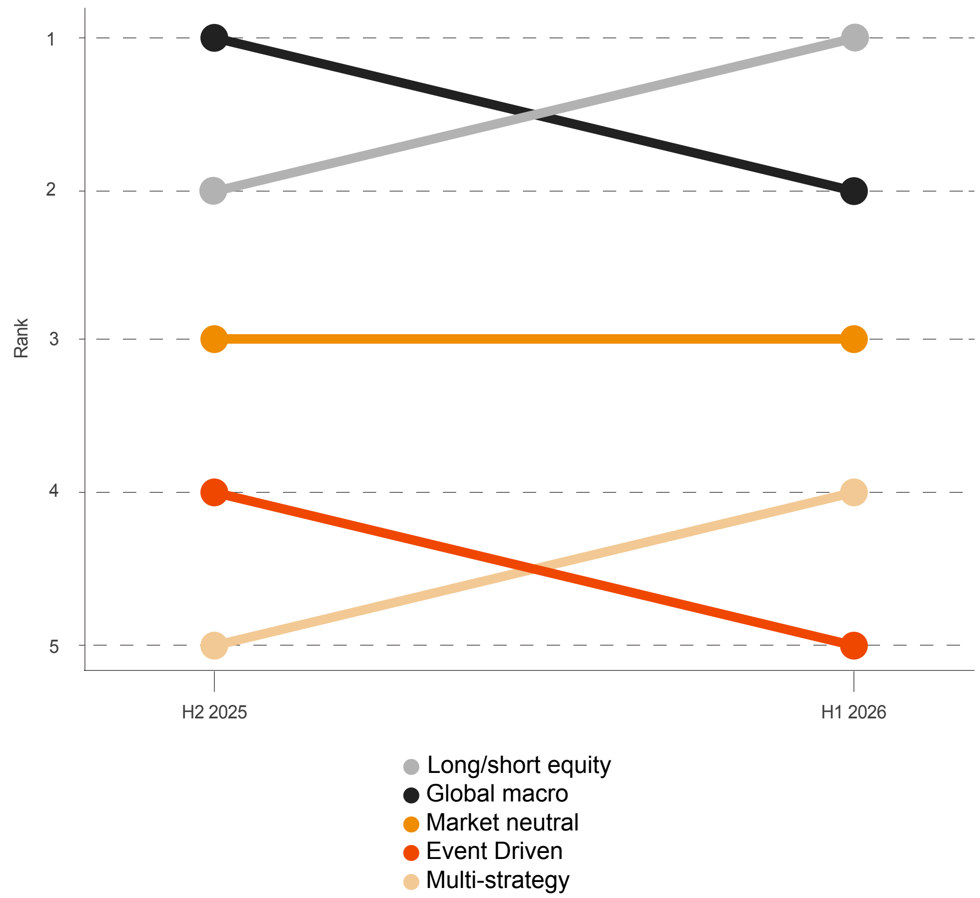
Multi-strategy funds continue their institutional march, climbing from fifth to fourth place despite industry concerns about fee structures and strategy replication. This suggests allocators value the diversification and risk management these platforms provide, even at premium pricing.

THE RATIONALE REVOLUTION: RISK MANAGEMENT IS KEY

Not just what, but we were also quite interested in understanding why. And nothing answers that better than understanding the allocator psychology evident in why institutions selected the above hedge fund strategies. Diversification has risen to 76% from 70%, uncorrelated returns have surged to 68% from 49%, while "expected higher returns in current market conditions" declined from 56% to 29%.

Kehoe emphasises that this perspective reflects how experienced allocators have long approached hedge fund investing.

Chart 1.4 Strategy Preferences (Score out of 10) – H1 2026



"The more experienced hedge fund investors don't view them simply as vehicles for higher returns," he explains. "Rather, they tend to think about what hedge funds contribute at a portfolio level—whether that's diversification, downside protection, or to produce differentiated sources of return."

He elaborates on the rationale: "In periods of market correction, investors ask what hedge funds are likely to deliver. Many hedge fund strategies are designed to operate in specific niches or exploit inefficiencies that behave differently from long only or traditional market exposures. That can mean the potential for uncorrelated returns, but it can also mean better downside management, capital preservation, or result in a more consistent risk-adjusted performance."

This approach aligns with broader institutional portfolio construction principles. As traditional 60/40 portfolios have faced challenges from elevated correlations during periods of market stress, allocators have increasingly looked to hedge funds not only for diversification, but also for their ability to adapt across market regimes and generate returns through active management.

The 19-percentage-point increase in the importance placed on uncorrelated returns underscores this shift in emphasis, but it does not stand alone. Rather, it reflects a wider reassessment of the role hedge funds play in portfolios, particularly in environments where traditional diversification has proved less effective.

"The normalisation of return expectations is healthy," Kehoe suggests. "After several years of strong hedge fund performance, allocators are being realistic about what's sustainable. The fact that confidence remains high even as return expectations moderate tells us allocators are satisfied with steady, well-managed outcomes rather than reaching for outsized gains."

This normalisation likely reflects a combination of factors: a cooling of the optimism seen in late 2025, recognition that the strongest gains from the 2024–25 rebound may have passed, as well as a continued maturation in allocator sophistication. Increasingly, institutions are focused on how hedge funds contribute to overall portfolio resilience, risk-adjusted returns, and long-term objectives, rather than absolute performance alone.

Taken together, stable confidence alongside more measured return expectations suggests that hedge funds are being positioned less as return-maximisation tools and more as flexible, active components within diversified institutional portfolios.

Chart 1.5 Strategy Selection Rationale - H2 2025 vs H1 2026

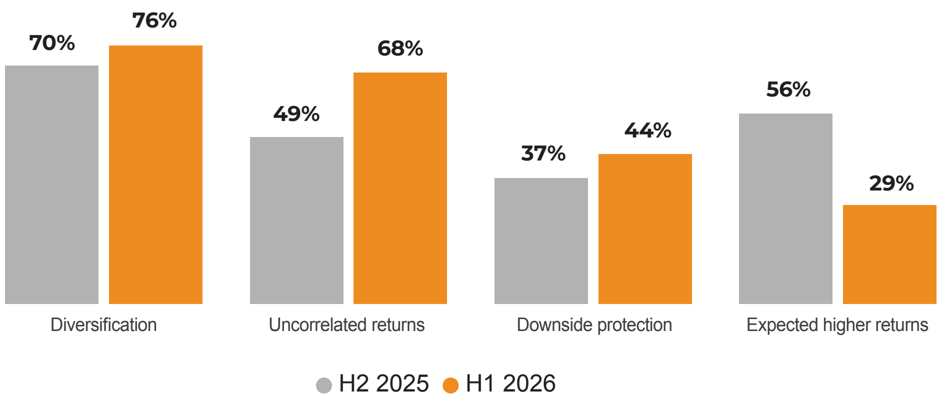
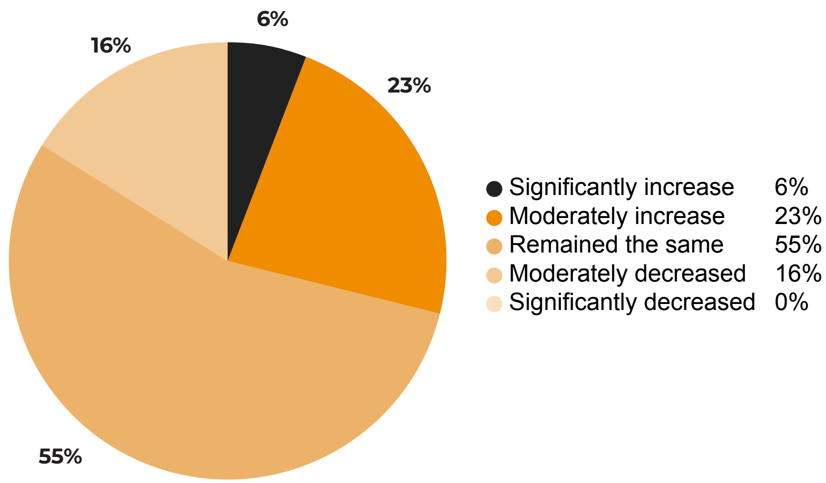


Chart 1.6 Return Expectations vs 12 Months Ago H1 2026



FRANK NASH

SVP Strategic Financial Services Sales,
AlphaSense

1. Long/short equity has overtaken macro as the top strategy preference. That's a shift from top-down thematic work to company-level research. How is AI changing fundamental analysis?

AI is speeding up the real work of fundamental analysis. Analysts still need to understand the story behind a company, but now they get to the truth faster. Instead of days spent combing through filings, transcripts, and expert calls, AI surfaces the key signals instantly — and with tools like our Deep Research, they can build a complete, defensible report in about 10 minutes.

But AI is only as good as the data underneath it. And just as important is how the AI is built. At AlphaSense, we've invested heavily in creating a purpose-built platform — fine-tuned on financial language, trained to understand industry nuance, and engineered to deliver outputs aligned with the way analysts actually think and work. It isn't just that we have unparalleled content; it's that our technology is designed to make that content more insightful and actionable.

The discipline hasn't changed. The speed, precision, and intelligence of the inputs have.

2. Confidence is up despite uncertainty – 34% feel very confident now versus 19% six months ago. Is better access to research creating real conviction, or just information overload?

It depends on the quality of the data feeding the AI. More information alone has never created conviction – it usually creates chaos. What we're seeing now is the opposite: AI is filtering out the noise and sharpening the signal.

Investors feel more confident because their workflows have become more efficient and more targeted. In AlphaSense, you're not drowning in irrelevant documents; the platform guides you straight to the insights that matter. Trust builds conviction – not information overload.

3. Geopolitical concerns have dropped from first priority to third. How has AI changed how the industry monitors geopolitical risk?

Geopolitical risk didn't get smaller – but the visibility around it got a whole lot better. AI can now effectively monitor global news, policy chatter, and local-language sources in real time and flag emerging risks instantly.

And again, the magic is in the dataset. Because AlphaSense pulls from such a broad global content set, you catch the early signals instead of reacting with the masses. Geopolitical uncertainty is still there – but investors no longer feel blindfolded. With AI they have the tools to stay ahead of the competition.

4. More broadly, where will AI have the biggest impact on investment research in 2026 – and where is it still falling short?

The biggest impact is scale. For example, AlphaSense gives a research team the horsepower of 1,000 analysts working in parallel – summarising earnings, comparing competitors, surfacing risks, creating slide presentations, and even building Excel models at the same time. That frees analysts to focus on interpreting the insights, not hunting for them.

Where AI still falls short is judgment. It can highlight patterns, but it can't assess management credibility or decide how an idea fits a fund's risk profile like a human analyst can. And without high-quality, comprehensive data powering it, the outputs aren't dependable. That's why the depth of the content layer – like what we've built in AlphaSense – matters so much. For maximum impact, investment research requires trustworthy, cutting-edge AI that supercharges human expertise.

5. AI is now a capital-raising buzzword – it's in every pitch deck. Allocators are getting savvier. What does genuine AI integration look like versus window dressing?

Real AI integration changes how a fund actually works – faster idea generation, sharper screening, quicker earnings review, and tighter risk monitoring. If a PM can point to specific decisions or processes where AI meaningfully improves speed or insight, that's the real thing.

But here's what allocators are looking at more closely: What is the AI actually trained on? At AlphaSense, our platform isn't just powered by a massive content set – our AI is fine-tuned on that content, making it more context-aware and more accurate for financial analysis. It understands industry language, company signals, and market nuance in a way generic models simply don't.

Window dressing is easy to spot. Real AI delivers better research, faster – and you can see it in the workflow.

PART II: STRUCTURAL TRANSFORMATION

Demand for SMAs cool, fees compress and private markets reshape the competitive landscape

THE SMA SHIFT

One of the more notable findings in the H1 2026 survey is the evolution of demand for Separately Managed Accounts (SMAs). Overall the proportion of allocators expressing a strong preference for SMAs halved from 25% to 11%, while the percentage of allocators who had a strong preference for commingled funds increased from 19% to 35%.

However, this aggregate shift masks significant variation by allocator size and type. Larger institutional investors -particularly sovereign wealth funds, pension funds and endowments with assets under management exceeding $5 billion continue to demonstrate strong interest in SMAs. For these investors, SMAs remain closely aligned with governance frameworks, capital efficiency considerations and risk management capabilities.

Kehoe acknowledges that the headline results were unexpected given his own experience. “When I saw this, I was surprised” he says. Many of the allocators I speak with are large state pension plans and sovereign wealth funds, and in those conversations, commingled funds are rarely mentioned”.

He explains that for investors that size the appeal of SMAs lies in the level of control and transparency that they offer. “They favour that structure because it provides greater oversight and protection around the allocation,” he notes. “It’s like a bespoke arrangement where they’re in an exclusive class of one.”

Kehoe adds that preferences tend to shift as allocator size decreases. “As you move down the spectrum—from sovereign wealth funds at the top to smaller family offices managing a few hundred million dollars—commingled structures often become more attractive,” he says. “Commingled funds still represent the majority of hedge fund structures overall, but my sense had been that SMAs were steadily gaining share among the largest institutions.”

Taken together, the findings suggest not a decline in the relevance of SMAs, but perhaps instead a clearer segmentation of their role. SMAs remain a core structure for the largest and most complex investors, while commingled funds continue to meet the needs of a broader allocator base seeking simplicity and operational efficiency.

A mid-sized endowment allocator echoes this sentiment: “I can’t speak for other allocators but as a small team, we try to limit our operational burden. Shifting away from SMAs into commingled funds helps reduce operational complexity.”

> “We try to limit our operational burden. Shifting away from SMAs into commingled funds helps reduce operational complexity.”
>
> – Mid-Sized Endowment Allocator

Chart 2.1 SMA vs Commingled Fund Preference - H2 2025 vs H1 2026

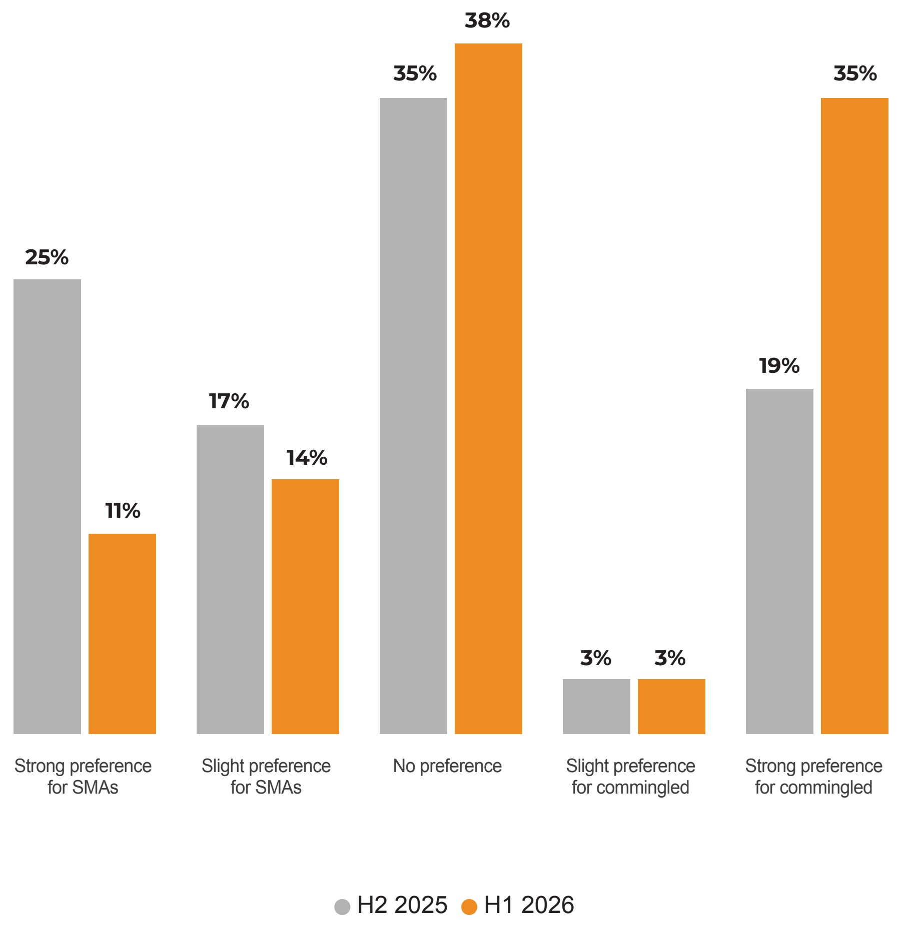


Chart 2.2 Fee Negotiation Intentions - H1 2026

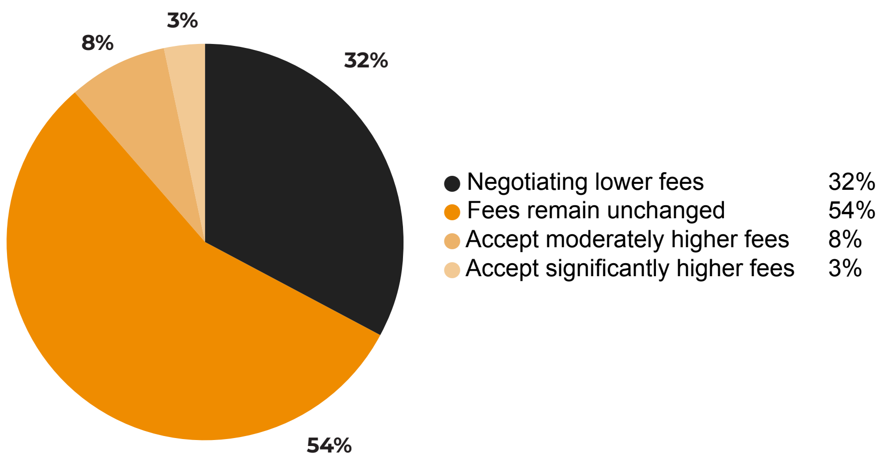
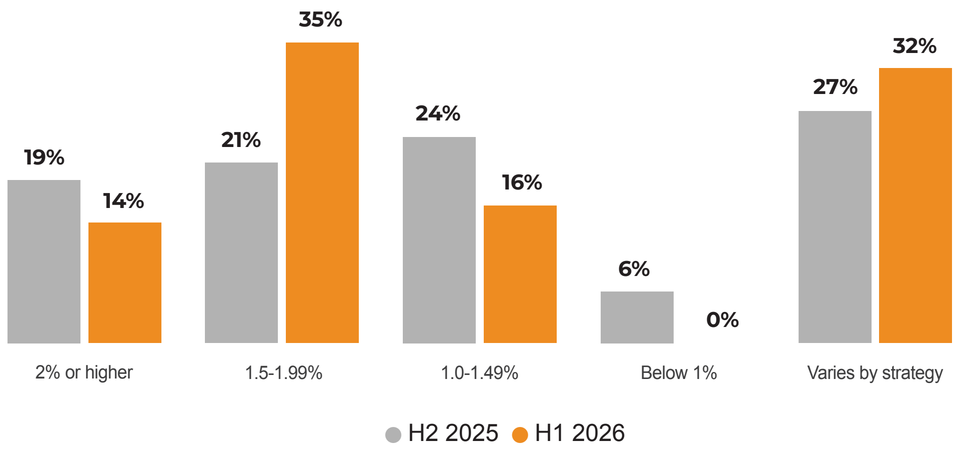


Chart 2.3 Management Fee Preferences - H2 2025 vs H1 2026



Note: Some percentages may not add to the hundred due to rounding errors or respondents being asked to choose more than one options

A large state pension plan investment officer provides additional context: "The risk management and operational complexity of SMAs for a small allocation to hedge funds is too great versus the weighted return impact of the hedge fund allocation. What do you do with all the data? What if you miss a risk issue because you didn't review all the data you received - what is the liability risk to your career?"

The pension officer continues: "It's also a factor of the shift to multi-strategy funds where they are supposed to be the better risk managers of the aggregate portfolio. I think some of the larger plans are also finding that with SMAs they still can't shift the risk profile up enough to generate the returns they need, so many larger plans who can do SMAs with dedicated teams are throwing in the towel."

Several factors explain the overall cooling beyond size considerations. First, operational complexity - running multiple SMAs across different managers creates significant burden for both allocators and managers. Second, cost considerations - the infrastructure required to support SMAs may not justify the benefits for smaller institutions.

Third, evolution of commingled structures - managers may be offering enough transparency and customisation within commingled vehicles to satisfy many institutional requirements.

The regional variations are strik ing. UAE/Abu Dhabi allocators maintain the strongest SMA preference at 67%, while European allocators show just 21% preference. This suggests SMA appeal varies significantly based on regulatory environment, operational sophistication, and capital efficiency requirements.

The question facing the industry: is this a structural shift away from SMAs for mid-sized allocators, while large institutions continue their SMA adoption? The data suggests the answer may be yes.

FEE PRESSURE INTENSIFIES

Despite record confidence levels and solid performance, fee pressure continues to intensify across much of the allocator base. Nearly one-third of allocators (32%) are now actively negotiating lower fees across their portfolios, up from 24% six months ago.

More tellingly, preferred management fee bands have shifted downward. The 1.5-1.99% range has jumped from 21% to 35%, suggesting this may become the new industry standard for many strategies.

However, similar to the SMA dynamic, larger institutional allocators - particularly those with over $5 billion in assets - show greater willingness to pay premium fees for truly differentiated strategies. The fee pressure is most acute among mid-sized allocators seeking to reduce overall alternative investment costs.

Kehoe provides context on the fee environment: "Management fees and performance fees have been coming down.

Seven years ago, AIMA published a report saying the two and 20 was no longer the industry norm, and we maintain that to be the case."

He adds: "Depending on who you're allocating to, their strategy and investment terms, the fees you end up paying can vary.

But what is very clear is investors say they're prepared to pay, provided that who they're allocating to is delivering on a consistent basis."

The fee compression occurs alongside the "varies significantly by strategy" preference rising from 27% to 32%. This suggests a split market emerging - with truly differentiated strategies commanding premium fees, while more commoditised approaches face pressure toward 1.5/15 or lower.

A pension fund allocator told us on background that he observes that fee discussions have become "more nuanced," focusing on "what

Chart 2.4 Private Credit Allocation Intentions - H2 2025 vs H1 2026

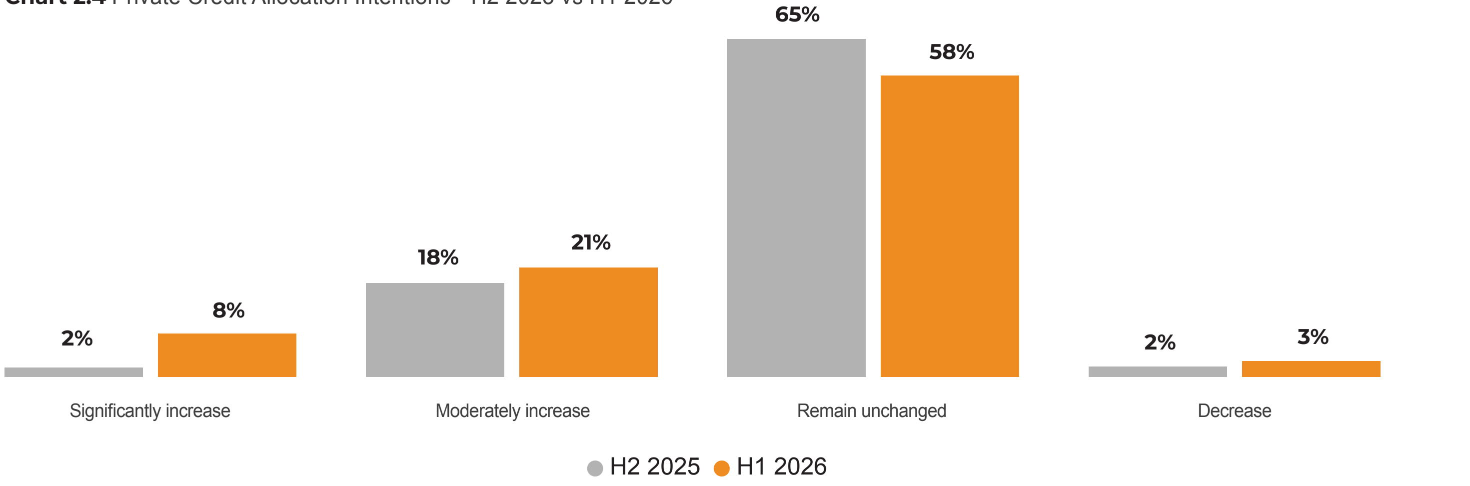
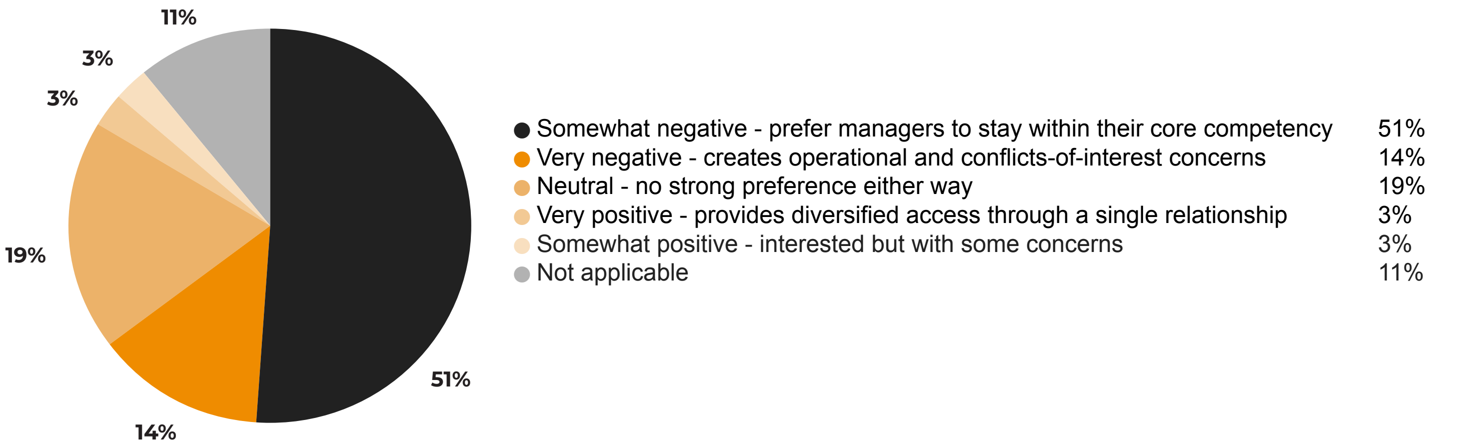


Chart 2.4a Allocator view on hedge fund managers expanding into private credit and other illiquid strategies



Note: Some percentages may not add to the hundred due to rounding errors or respondents being asked to choose more than one options you're actually paying for" rather than blanket compression. Allocators will pay for genuine alpha generation, but expect discounts for beta-like exposure or capacity-constrained strategies that limit upside.

THE PRIVATE MARKET CONTRADICTION

Alternative investment preferences reveal an intriguing contradiction. Private credit shows the strongest growth sentiment among non-hedge fund alternatives, with those planning to "significantly increase" allocations jumping from 1.8% to 8.3%.

Yet when asked about hedge fund managers expanding into private credit and other illiquid strategies, 53% of allocators view this "somewhat negatively," preferring managers to stay within their core competency.

A mid-sized endowment allocator explains the operational logic: "Allocators who use the traditional strategic asset allocation model have separate buckets for hedge funds and private credit and don't want them mixed. Allocators look at hedge funds as a source of quarterly liquidity. Adding private market exposure to hedge funds reduces that liquidity." The big state pension plan officer provides further colour: "Allocators are choosing dedicated private credit managers who are not daily traders for this allocation because it's now not a spread game, but there are very credible private credit managers who have very deep underwriting skills and access to deals that hedge fund managers don't have the skill in if something goes wrong. Also, large private credit managers have origination platforms larger than any hedge fund can get access to with a few guys and a computer."

The officer continues: "It's not being viewed as a trading security but a long-term strategic allocation. Also, private credit managers are less expensive than hedge funds and have hurdle rates and better liquidity match and diversification in closed-end funds versus a hedge fund."

This "do as I say, not as I do" dynamic suggests allocators want private market exposure but prefer to access it through specialist managers rather than hedge funds expanding beyond their expertise. The message to hedge fund managers: allocators will allocate to private credit, but probably not your private credit offering unless you can demonstrate genuine competitive advantage. The contradiction reflects concerns about strategy drift, conflicts of interest between liquid and illiquid vehicles, and team depth. Building a private market capability requires different skill sets, infrastructure, and risk management than traditional hedge fund strategies.

Beyond private credit, infrastructure leads alternative investment sentiment at +26% net positive, digital assets show +20%, and private equity +5%.

Chart 2.5 Alternative Investment Growth Sentiment - H1 2026

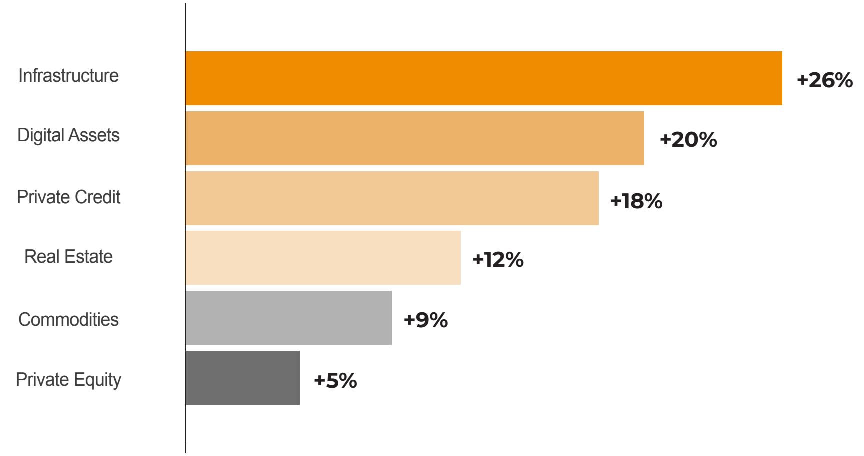
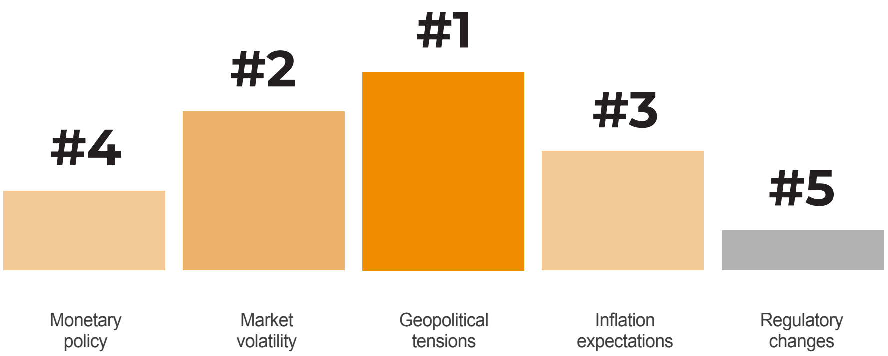


Chart 2.7 Primary Allocator Concerns (Top 3 Selection) – H1 2026



LOOKING FORWARD

The H1 2026 allocator landscape reflects market maturity. High confidence alongside measured deployment isn't a contradiction - it's sophisticated portfolio management by institutions that are approaching the completion of their positioning and are now focused on performance monitoring and relationship management.

The shift from "expected higher returns" to "diversification and uncorrelated returns" as primary rationales isn't retreat - it's evolution. Institutions increasingly recognise hedge funds' true institutional value: portfolio stabilisation through environments where traditional diversification fails.

Kehoe expects many of the conditions shaping the current environment to persist into 2026. "Absent a meaningful shift in global economic and geopolitical dynamics, the backdrop remains supportive for hedge funds" he says. "Periods characterised by heightened uncertainty typically increase investor focus on portfolio resilience, downside protection, and diversification".

He points to several ongoing sources of uncertainty, including trade policy risk, geopolitical tensions, and evolving economic alliances. "The environment is unlikely to change materially in the near term," Kehoe notes. "As a result, investors continue to operate in an environment where traditional assumptions around portfolio stability, correlations and market behaviour are being challenged".

On the evolution of fund structures, Kehoe observes that SMAs continue to gain traction among larger managers and institutional allocators. "As the investor base has become more diverse—ranging from private banks and high-net-worth investors to large pension funds and sovereign wealth funds—preferences have naturally diverged," he explains. "While SMAs remain an important structure for larger institutions with specific requirements, commingled funds continue to play a central role for many allocators seeking efficiency and scalability."

A mid-sized endowment allocator characterises the shift: "Three years of double-digit returns in public equity, talks of an AI bubble, and recent bankruptcies and write-offs in private credit have made headlines. Investors are treading cautiously into 2026 and looking to protect."

A large pension plan allocator identifies the underlying psychology: "The single biggest shift is the geopolitical realignment and having to think about diversifying US dollar and asset exposure given the tremendous run in equities and USD. Can it go on for another year of double-digit growth? It's about hedging the many risks that have paid off over the last few years. Too much USD, too much equity beta, active has disappointed - are there areas where I can diversify into things that haven't worked but could be bottoming and lead to better diversification?"

These dynamics suggest an environment where hedge funds are increasingly valued for flexibility and risk management.

With allocators portfolio preferences now appearing to be in place,. the key question facing hedge funds is whether they can deliver genuine diversification and/or uncorrelated returns on a consistent basis.

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