Global Hedge Fund Benchmark Study

Beyond the Horizon

APRIL 2021

Global Hedge Fund Benchmark Study

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Foreword:

In the face of unprecedented global disruption arising from the Coronavirus pandemic, assets under management for the hedge fund industry have continued to break new records.

The coming year is likely to see an acceleration of trends as the industry moves onto a new phase – increased digitalised, more socially conscious, playing an integral role in supporting the global economy as the world exits COVID-19.

These are some of the headline findings of new industry research which saw Simmons and Simmons teaming up with Seward & Kissel and AIMA to publish The Global hedge Fund benchmark study: Beyond the horizon

We are extremely grateful to all the fund managers and investors who took the time to participate in this study and for sharing their perspectives with us in the many interviews that we conducted. We would also like to thank the AIMA research committee for their valuable input and time in discussing these findings. And finally, thank you for taking the time to read this paper.

To understand more about the research or discuss anything in this study, please do not hesitate to contact us.

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We would also like to take this opportunity to thank the AIMA Research Committee for helping assist us with this research.

Key Findings:

Performance:

- Hedge fund performance over the past 12 months has either met or exceeded targets set by investors.
- However, performance dispersion which has been a prominent feature over the past 12 months is likely to continue,highlighting the importance of manager selection and ongoing review.
- During the peak COVID-19 market volatility in the first half of 2020, hedge funds on average halved the losses incurred by equity markets and were able to balance their portfolios.
- Hedge funds are cautiously optimistic regarding the economic prospects of their firm with over 70% polled citing a positive confidence reading.

2/3 of hedge funds report that their performance is above or within their target level of returns.

Alignment of interests between hedge funds and investors grows stronger:

- Hedge funds are responding to investor needs with arrangements that are more closely aligned both to the requirements of the investor and their underlying investment strategies.
- Performance fees across the industry continue to hold up reasonably well with investors prepared to incentivise hedge funds that deliver for them. Across all the hedge funds that participated in the survey, the average incentive fee paid to hedge funds was 17.5% of annual net profits.

Management fees charged by more established hedge funds have reached a tipping point with just 14% revising their fees down over last 12 months and 25% over the past three years.

Investors increasing their allocation to hedge funds:

- The strong hedge fund performance in navigating a series of market drawdowns during 2020 has not gone unnoticed by investors.
- With the industry continuing to report strong performances, there is a growing consensus that the hedge fund industry will record its first year of net inflows since 2017.

95% of investors are looking to either increase or maintain their allocation to hedge funds.

ESG:

- One in four hedge funds are expecting to launch ESG oriented funds over the coming 12 months – varying from screening stocks to ESG focused strategies.
- While risk management remains the key objective for hedge funds who are integrating ESG, one in five surveyed mentioned that they are also doing so to generate returns.
- EMEA based funds are leading the way adopting to ESG and sustainable investment driven by the EU Sustainable Finance Disclosure Regulation (SFDR) and the Sustainable Finance Action Plan.
- Just under 70% of APAC based funds report that they are integrating ESG factors into their investment decisions with an equal distribution of large and small funds doing so compared to just over 40% of North America based funds reporting that they are integrating ESG factors with 60% of larger funds and 30% of smaller funds doing so.
- Among the investors surveyed a growing number are demanding more information about ESG risks in their portfolios given the explosion of interest in ESG and sustainable investing. Significant progress has been made but the scale of adoption remains hampered by the availability of good quality data for hedge fund managers to assess ESG risk factors.
- Almost 60% of all investors have allocated or intend to allocate to ESG oriented funds. One in four EMEA investors who have not yet done so intend to in the next 12 months. In other regions, this number is one in five, indicating greater appetite for ESG and sustainable investment strategies in the EMEA region.

Just under 60% of hedge funds are integrating ESG into investment decisions.

Acceleration of the Digitisation Trend:

- Remote working and forced lockdowns accelerated the digitalisation trend as firms responded to the urgent need for change by investing to improve their business digital infrastructure and ICT capabilities.
- Emerging from the pandemic, many industries have started to include the use of alternative data, with machine learning as a key part of their business-decision making processes.
- The ecosystem for cryptocurrencies and digital assets is continuing to develop. The past year has seen more hedge funds emerge with an increasing number of investors examining opportunities in blockchain and the distributed ledger technology (DLT) space. While this emerging alternative asset class is still relatively small, many analysts expect it to grow and yield more influence over the coming years.

Just over half of hedge funds are investing in new technologies.

Looking ahead:

- 2021 is shaping up to be the year in which major sources of uncertainty through 2020 resolve such as increasing inflation/return to volatility, allowing confidence to return to boardrooms and investors.
- For hedge funds, that presents an opportunity for returns to continue to grow and perhaps to aspire to the golden era following the global financial crisis in 2008.
- The pandemic has disrupted investors allocation to hedge funds, but they are adapting with more accepting of the virtual ODD process enabling the prospect of more capital raising through this year.
- With investor appetite for hedge funds being among the strongest witnessed for years, the expectation is that the industry will post net inflows this year with investors of all types increasing their investment.
- The hedge fund industry continues to adapt to changing circumstances. Their operations and their ecosystems not only continued in an unprecedented, decentralised setting, but worked almost seamlessly with little or no interruption.
- The pandemic has brought about significant changes in the way hedge funds operate. With the end of the pandemic now in sight, business operating models are being re-evaluated as hedge funds examine core processes, cost structures and hybrid working environments as they drive for efficiency in a new normal.

2/3 hedge funds are considering a succession plan.

Methodology

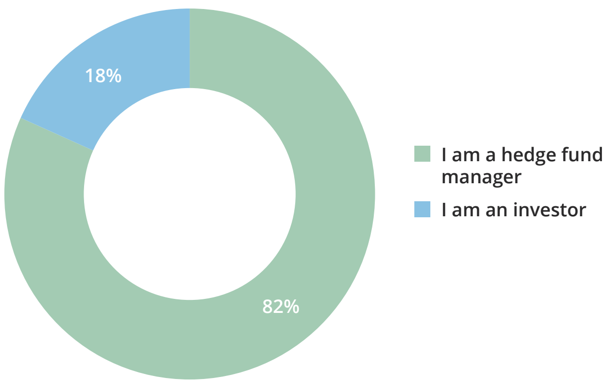
This survey is part of an ongoing series of research projects conducted by AIMA, Simmons & Simmons and Seward & Kissel. We considered the health of the hedge fund industry and explore various trends prevalent in the hedge fund industry. This survey was in field during Q4 2020, allowing AIMA, Simmons & Simmons and Seward & Kissel to gather real time data on trends prevalent in the hedge fund industry.

For this study, we surveyed over 300 industry professionals. Of these, 82% were hedge fund managers, accounting for an estimated $1.3tn in assets under management (AUM), and the remaining 18% were investors.

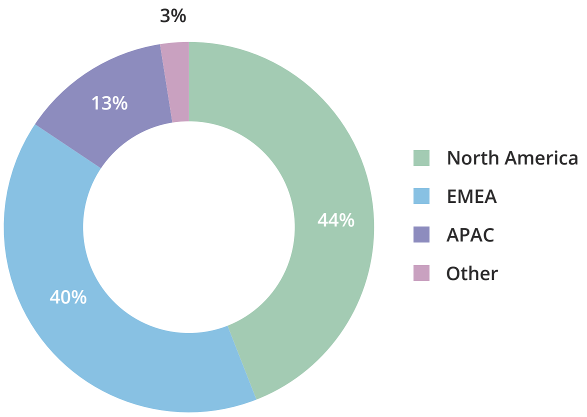
Breakdown of participants

Survey findings based on population of 323 responses.

Role in the hedge fund industry



Where the participants are located

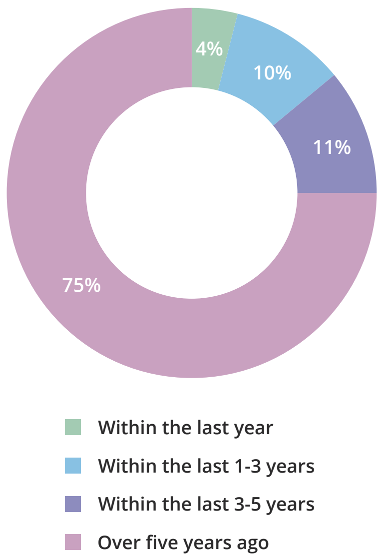


Hedge fund respondents

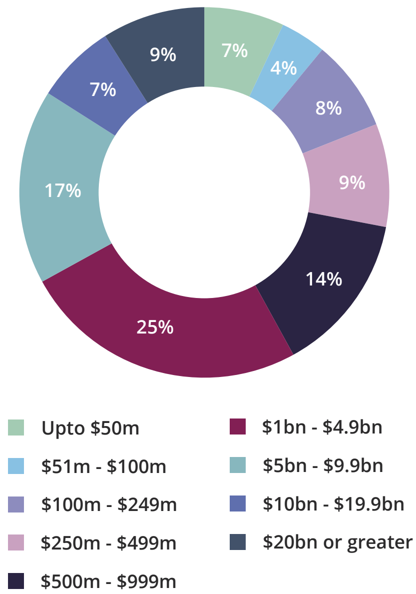
Larger managers, those who have more than $1bn in Assets Under Management (AUM), accounted for 58% of responses. While smaller managers, those who have less than $1bn in AUM, accounted for the remaining 42%.

Breakdown of hedge fund managers who took the survey

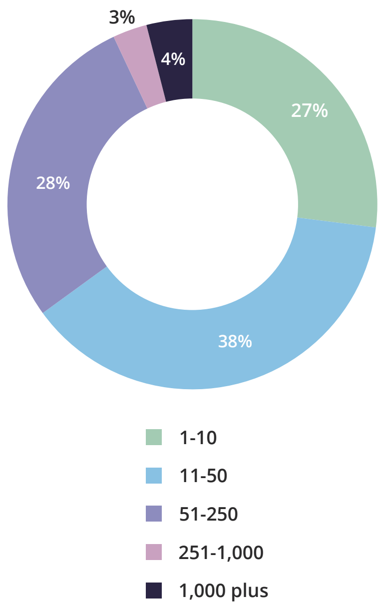
When was your firm established?



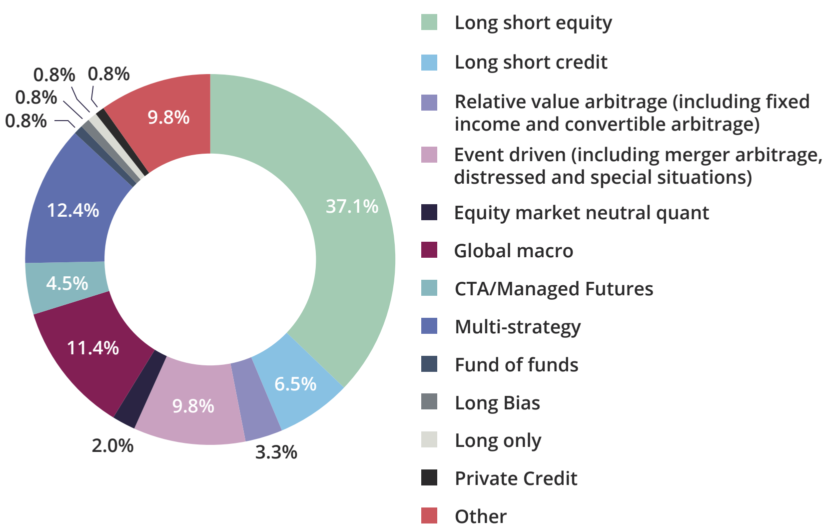
What is your firm's aggregate AUM (including managed accounts) in US dollars?
Estimated AUM = $1.3tn



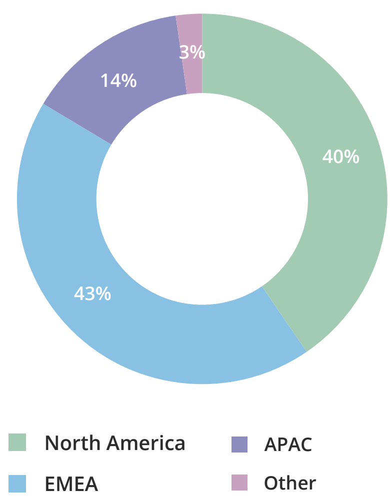
How many employees and partners do you have at your firm (worldwide)?
Estimated number of employees and partners is 28,000. The average amount of employees and partners is 114.



What is the primary strategy of your main (flagship) fund?



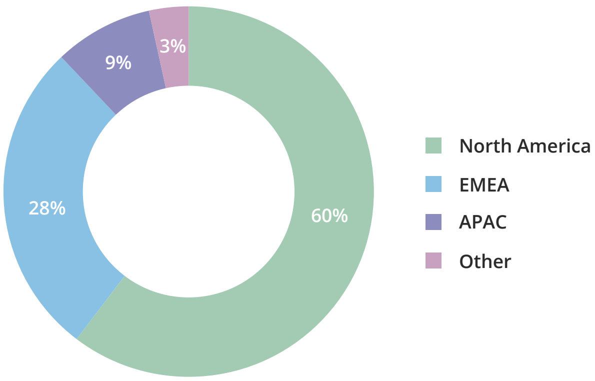
Regional breakdown of hedge fund managers



Investor respondents

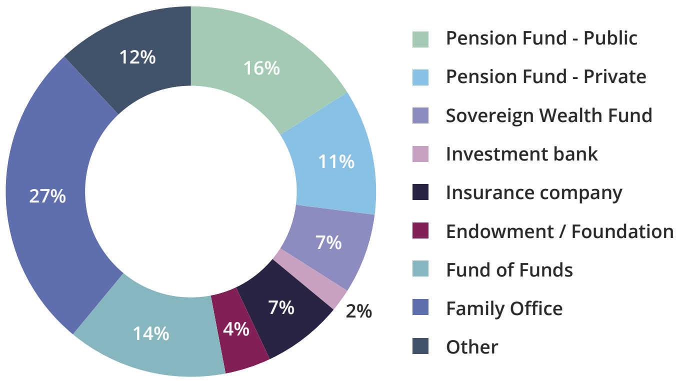
59 investors took part in our survey, with 60% based in North America, over a quarter from EMEA and 9% from APAC.

Regional breakdown of investors



How would you describe your primary business?

(Investor type)



Additional information

To further explore the trends emerging from the data, we collected insights from conversations with hedge fund managers, investors and other industry professionals.

The calculations of various figures presented in this research paper, including the various average fees listed, the total AUM for the hedge funds in the survey, liquidity terms and redemption notice periods are estimate figures, which were calculated using the midpoint of the ranges we specified in the questions, rather than specific numbers.

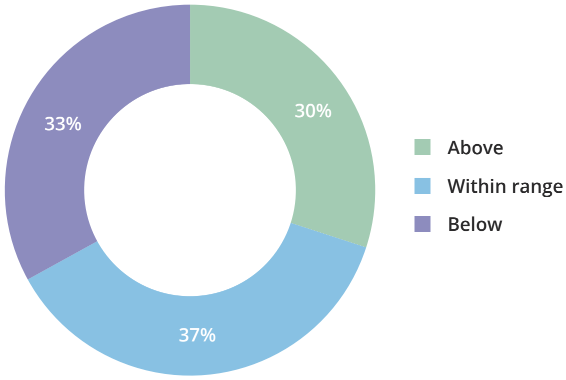
Many thanks to all our participants.

On behalf of AIMA, Simmons & Simmons and Seward & Kissel, we would like to thank everyone who took the time to participate in the survey and share their insights. These views have been pivotal in helping us form this valuable report.

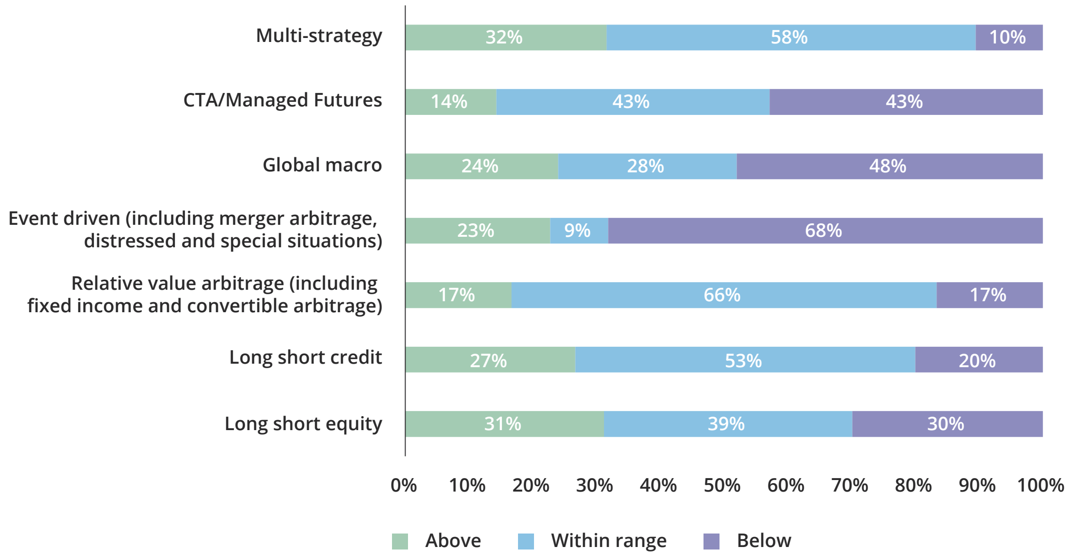
PART 1
Hedge Funds

Section 1:
Industry Performance/Confidence

How is your current year performance compared to your target level of returns?



How is your current year performance compared to your target level of returns?
(By flagship fund strategy)

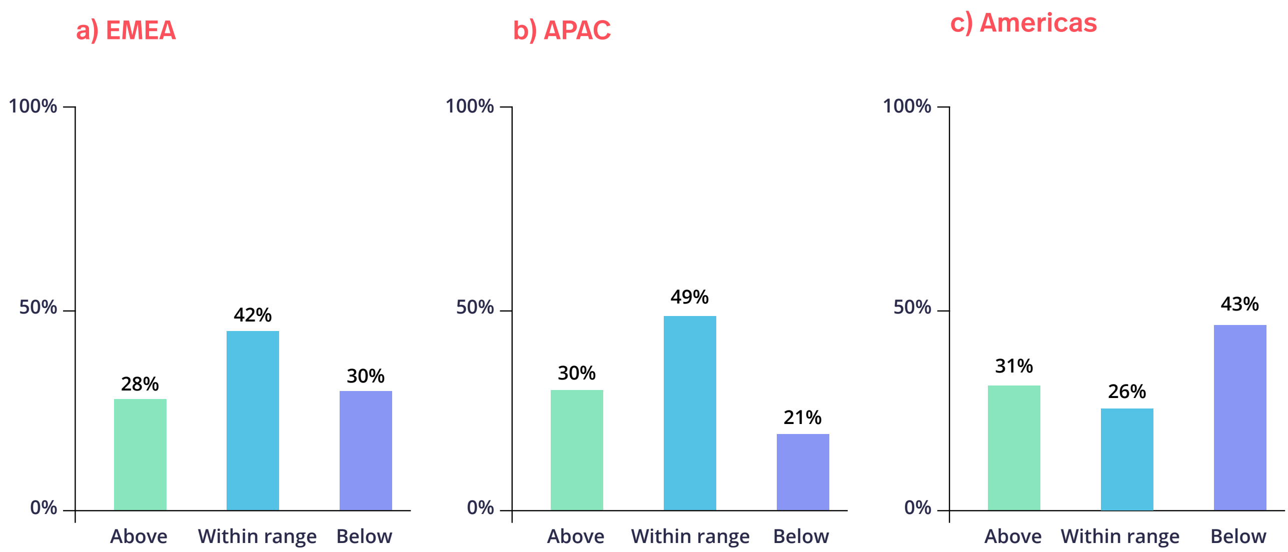


Hedge Fund performance over the past 12 months has either met or exceeded targets set by investors.

During the peak COVID-19 market volatility in the first half of 2020, hedge funds on average halved the losses incurred by equity markets and were able to balanced their portfolios. Just over two thirds of hedge funds reported that their fund performance was either above or within range of their target level of returns. The better performing strategies include multistrategy, relative value arbitrage (particularly convertible arbitrage) and long/short credit where 80% or more of managers reported that their returns had either met or exceeded targets set by investors.

How is your current year performance compared to your target level of returns?

(By region)



Performance dispersion across the industry remains prominent with some hedge funds posting very large gains net of fees while others have encountered a more challenging period.

On a regional basis, APAC based hedge funds performed better than EMEA and North America based funds with approximately 80% of those that polled indicating that they had met or exceeded investors objectives in the past year.

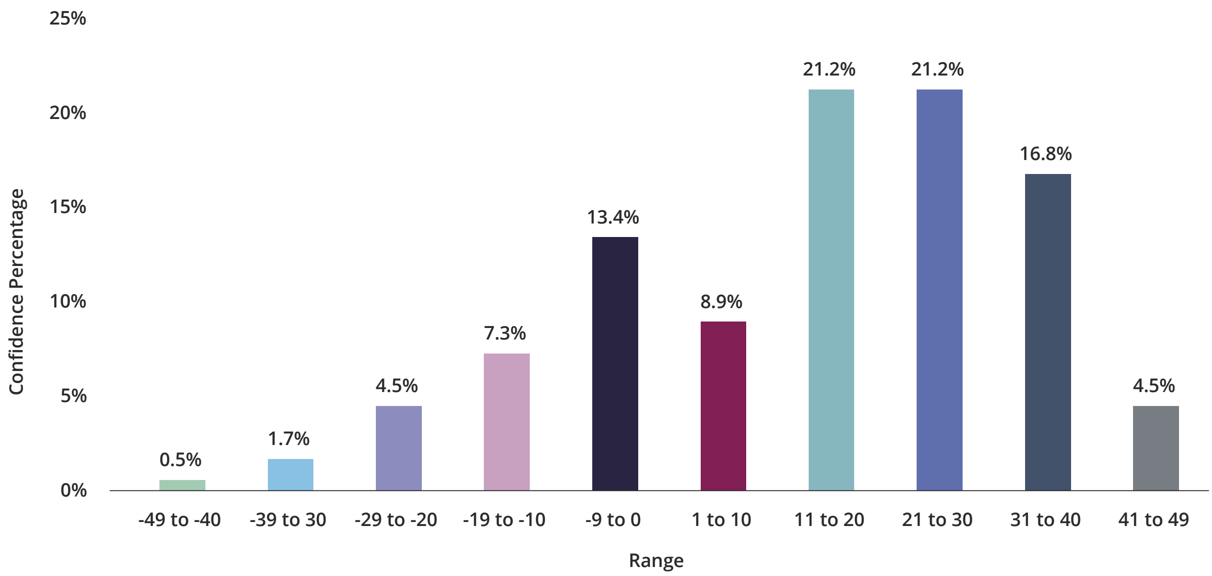
Industry Confidence: AIMA Hedge Fund Confidence Index Q4 2020

The AIMA hedge fund confidence index (HFCI) is a new global index taken every quarter which measures the level of confidence that hedge funds have in the economic prospects of their business over the next 12 months. Selecting the appropriate level of confidence from a range of -50 to +50, respondents are asked to choose from a range of -50 to +50 (where +50 indicates the highest possible level of economic confidence for the firm over the next 12 month period and -50 indicates the lowest level of economic confidence for the firm over the same period). An index level of zero (0) indicates a neutral level of confidence.

When considering how best to measure their level of economic confidence, hedge fund respondents are asked to consider the following factors: their ability to raise capital, their ability to generate revenue and manage costs, and the overall performance of their fund(s).

Overall, how would you score your confidence in the economic prospects of your business over the next 12 months, compared to the previous 12 months, on a scale of -50 to +50? (Hedge fund managers)

Average confidence score: 13.8



Cautious optimism among hedge funds

Hedge funds are cautiously optimistic regarding their funds' prospects for growth over the coming 12 months with over 70% of all hedge funds citing a positive confidence measure. There were clear winners and losers emerging at the time of data collection and this positivity is reflective of that.

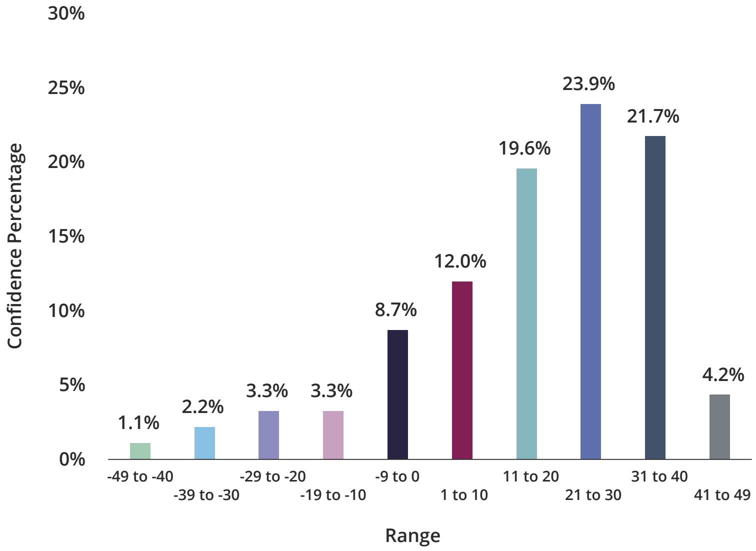
2021 is shaping up to be the year in which major sources of uncertainty through 2020 resolve such as increasing inflation/return to volatility, allowing confidence to return to boardrooms and investors. For hedge funds, that presents an opportunity for returns to continue to grow and perhaps to aspire to the golden era following the global financial crisis in 2008.

Optimism among smaller managers in 2021

Overall, how would you score your confidence in the economic prospects of your business over the next 12 months, compared to the previous 12 months, on a scale of -50 to +50

a) Less than $1bn

Average confidence score: 16.6



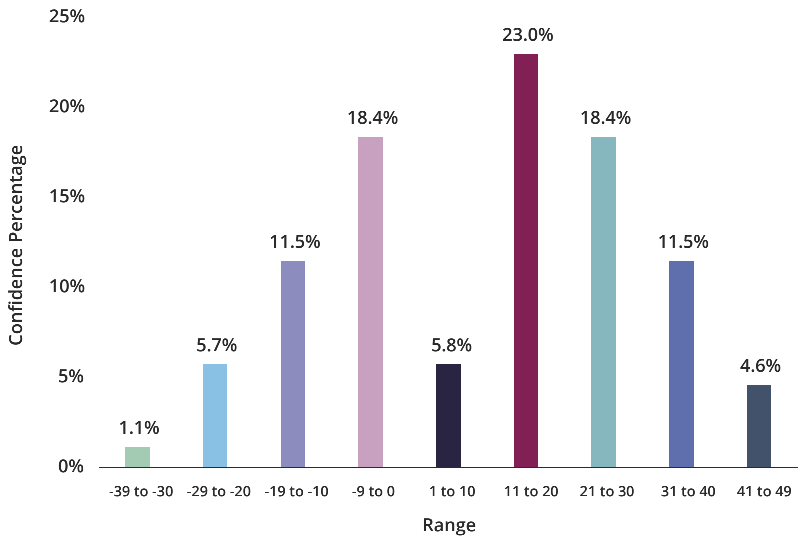
Notably the average confidence score of smaller managers is 1.5 times greater than the score of their larger peers (see chart below). Some of the smallest funds have been among the very best industry performers over the past 12 months. Their smaller portfolio sizes are proving to be particularly useful in being able to navigate through a series of sharp market corrections this year (and in 2020). With continued uncertainty expected throughout 2021, financial markets may continue to see volatility which will provide for pockets of opportunity that smallers managers are more likely to be able to capitalize on.

Some proposed and existing regulations appear to be also in favour of smaller managers as they will likely not meet the thresholds of regulators. Additionally, virtual fundraising has also helped to level the playing field across the industry with investors being more open to meeting with hedge fund managers of all sizes, although, the very largest managers continue to attract the lion's share of investment capital.

Overall, how would you score your confidence in the economic prospects of your business over the next 12 months, compared to the previous 12 months, on a scale of -50 to +50?

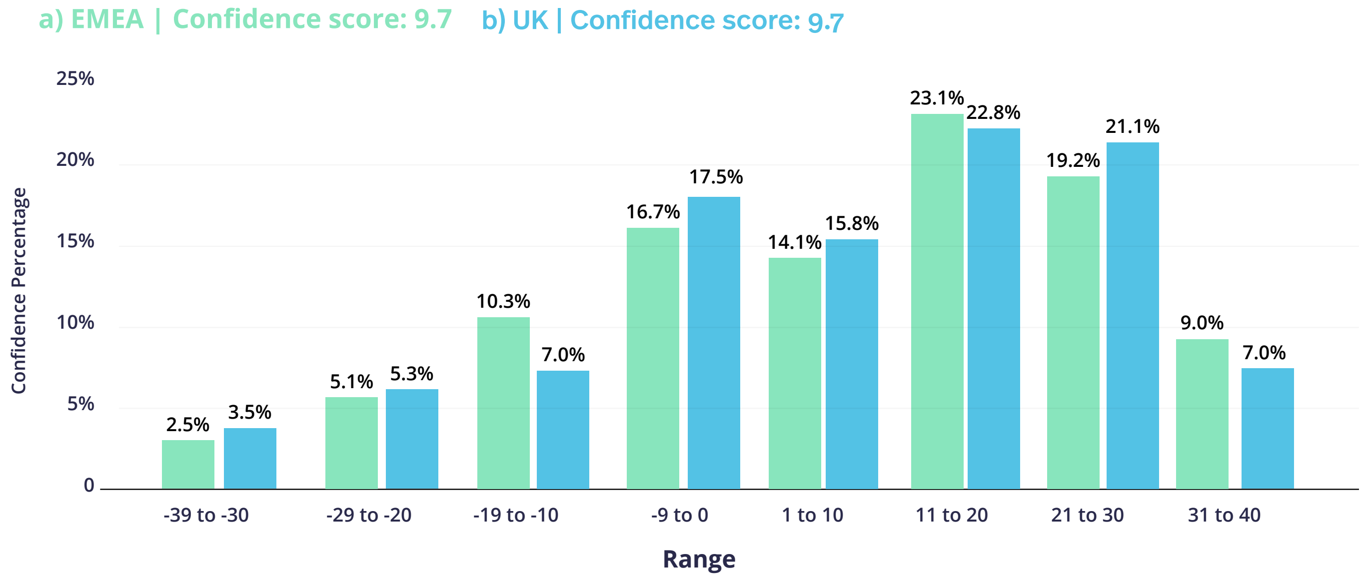
b) Above $1bn

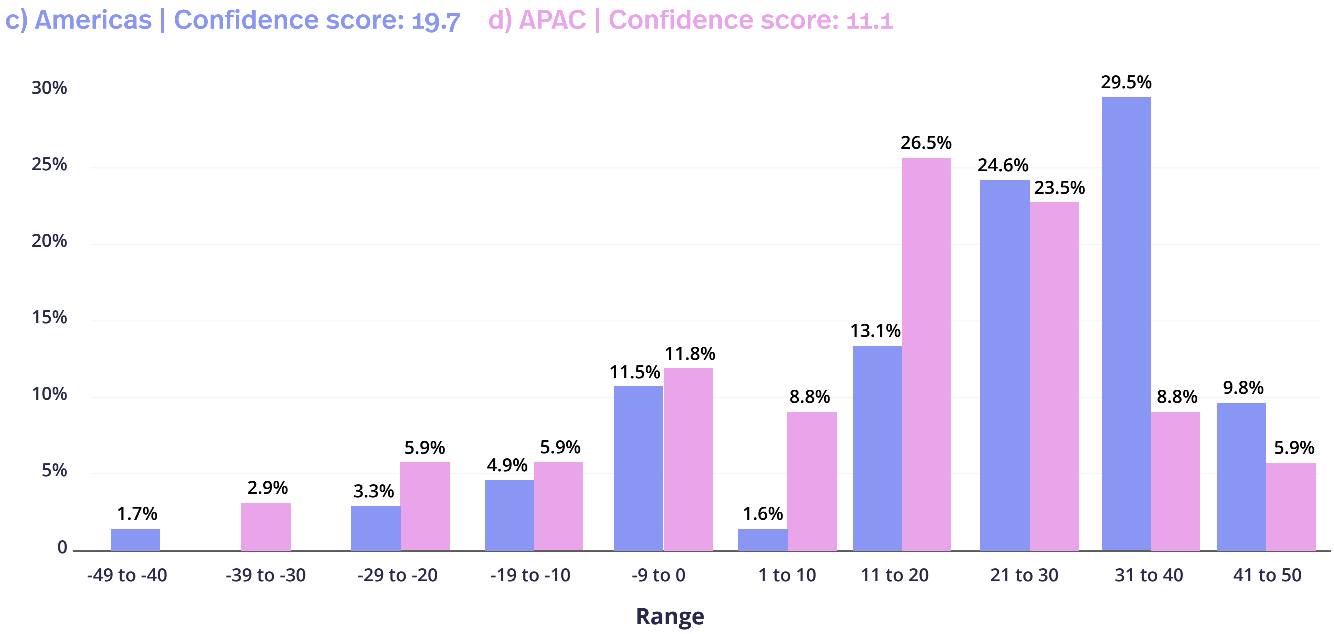
Average confidence score: 10.8



Americas based managers are the most confident:

Overall, how would you score your confidence in the economic prospects of your business over the next 12 months, compared to the previous 12 months, on a scale of -50 to +50 (By region)





Confidence ratings among North America based managers are twice that of their global peers. The high confidence rating is underpinned by approximately half of all regional respondents running multistrategy or long/short equity funds. Smaller managers (which enjoy a higher level of confidence) also make up nearly half the regional total.

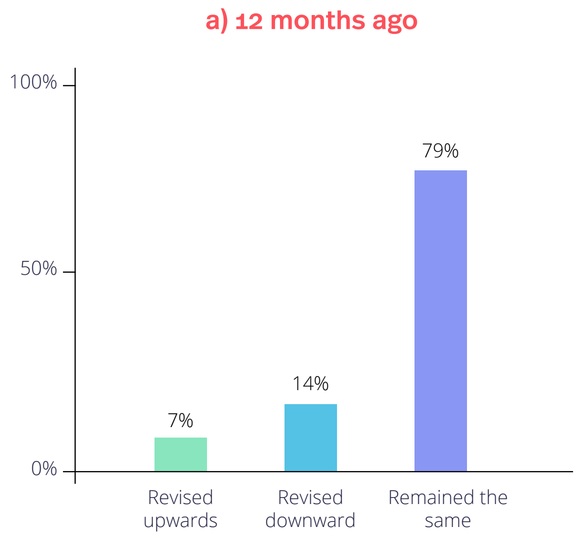
By comparison EMEA based managers express the lowest levels of confidence. With Brexit now a reality, maintaining relations with EU27 investors is expected to become more challenging for many managers based in the UK.

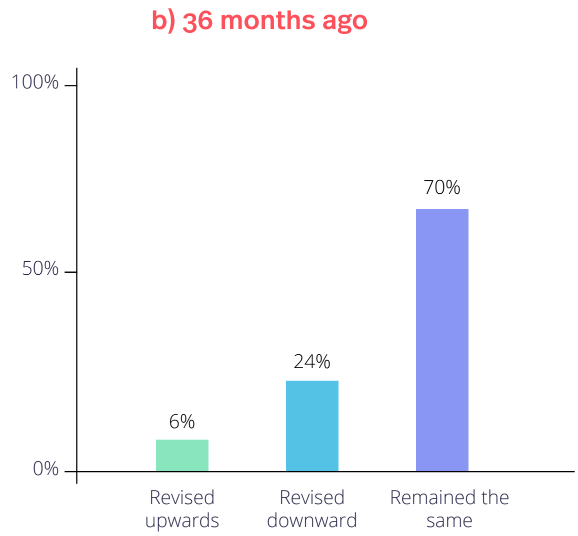
In a similar vein, APAC based managers have got their own challenges to contend with. The US-China trade tension in 2020 has worried the wider APAC financial services industry. Much capital raising still relies on US allocations and with travel restrictions in place for the foreseeable future, this has restricted many managers. In Hong Kong there are additional concerns related to the political environment - whilst Singapore managers are likely to be more optimistic.

To read more about the Hedge Fund Confidence Index please **click here**.

Section 2: Fees

How has the average management fee charged on the flagship fund changed as a percentage from (a) 12 months ago, (b) 36 months ago?





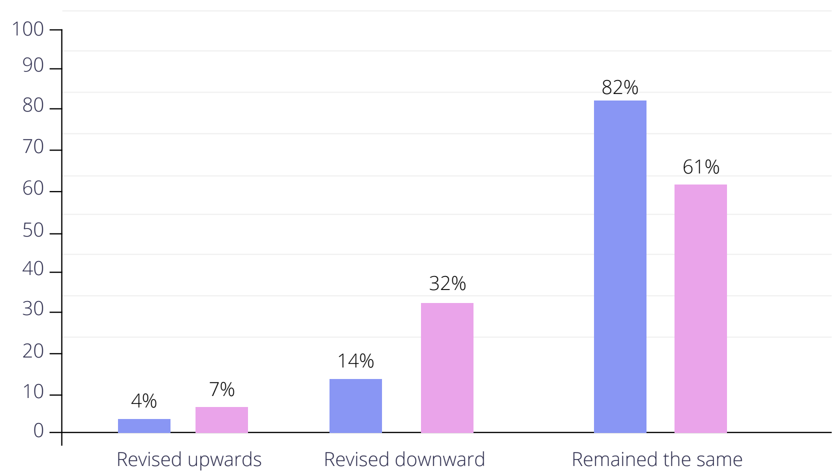
Management fees charged by more established hedge funds appear to have reached a tipping point with just 14% revising their fees downward over the past 12 months and one in four over the past three years.

How has the average management fee charged on the flagship fund changed as a percentage from 36 months ago?

(By AUM above and below $1bn)

a) Less than $1bn

b) Above $1bn

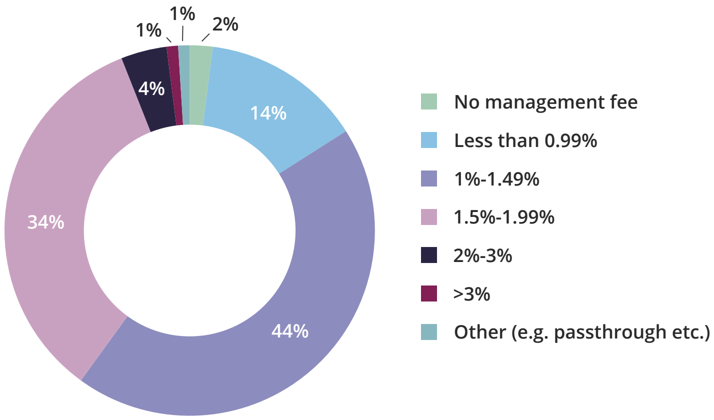


Just under 20% of the smaller firms that reported to this survey have revised their management fee over the past three years, compared to approximately 40% of larger firms.

Only a small number of hedge funds have increased their fees over the same period - mostly funds with non-equity strategies. Despite being much debated, pass-through fee structures appear to be very much the exception rather than the norm.

What is the average management fee being charged on flagship funds?

Average management fee: 1.35%



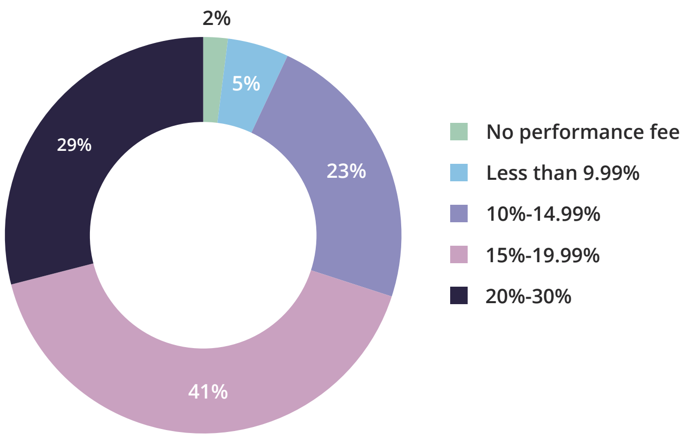
Fee dispersion is significant. Just 5% of hedge funds that polled charge management fees of 2% or greater with the average management fee being 1.35%. A higher management fee may be charged depending on the sophistication of the investment strategy and the resources required to execute it.

Investors understand the importance of the management fee to meet the day-to-day costs of running a hedge fund. Depending on its stage of life, it is critical to ensure that there is an appropriate balance between the management fee that is charged to the investor and the need for it to be large enough to cover the costs of running the fund and the manager's wider business.

Incentive allocations:

What is the average performance fee being charged on flagship funds.

Average performance fee: 17.55%



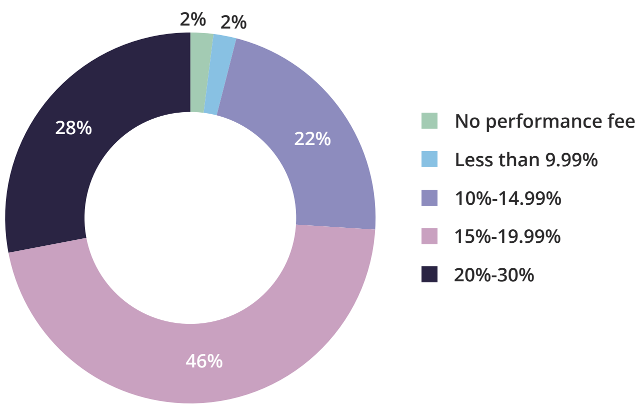
Performance fees across the industry continue to hold up reasonably well with investors prepared to incentivise hedge funds that deliver for them. Across all the hedge funds that participated in the survey, the average incentive fee paid to hedge funds was 17.5% of annual net profits.

Almost one in three hedge funds charge a performance fee more than 20%; the majority of these are larger funds which pursue either long/short equity, multi-strategy, or global macro- all accounting for almost 70% of this total.

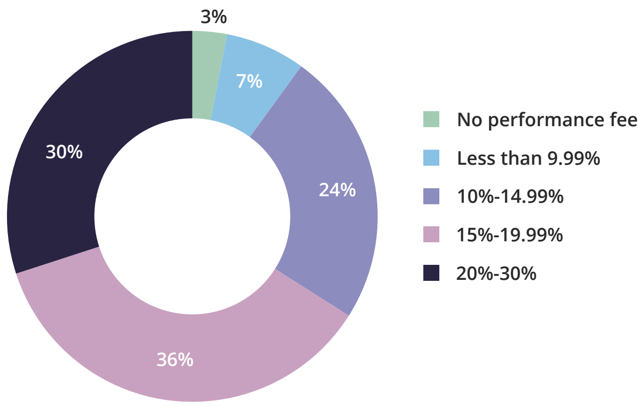
What is the average performance fee being charged on flagship funds.

(By AUM above and below $1bn)

a) Less than $1bn
Average performance fee: 17.9%



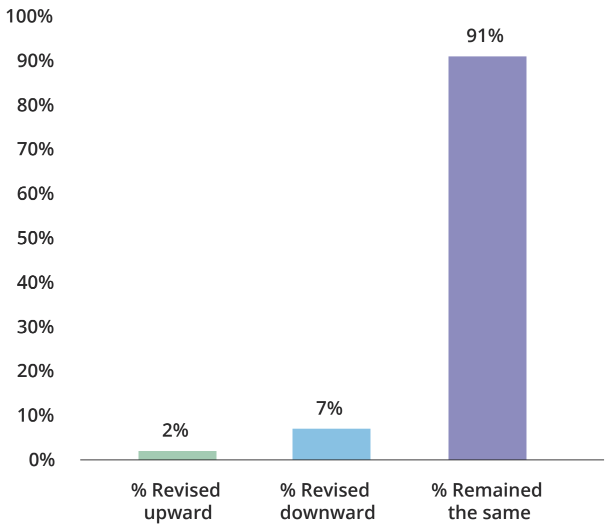
b) Above $1bn
Average performance fee: 17.2%



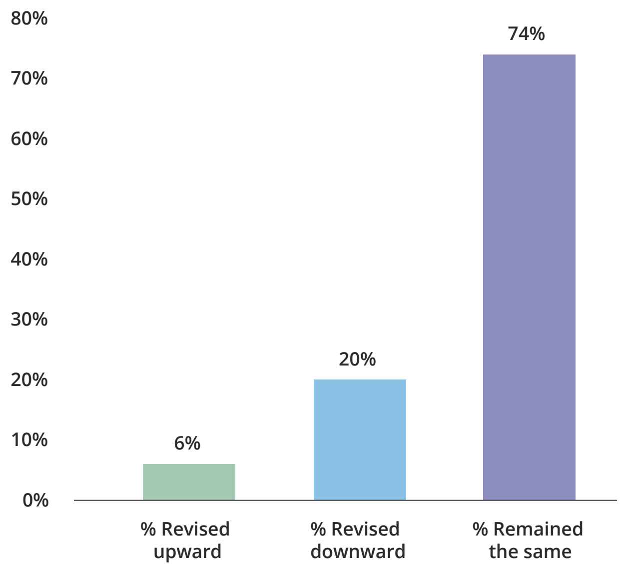
Comparing the fund groups by size, smaller funds are earning a larger performance fee than their larger counterparts. Just under half of all smaller funds are paid an incentive rate between 15%-20% compared to just over one third of their larger counterparts. This is perhaps a surprising statistic, given the challenges faced by many newer and smaller funds in raising capital.

How have the average performance fees charged on the flagship fund changed as a percentage from 12 months ago? (By AUM above and below $1bn)

a) Less than $1bn



b) Above $1bn



One in five of all larger funds have seen their performance fee decrease over the past 12 months compared to 7% of smaller funds.

Section 3:
Fund Terms/Structures

(i) Fund Terms

Hedge funds and their investors continue to explore ways as to how best to align interests.

Hedge funds are responding to investor needs with arrangements that are more closely aligned both to the requirements of the investor and its underlying investment strategy/securities. These include the following mechanisms:

Does your fund use the following fund tools?

Fund Tool	High Water Mark	Hurdle Rate	Clawback Arrangement	Founder Share Class (i.e. early bird share class)
% of hedge funds that use them	82%	20%	9%	55%

Just over 80% of all funds have high watermarks. Of the 20% that do not have high watermarks, over 90% of this total (or 12% of the overall population) are for funds that are three years or older. It is perhaps surprising though that such a large proportion of funds still have not adopted high watermarks.

The use of hurdle rates appears to be relatively common with one in five hedge funds polled using them. Long/short credit strategies and multi-strategy funds are among the most prominent hedge fund strategies that are deploying this mechanism.

Regional breakdown of fund tool implementation

Fund Tool	High Water Mark	Hurdle Rate	Clawback Arrangement	Founder Share Class (i.e. early bird share class)
% of EMEA funds that use them	80%	25%	14%	56%
% of APAC funds that use them	73%	6%	6%	67%
% of Americas funds that use them	87%	18%	7%	47%

EMEA funds are the highest users of hurdle rates with one in four funds implementing this tool. Of the responding Americas based funds, one in five use hurdle rates.

Of those who use hurdle rates, there are twice as many larger funds compared to their smaller peers. From this group of larger funds, an estimated 25% run a long/short equity fund and 17% run a multistrategy fund. By contrast, among the smaller funds that use hurdle rates, an estimated 60% run long/short funds (including 40% in long/short equity) and 20% run event driven funds.

Investor clawbacks, while employed less frequently than hurdle rates, are another method used to enhance the alignment of interests between hedge fund managers and their investors. Albeit we did not gather information on fund crystallisation, during our conversations with investors, they acknowledged that managers are crystallising fund performance on a semi-annual and annual basis and some over an even longer term – further indicating that investors and managers are working to align their interests better.

(ii) Fund Liquidity:

Hedge fund liquidity terms can be wide ranging depending on the underlying positions in the fund. Some highly liquid strategies offer daily liquidity, while some of the illiquid strategies require investor capital to be locked up over a multi-year period. Most equity-focused strategies tend to offer shorter liquidity terms, as these assets can be more readily exited in broadly traded markets. By comparison, the terms being offered by the hedge fund manager extend out with investment strategies that invest in less liquid assets. For example, strategies that are heavily focused in less liquid private credit or distressed securities may be only offered in closed-end vehicles to ensure an orderly exit from the investments.

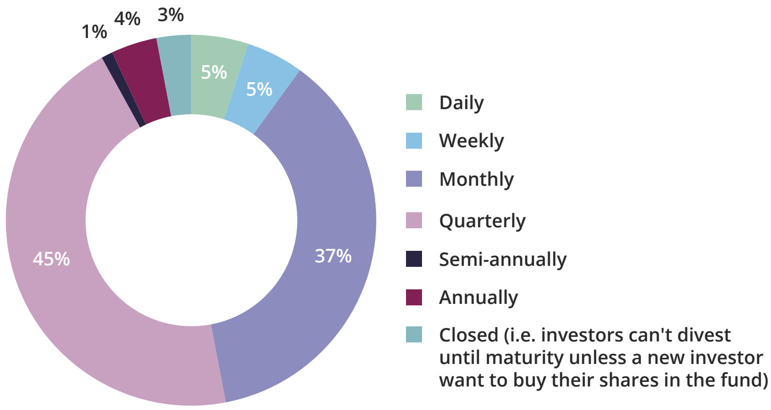
Liquidity terms and redemption notice periods

Strategy	Overall	Multi-Strategy	Global Macro	Event Driven	Long / Short Credit	Long / Short Equity	CTA/ Managed Futures
Liquidity Terms (Days)	68	40	48	108	60	81	8
Redemption Notice Period (Days)	49	42	41	65	56	43	17

From the ranges below, please provide us with the closest estimate regarding the liquidity terms that you offer in your flagship fund

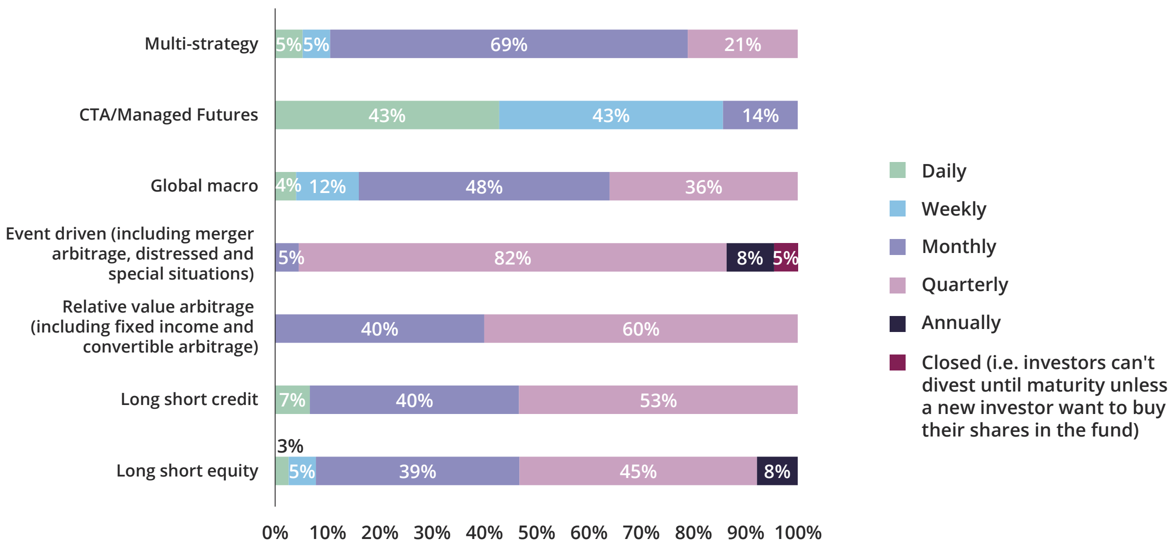
(By flagship fund strategy):

Average liquidity terms: 68 days



The average liquidity across funds that polled is just over two months (68 days) with just under 50% of funds citing quarterly liquidity (90 days) and just under 40% (37%) citing monthly liquidity (30 days).

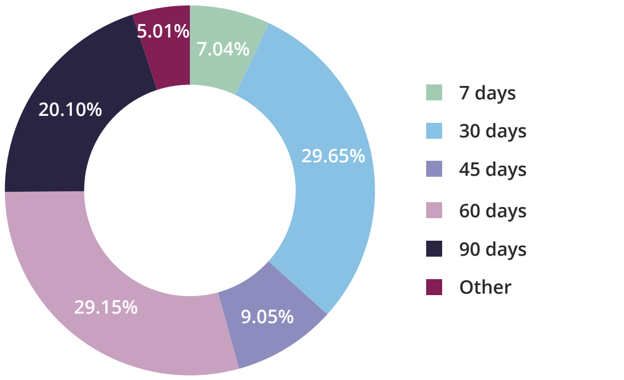
From the ranges below, please provide us with the closest estimate regarding the liquidity terms that you offer in your flagship fund (By flagship fund strategy):



Event driven strategies have the longest liquidity terms (on average) - just under 4 months (108 days) while liquidity terms for CTA/Managed Futures have the shortest liquidity terms on average ~ just over 1 week.

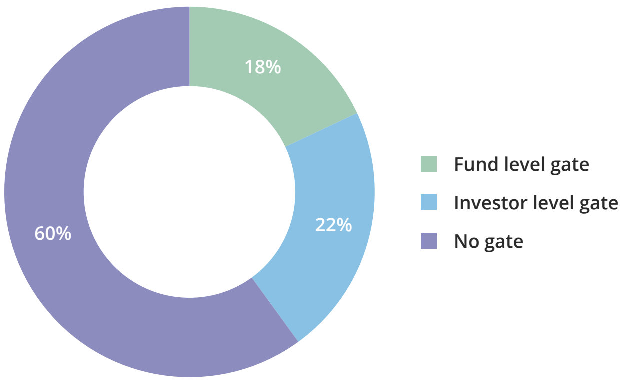
From the ranges below, please provide us with the closest estimate regarding the redemption notice period that you offer in your flagship fund:

Average redemption notice period: 49 days



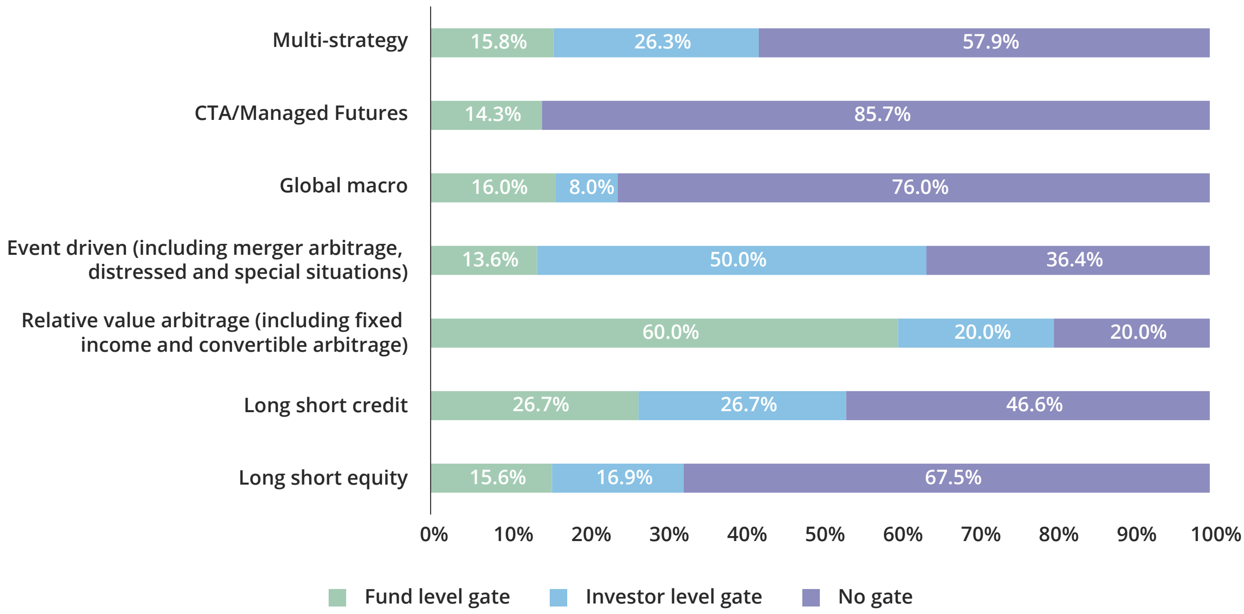
The redemption notice period specifies how many days in advance investors have to notify their wish to redeem their investment. As per the responses from this survey, the average redemption notice period is approximately one and a half months (49 days). Consistent with liquidity terms, the average redemption notice period is longest among the more illiquid strategies, with event driven funds having the longest redemption notice periods of approximately two months (65 days).

Gates:
What gating terms do you offer to investors?



To protect themselves and other investors from large scale capital withdrawals, many hedge funds use gating provisions - 40% of all hedge funds surveyed use gates with just over half of these using investor gates with slightly less using fund level gates. While gates put a limit on investor withdrawals, they do not prohibit them. The nature of the restriction imposed by a gate can vary, including restrictions on the amount that can be withdrawn as a proportion of the investor's capital in the fund, the fund's total NAV or the fund's held under a particular class of share.

What gating terms do you offer to investors? (By strategy of flagship fund)



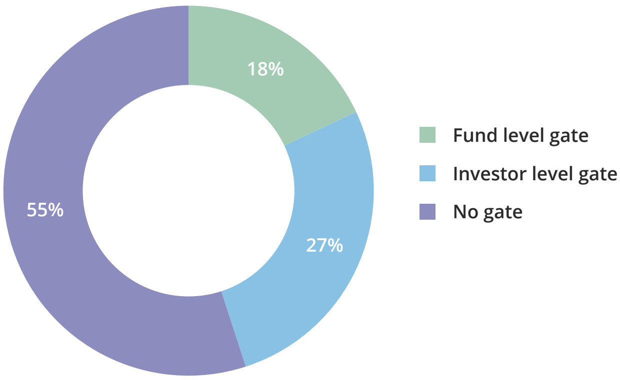
Fund strategies where investor gates are most popular include event driven (50% of funds have investor gates), multistrategy and long/short credit (25% of funds have investor gates). Over half of all the funds who deploy investor level gates have either a long/short equity strategy or an event driven strategy as their flagship fund.

Fund strategies where fund level gates are most popular include relative value arbitrage, long/short credit and global macro. A third of those who use fund level gates have their flagship fund pursuing a long/short equity strategy, while just over 20% have flagship funds that pursue long/short credit and global macro.

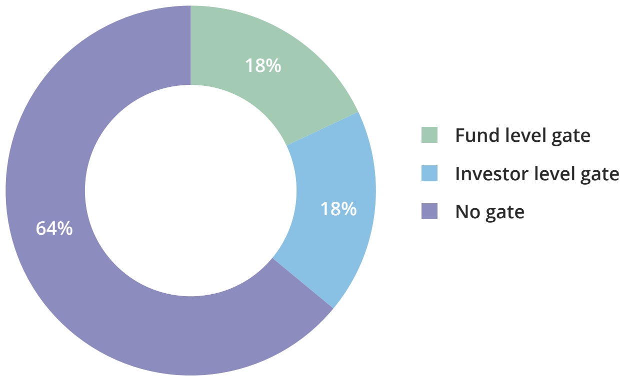
What gating terms do you offer to investors?

(By AUM size)

a) Less than $1bn



b) Above $1bn

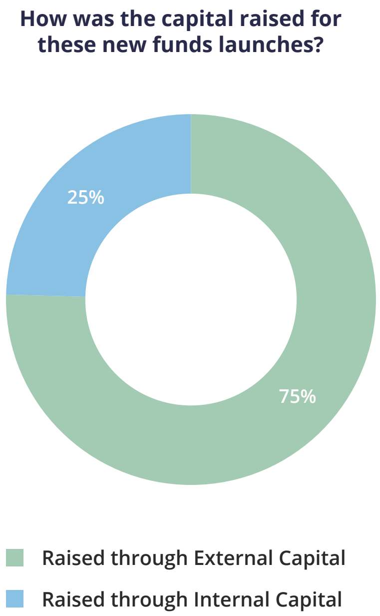


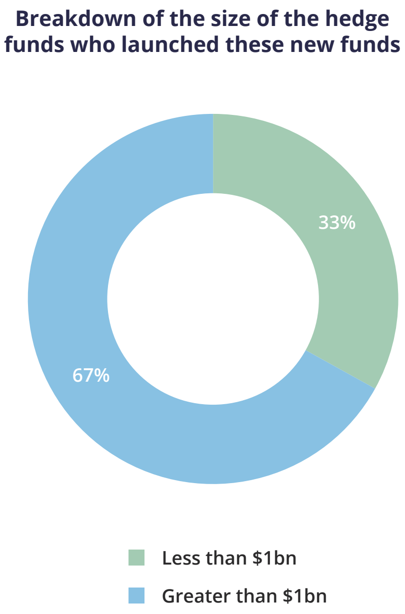
Smaller funds are more inclined to have investor gates in place than larger funds with one in four smaller funds having them versus one in five larger funds.

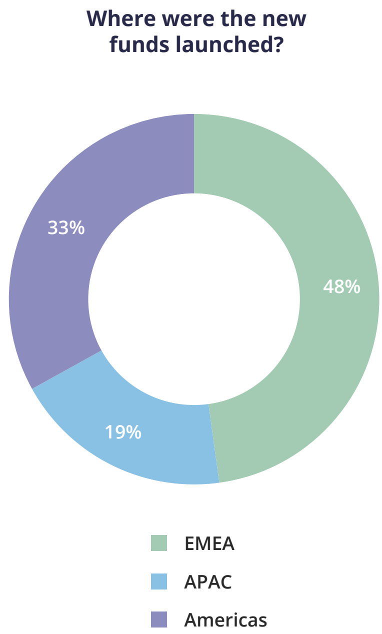
Section 4:
Trends in New Funds

37% (98 in total) of all funds that participated in the survey launched new funds over the past 12 months.

Breakdown of the new fund launches



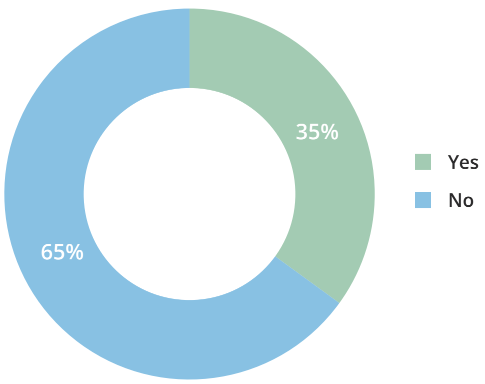




From the total investment raised for launching new funds, 75% came from external capital.

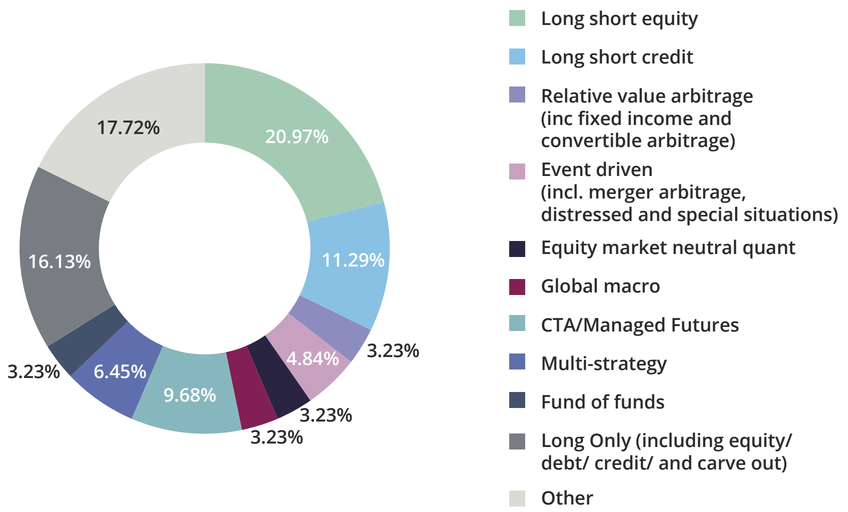
Two thirds of all fund launches were from larger firms. EMEA led the way with an estimated 48% of new funds launched over the past 12 months, followed by North America accounting for one third of all new funds launched.

Is the fund you have launched in the last 12 months your flagship fund?



Two thirds of all launches in the past 12 months were not the fund's flagship. From this group, nearly all of them (98%) were by firms which have been established for more than 3 years.

What is the fund strategy of that new fund?

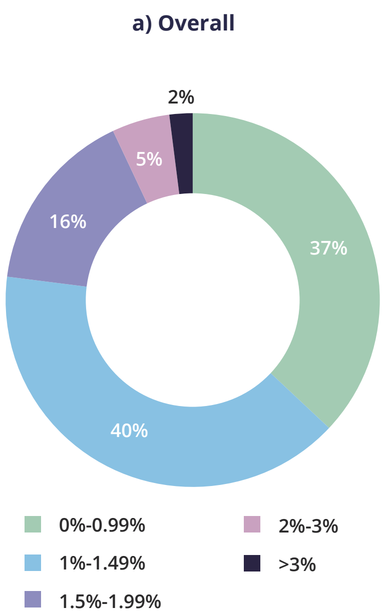


Among the most popular launches include long/short equity, long-only and long/short credit funds accounting for almost half of all new fund launches. 18% of all new funds launched described their investment strategy as "other", including funds invested in illiquid strategies/private markets (closed-end credit, private debt, Venture Capital closed end, structured credit, long volatility, alternative credit and fixed income).

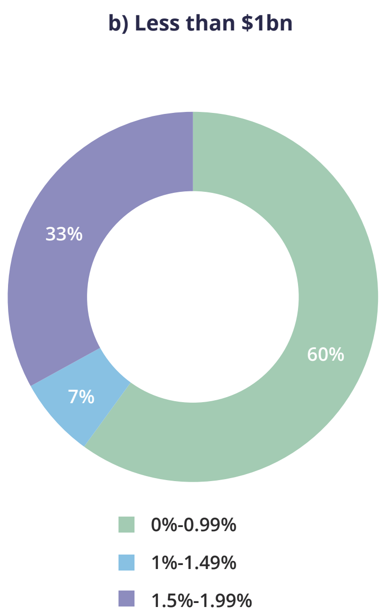
i) **Fees:**

Management fees:

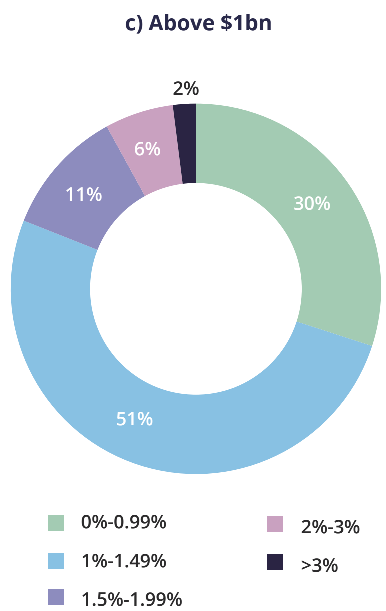
What is the average management fee being charged on your new funds which are not flagships?



Average management fee: 1.15%



Average management fee: 0.97%



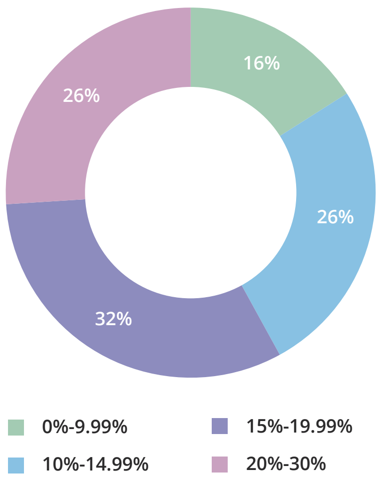
Average management fee: 1.19%

New fund launches remain very competitively priced. The average management fee equalling 1.15%. CTA's/ Managed Futures are among the most competitively priced funds while long/short credit funds charge the highest management fees.

Performance fees:

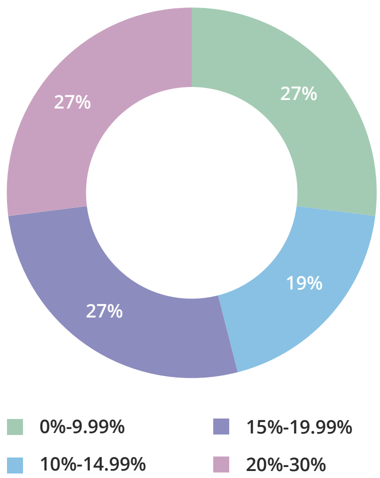
What is the average performance fee being charged on new funds which are not flagship funds?

a) Overall



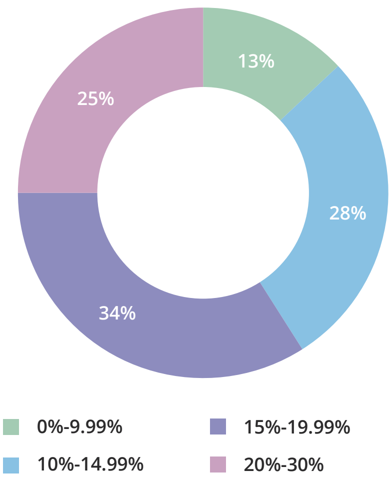
Average Performance fee: 16.15%

b) Less than $1bn



Average Performance fee: 15.2%

c) Above $1bn



Average Performance fee: 16.4%

Performance fees continue to be paid among newly launched funds, however, the incentive rate is lower than that being charged by more established funds. The average incentive fee paid to newly launched hedge fund is 16.15% of annual net profits. Larger managers are being paid higher incentive rates - approximately 16.5% of annual profits while smaller managers are receiving an incentive rate of approximately 15%.

(i) Fund terms:

Fund Tool	High Water Mark	Hurdle Rate	Clawback Arrangement	Founder Share Class (i.e. early bird share class)
% of new fund launches which are not flagship funds that use them	56%	40%	15%	56%

Breakdown of fund tools among new fund launches which are not flagship funds

Fund Tool	Location Split	Size Split	Notable strategies that use them
High Water Mark	EMEA: 51% APAC: 6% North America: 37% Other: 6%	Less than $1bn: 26% Greater than $1bn: 74%	CTA/Managed Futures: 17% Long/Short Equity: 14% Long/Short Credit: 11%
Hurdle Rate	EMEA: 36% North America: 64%	Less than $1bn: 28% Greater than $1bn: 72%	Long Only: 24% Fund of Fund: 8% Long Short Equity: 8%
Clawback Arrangement	EMEA: 50% North America: 50%	Greater than $1bn: 100%	Long/Short Equity: 40% Fixed Income: 20%
Founder Share Class (i.e.early bird share class)	EMEA: 57% APAC: 20% North America: 20% Other: 3%	Less than $1bn: 23% Greater than $1bn: 77%	Long/Short Equity: 25% Long/Short Credit: 17% Multi-strategy: 9%

(a) High watermark

56% of all new fund launches have high watermarks. From this group, almost 90% are launches by firms that have been established for five years or longer. Just over half of this total are EMEA based managers, with over one third from North America and just 6% from APAC. The majority of fund launches (just under three quarters of the total) are done via larger firms.

(b) Hurdle rates:

The use of hurdle rates is twice as popular among new fund structures, with 40% of all new funds having them and 50% smaller funds including them. Two thirds of all new fund launches who use hurdle rates are Americas based funds with just over one third coming from EMEA.

A quarter of new fund launches from North America who use hurdle rates run a long only strategy, with 8% running a fund of funds. A third of EMEA new fund launches who use hurdle rates run CTA/Managed Futures, with 22% running a long only variant.

Hurdle rates are most used by larger managers with just over 70% deploying them. Of these larger managers who use hurdle rates, CTA/ Managed Futures is the most popular strategy with 17% deploying them.

(c) Founder Share Classes.

56% of new fund launches include founder share classes, the majority (77%) of these being launches by larger firms.

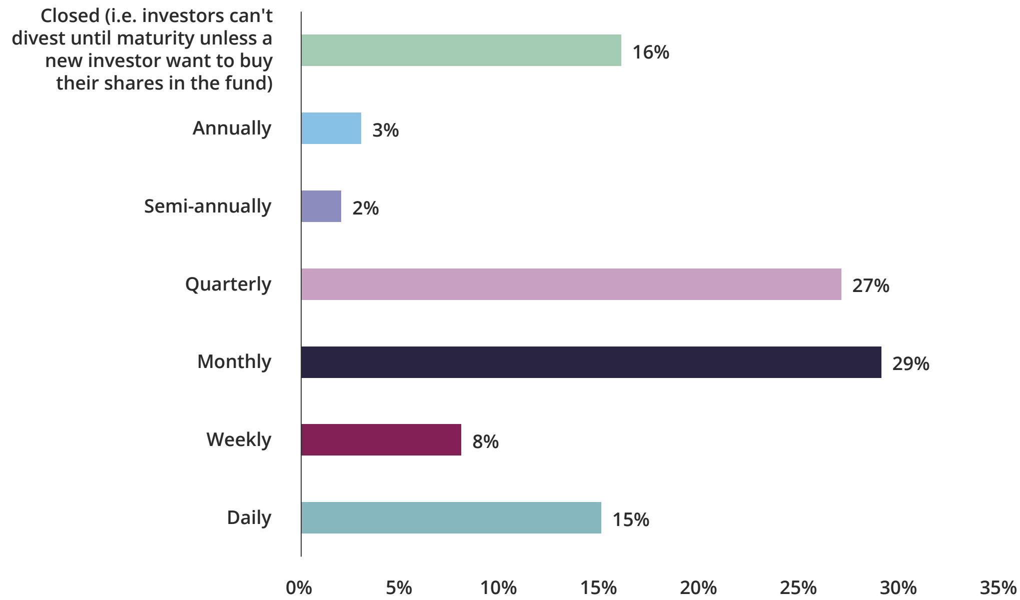
Among those funds that have founder share classes, approximately 60% are with EMEA based firms that launched new funds with one fifth coming from APAC and the same number from North America.

Among the more popular funds using founder share classes include long/short funds accounting for over 40% of the total.

(ii) Fund liquidity

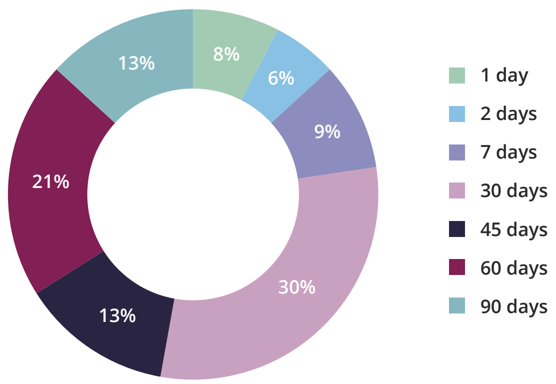
From the ranges below, please provide us with the closest estimate regarding the liquidity terms that you offer in your new fund:

Average liquidity terms: 48.3 days



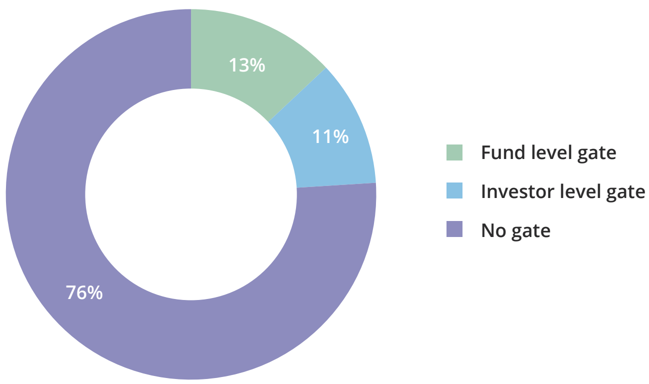
From the ranges below, please provide us with the closest estimate regarding the redemption notice period that you offer in your new fund:

Average Redemption Notice Period: 40.2 days



Liquidity terms among new fund launches were much more frequent than established funds that polled. The average liquidity for new fund launches was 48 days with the average redemption notice period being 40 days.

What gating terms do you offer to investors?

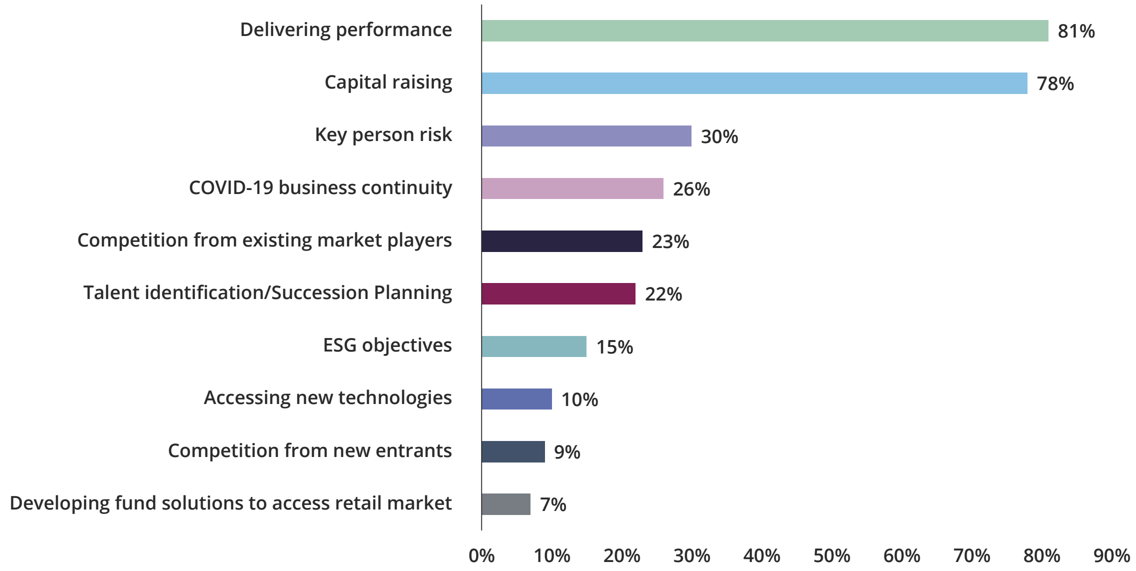


Approximately 24% of all new fund launches have gating provisions, with fund level gates accounting for 13% of all fund launches and investor level gates accounting for 11%.

Section 5:
Industry Challenges

Internal challenges for the firm:

From the list below, please select the top three internal challenges for your firm over the coming 12 months:



As expected, the key twin challenges for all hedge funds remain delivering performance and capital raising. With the industry having returned a good year of performance, hedge fund managers are keen to get out on the road and meet with investors. While virtual outreach has helped to keep managers and investors engaged during this time, there is no substitute for in-person meetings.

The COVID-19 period has been very challenging for new managers to win new business. Allocators are more comfortable working with hedge fund managers whom they have allocated to in the past or where they have a previous business relationship. With COVID-19 restrictions likely to remain in place for at least the first half of this year, those hedge funds who do not have the right investor relationships established will continue to be overlooked.

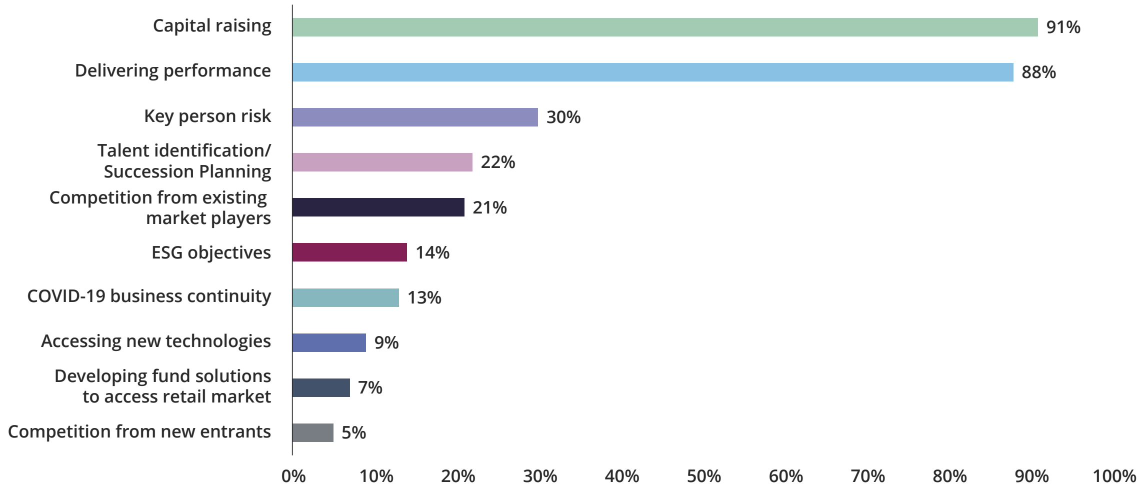
Beyond the pandemic, with investor appetite for hedge funds being among the strongest witnessed for years, the expectation is that the industry will post net inflows through this year as investors of all types increase their investment. Hedge funds that can innovate and be flexible give themselves the best chance to succeed and grow.

Notably, key person risk has risen in prominence to being the third biggest challenge for hedge fund managers. Arising from the pandemic, investors are paying closer attention to a fund's key person(s) risk. Hedge fund managers are taking a more holistic view in addressing key person risks, which includes having a succession plan as well as an appropriate arrangement which allows for a more manageable transition where a key person may leave the fund. We discuss key person risk(s) further in **section 8** of this report.

Hedge funds are acutely aware of the challenges that COVID-19 presents as they manage their business over the coming 12 months. The pandemic has brought about significant changes in the way that hedge funds operate. With the end of this period now in sight, business operating models are being re-evaluated as hedge funds examine core processes, cost structures and hybrid working environments as they strive for efficiency.

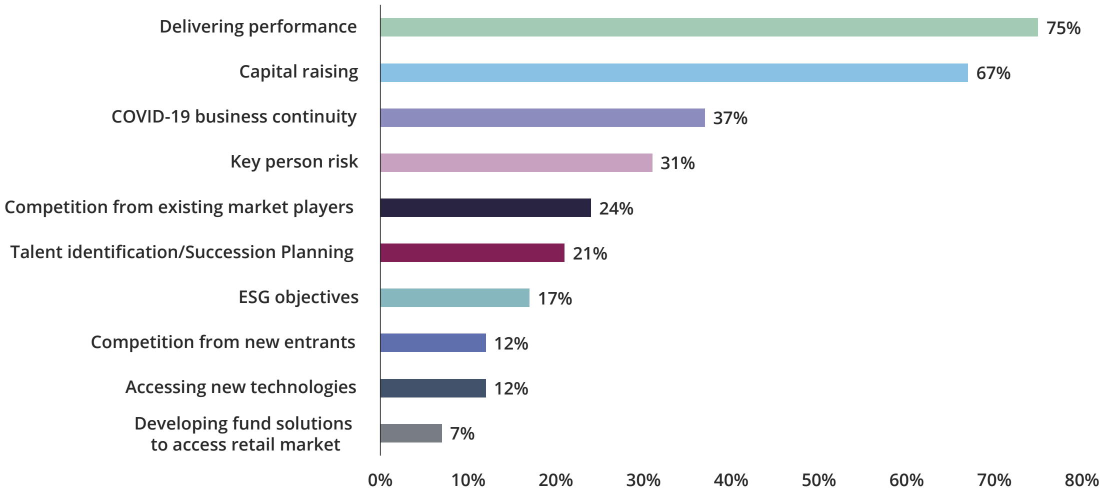
From the list below, please select the top three internal challenges for your firm over the coming 12 months: (By AUM above and below $1bn)

a) Less than $1bn



From the list below, please select the top three internal challenges for your firm over the coming 12 months: (By AUM above and below $1bn)

b) Above $1bn



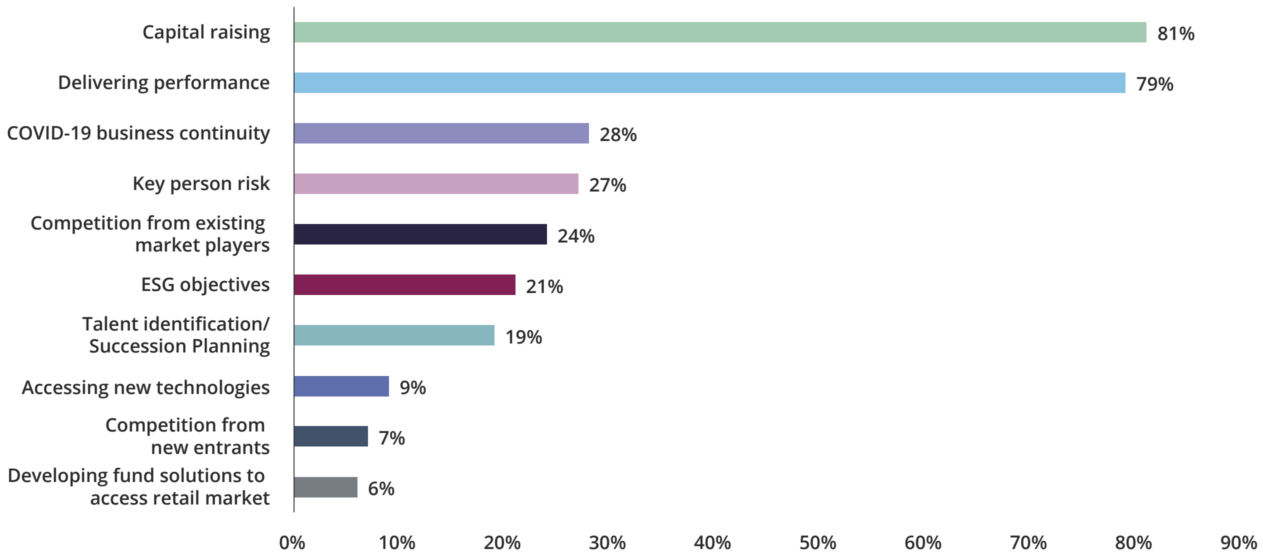
Universally, smaller managers have found the transition to working remotely a little less challenging than their larger peers. The larger (and the generally more international) the manager, the more complex the challenge of having to navigate a larger workforce and more complex operations.

Talent identification and succession planning also feature prominently throughout the results of our survey. Talent risk has become one of the leading risks to a firm's long term growth. Hedge fund managers continue to seek out the best talent with front office revenue generating professionals being in high demand. Among these roles include experienced portfolio managers, researchers (including data scientists) and Investor Relations professionals. The success of the industry adapting to working virtually has meant that firms are more amenable to hiring outside of their typical captive areas (i.e. geography, sector).

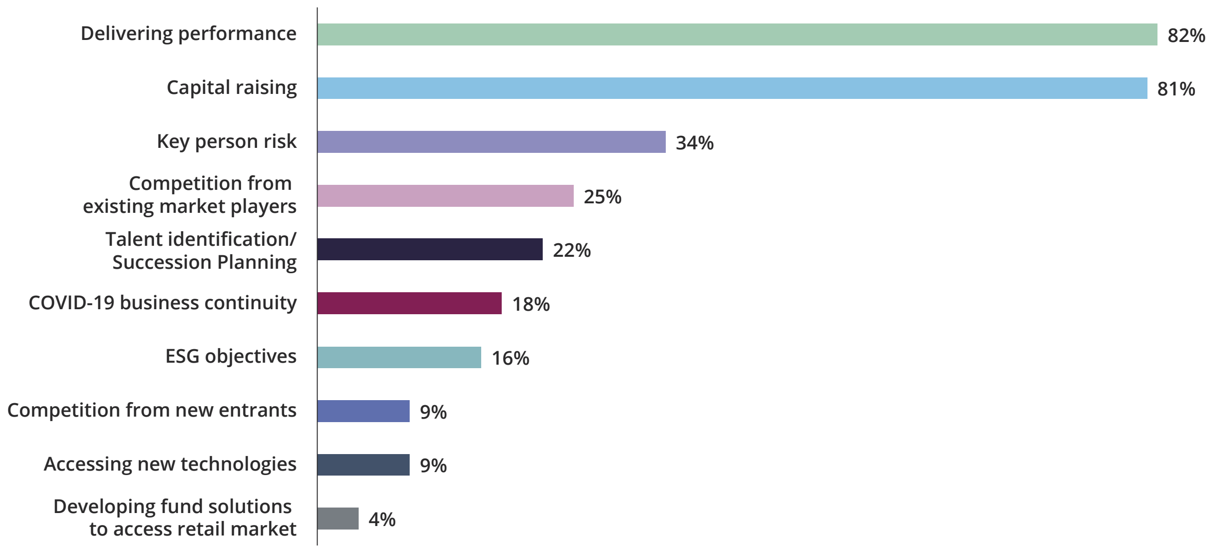
Hedge funds are also using this period to focus on how best to extrapolate productivity from the talent that they have available to them.

From the list below, please select the top three internal challenges for your firm over the coming 12 months: (By region)

a) EMEA

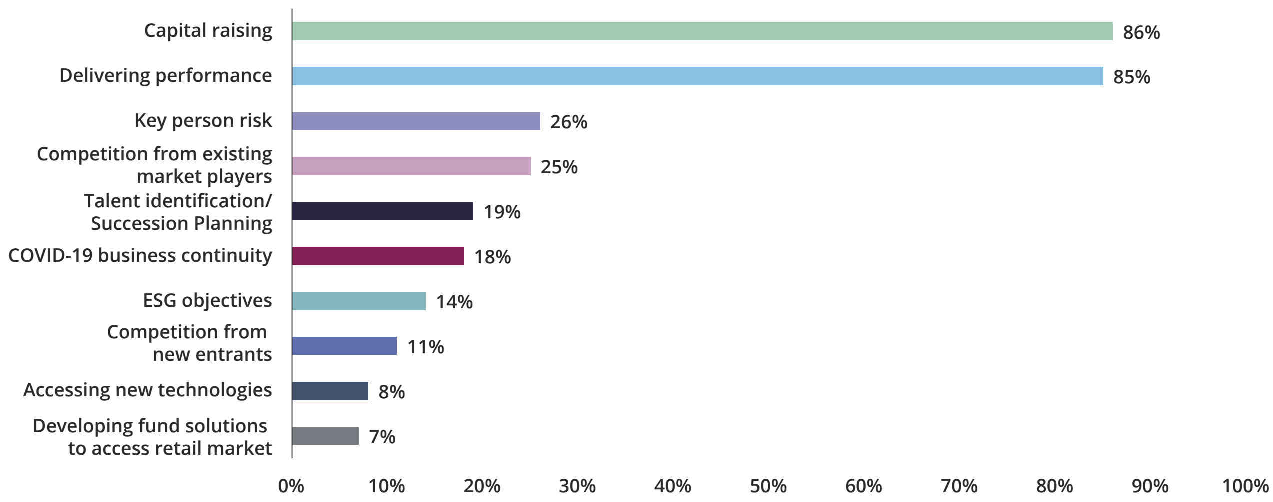


b) UK

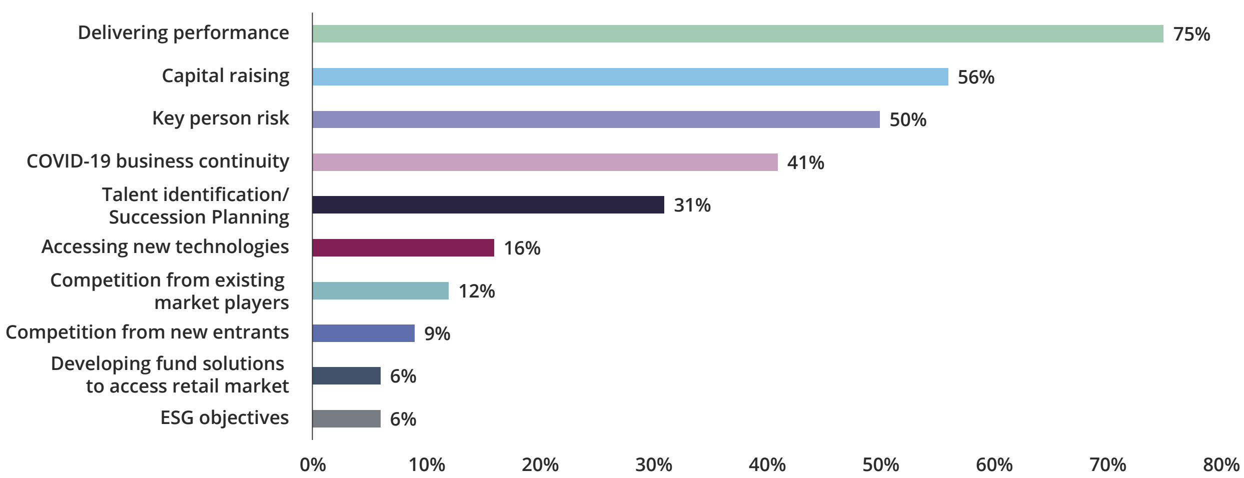


From the list below, please select the top three internal challenges for your firm over the coming 12 months: (By region)

c) Americas



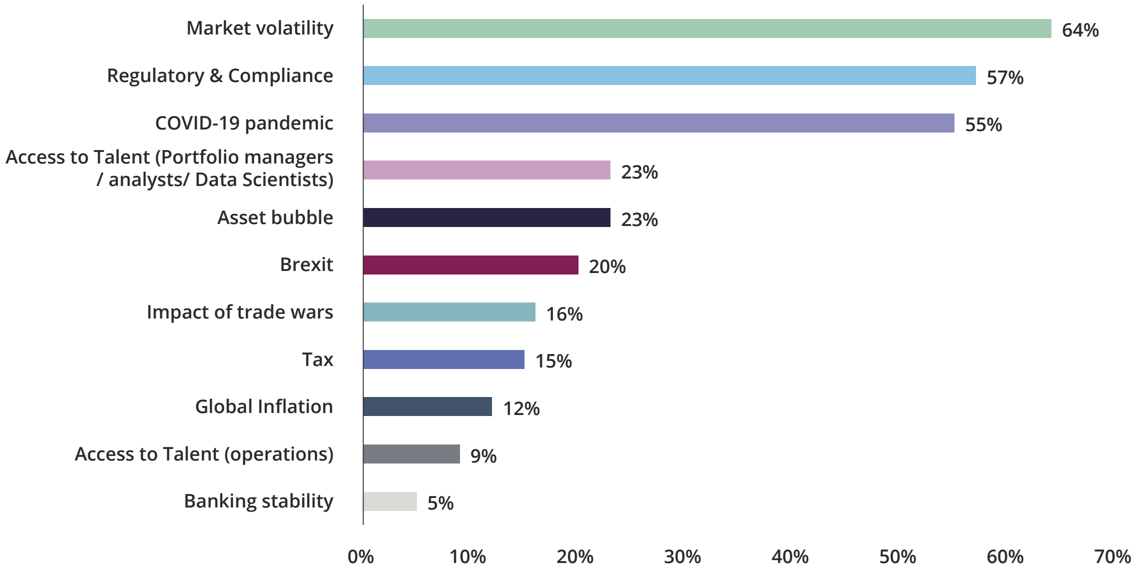
d) APAC



On a regional comparison, all three regions agree on their two biggest internal challenges (performance, capital raising), but differ regarding their third biggest challenge. North America and APAC based firms cite key person risk as their third biggest challenge (as per 26% and 50% respectively of all respondents in their region) while EMEA based managers cite COVID-19 planning/business continuity (as per 28% of all respondents).

External Challenges:

From the list below, please select the top three external challenges for your firm over the coming 12 months:

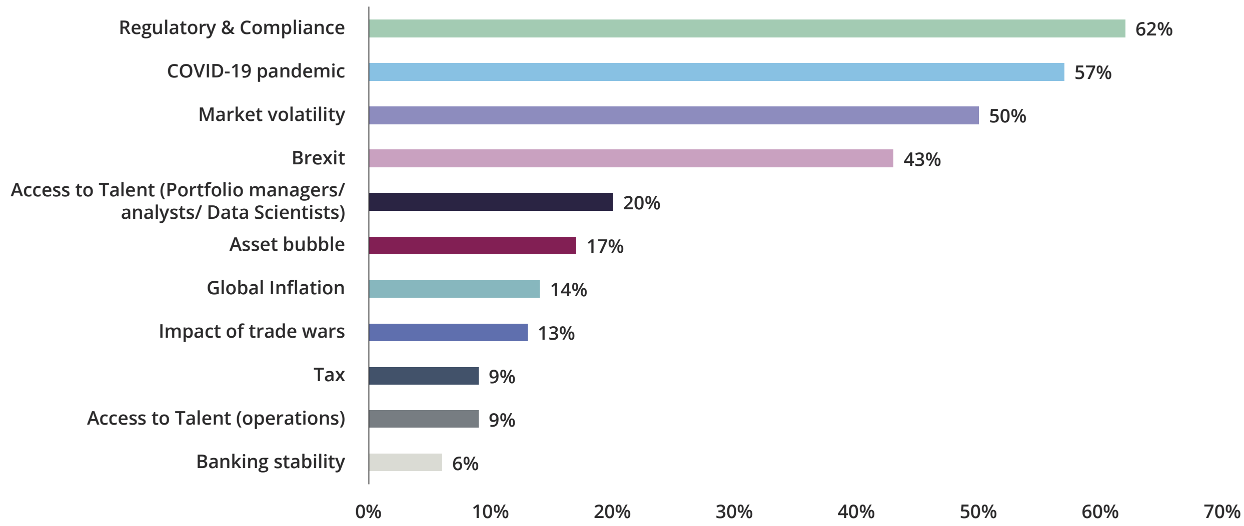


Hedge fund respondents cite market volatility as their biggest external challenge in the next 12 months. As the pandemic plays itself out, market conditions expect to remain challenging. Increasing levels of uncertainty and volatility also provide opportunities for hedge funds, with some market experts suggesting that the current environment has been the best they have seen for hedge fund investing in many years.

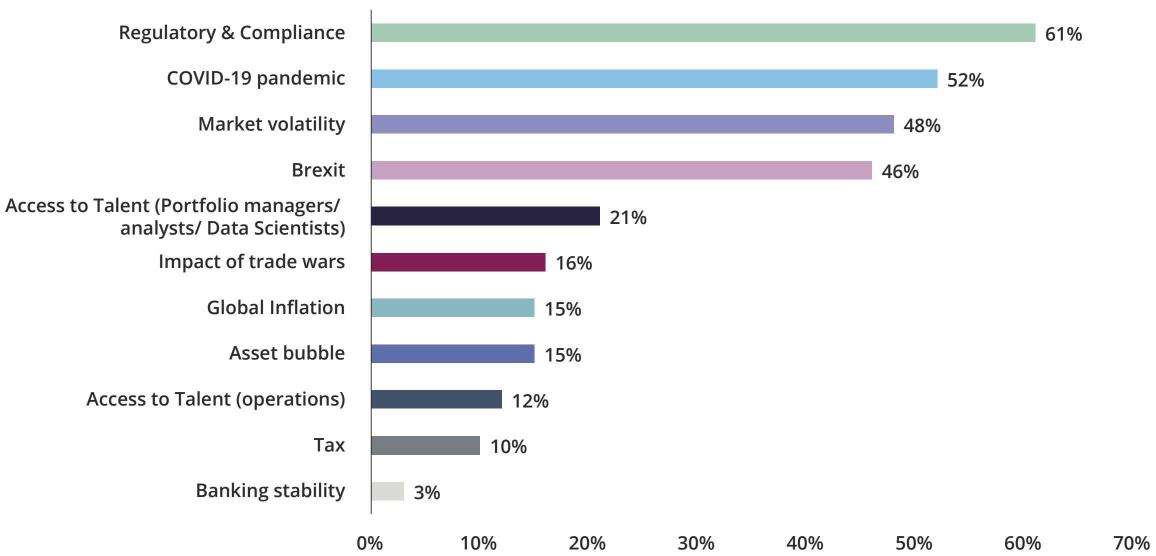
Over the past year, hedge funds have demonstrated, just like with previous market corrections, that they are best placed to navigate the vicissitudes of volatile and dislocated markets. As has been the case where markets have sharply corrected, hedge funds continue to demonstrate their ability to minimise risk and deliver performance better than any other asset classes. Performance dispersion which has been a prominent feature over the past 12 months is likely to continue, highlighting the importance of manager selection and ongoing review.

From the list below, please select the top three external challenges for your firm over the coming 12 months: (By region)

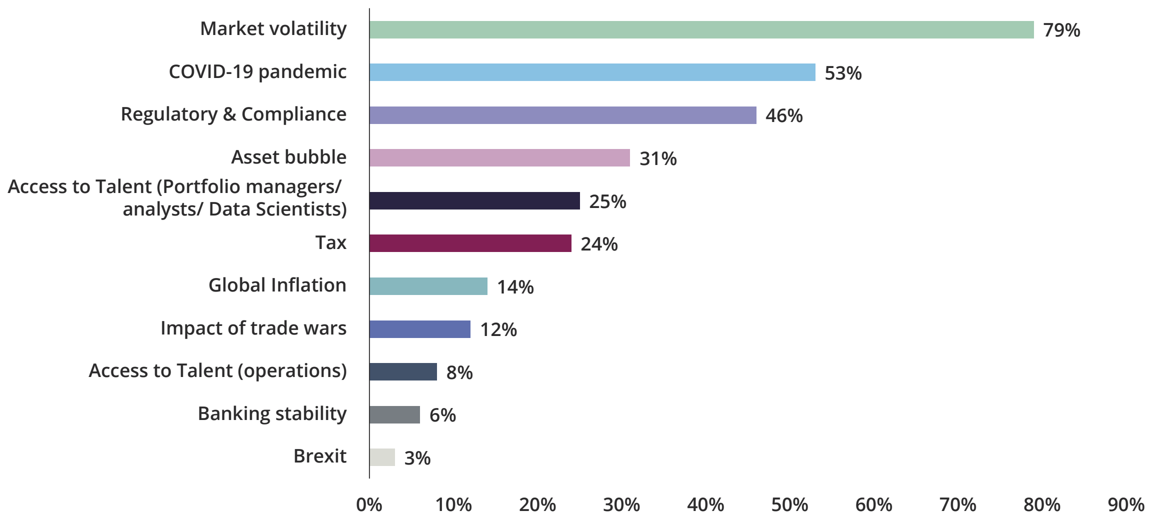
a) EMEA



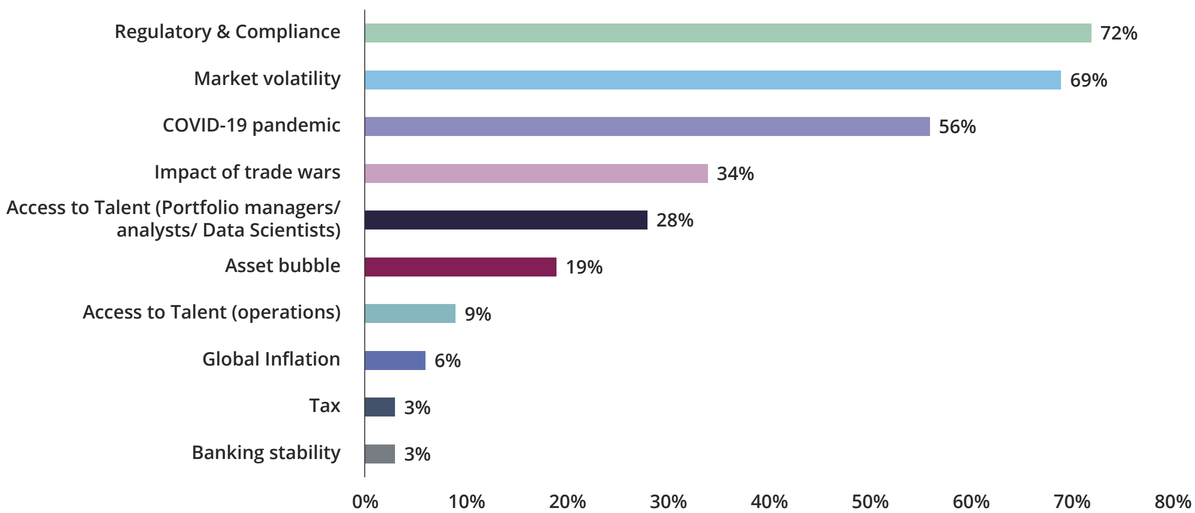
b) UK



c) Americas



d) APAC



As is the case every year, the agenda for regulatory and compliance officers remains very busy. On a regional basis, managers in EMEA and APAC highlighted regulatory and compliance as their primary external challenge over the coming 12 months. Managers in both regions are having to contend with a plethora of new files.

Europe

The Sustainable Finance Disclosure Regulation (SFDR) is expected to dominate many firms' compliance programmes for the early part of 2021. With Brexit now concluded, marketing and maintaining relations with clients and investors in EU27 is expected to become more challenging for many managers based in the UK. New rules relating to the market of AIFs in the EEA are coming into force later this year while proposals for an AIFMD II are expected from the European Commission over the coming months.

The Investment Firms Regulation (IFR) and the Investment Firms Directive (IFD) will take effect in June delivering a tailored prudential regime for in-scope firms. While UK firms will not adopt these rules, the Investment Firm's Prudential Regime (IFPR) will largely replicate EU rules with implementation being targeted for January of next year.

As the UK faces its first year as a third country post Brexit, the future framework for the UK asset management industry will be the subject of an expansive review over the course of this year. A more detailed package of proposals is due over the coming months setting the stage for a divergence of approach from the EU. In addition to developments in the regulatory landscape, with LIBOR and similar rates to be phased out by the end of this year, the transition presents several challenges for hedge funds.

U.S.

The U.S. has experienced a transition in power with respect to U.S. Administration as well as a transition in national parties. With the Biden Administration in place, it is expected ESG will become more of a focal point of governmental and financial regulatory bodies. Additionally, the SEC has adopted a new investment adviser marketing rule (the Rule), which will take effect sixty (60) days after publication in the Federal Register with a compliance date of 18 months after its effective date.

The Rule addresses the definition of "advertisement", general prohibitions, requirements applicable to testimonials and endorsements, the use of third-party ratings and gross performances, related performance, extracted performance, hypothetical performance and predecessor performance. The Rule will likely result in substantial changes to an adviser's marketing practices and compliance programs and thus is a significant focal point for U.S. advisers.

APAC

In APAC, as well as elsewhere, navigating the post-pandemic issues associated with a return to the workplace and a longer-term remote working model. The on-shoring of funds will continue to be a big area of focus for the APAC region. Jurisdictions continue to vie for fund domiciliation business from offshore centres. Australia's CCIV, Singapore's VCC, Hong Kong's OFC and Limited Partnership Fund and India's GIFT City being examples. Cyber security also continues to be an area of focus for the industry in APAC.

Section 6:
ESG/Responsible Investment

Amidst environmental issues and social justice movements continuing to dominate the news, 2021 will see efforts ramped up to integrate ESG and sustainable investment across investment products universally.

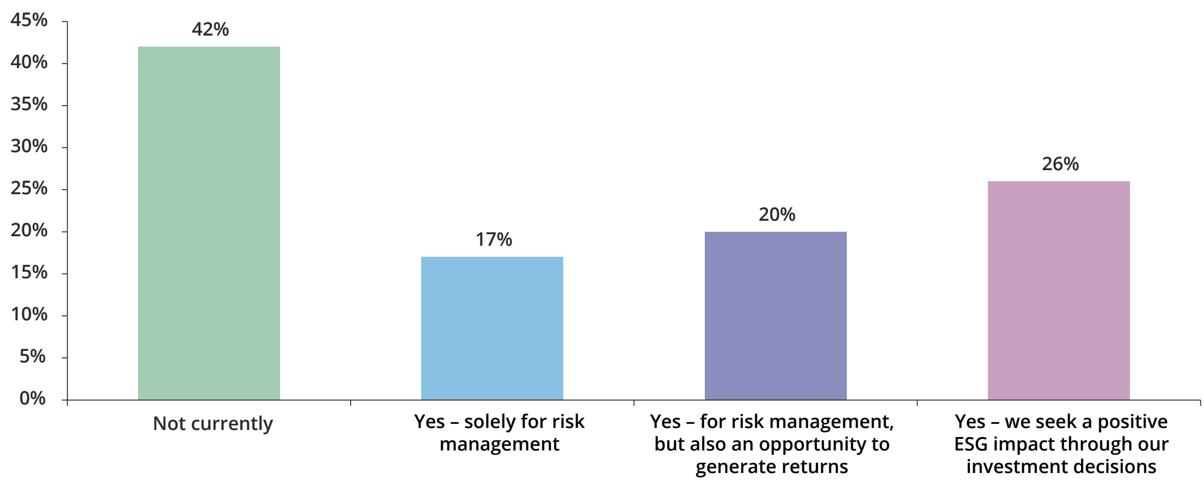
Conversations are ongoing between managers and investors as to how managers can meet the demands set by their investors to incorporate ESG factors into the various solutions that they offer. We see every stakeholder in the industry, from asset managers, owners, shareholders, and employees making ESG driven investment strategies a prerequisite.

Adoption of ESG

Hedge fund managers continue to advance into ESG, albeit their progress is incremental. Several factors have conspired against greater levels of progress being made by the industry. These include the lack of quality and consistent data to help implement ESG, confusion over industry terminology, lack of harmonisation when it comes to the industry implementing ESG practices arising from different approaches taken by policy-makers, the lack of uniform disclosure criteria, and finally a shortage of industry expertise.

Do you integrate ESG factors into investment decisions?

(Hedge fund managers)

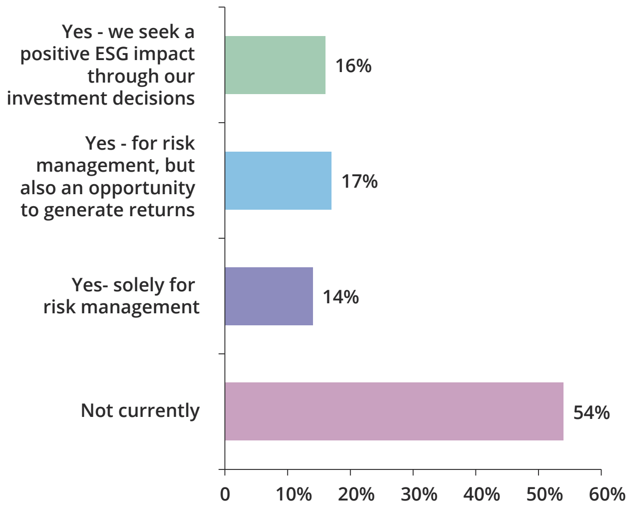


Just under 60% of all hedge funds integrate ESG into investment decisions, including one in four firms stating that they are doing so to seek a positive impact through their investment decisions. Notably, while risk management remains the key objective for hedge funds who are integrating ESG, one in five that we surveyed mentioned that they are also doing so to generate returns.

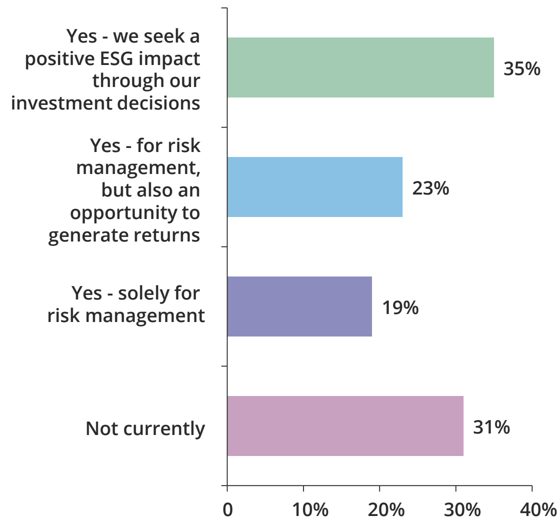
Do you integrate ESG factors into investment decisions?

(Hedge fund managers: by AUM)

a) Less than $1bn



b) Above $1bn



Indicative of their more institutional investor base, larger funds are more actively investing in ESG with almost two thirds of them integrating ESG factors into their investment decisions compared to just under half of all smaller funds that polled. For the latter group, scale is a prerequisite for ESG implementation, with the very smallest funds (in terms of AUM size) typically not considering ESG. On the other hand, were they to consider integrating ESG factors into their business, and these efforts were not seen to hinder performance, this could sway investors to allocate to them.

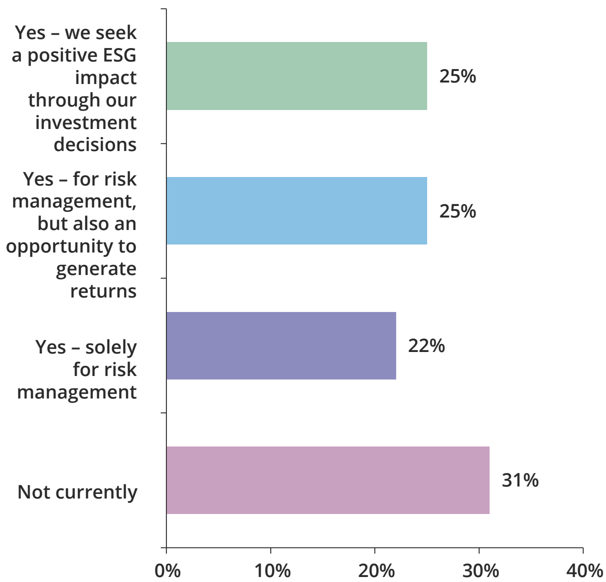
Those who are not integrating ESG factors into investment decision

- 40% of hedge fund managers are not currently integrating ESG factors into investment decisions.
  - The majority of these managers have assets under management of less than $1bn.
  - Half of these managers are from the USA, with 28.8% from the UK.
  - 39% of these managers run long short equity on their flagship fund, with 11% running event driven on their flagship fund.

Do you integrate ESG factors into investment decisions?

a) EMEA

b) APAC



c) Americas

Regional breakdown of ESG adoption.

(a) EMEA

Two thirds of all EMEA based funds report that they are integrating ESG factors into their investment decisions, with just under three quarters of larger managers in the region stating that they are doing so.

With investor demands now being reinforced by regulatory impetus, EMEA based funds are leading the way adopting to ESG and sustainable investment. In Europe, the European Commission's stated ambition is to integrate sustainability considerations into its financial policy framework to mobilise finance for sustainable growth. This entails new rules and changes via the EU Sustainable Finance Action Plan with specific relevance to hedge funds, the Sustainable Finance Disclosures Regulation which comes into effect in March.

The regulatory pressure on environmental, social and governance issues is increasingly growing stronger, vis-a-vis new rules on reporting such data and integrating it into investment decisions to the required disclosure of ESG risk analysis.

'When it comes to their investments, hedge funds generally don't focus on ethical ESG - they focus on ESG from a financial value perspective,' The way the market has evolved, people recognise integrating ESG risks is a great way to eventually generating alpha and making money. It creates "value" even if you don't believe the "values" 'For hedge funds, the relevance of ESG sometimes depends on the asset class and the trading techniques. If you had a high frequency fund ESG risks are not really going to be relevant to investment decisions. Macro funds also struggle a bit in recognising where ESG is relevant.'

**Lucian Firth,
Simmons & Simmons**

(b) APAC:

Just under 70% of APAC based funds report that they are integrating ESG factors into their investment decisions with an equal distribution of large and small funds doing so.

The variety of different fund markets across the region implies that the adoption for ESG can vary. However, the common denominator is the increasing awareness and importance of ESG. An increasing number of Asian asset managers acknowledge ESG as an important non-financial metric that needs to be analysed and accounted for as part of the investment process, particularly with increasing evidence that incorporating ESG can deliver a positive outcome for investors.

The MSCI's 2021 Global Institutional Investor Survey of sovereign wealth funds, insurers, endowments/foundations and pension funds found that 79% of investors in Asia Pacific (and 77% of investors globally) increased ESG investments "significantly" or "moderately" in response to COVID-19, with this figure rising to 90% for the largest institutions (over $200 billion of assets). Fifty-seven percent of APAC investors expect to have "completely" or "to a large extent" incorporated ESG issues into their investment analysis and decision-processes by the end of 2021.

The SFC and various other regulatory bodies in Hong Kong intend to embrace the trend of ESG investing. Around two-thirds of licensed firms active in Hong Kong plan to strengthen their ESG practices in the next two years. The SFC has also stated it intends to achieved the following three outcomes in the near term

- To set expectations of managers in areas such as governance and oversight, investment management, risk management, focussing on environmental risks with an emphasis on climate change
- To provide practical guidance, best practice and training in collaboration with the industry and relevant stakeholders to enhance the capacity of managers to meet SFC's expectations, and
- To establish an industry group to exchange views amongst the SFC and experts in environmental and climate risk, as well as sustainable finance.

> **"ESG is a theme that is not going away, even if market gyrations and a certain amount of natural scepticism sets in after a period of time. Investors want to seek new sources of Alpha; they also want a clean conscience and want their wealth to mould the world in ways of which they approve."**
>
> **Rolfe Hayden,**
> **Simmons & Simmons**

(c) North America

Just over 40% of North America based funds report that they are integrating ESG factors with 60% of larger funds and 30% of smaller funds doing so.

By contrast to EMEA and APAC, while there is increasing investor interest in ESG, regulatory momentum in the US appears to be going the other way, interpreted by some commentators as a bid to stifle the growth of responsible investment in the US. The impact being reflected by the slower rate of adoption being shown by the North America based fund managers surveyed; with almost 60% of them not incorporating ESG.

The US Department of Labour proposed rule changes to pension plans seems counterproductive to progression of ESG implementation in the US. Amidst political and regulatory roadblocks, ESG integration among Americas based managers is likely to take longer. The fear of litigation is holding back the widespread adoption being seen in EMEA and to a certain extent in APAC.

Despite these challenges, interest in ESG investing is prompting more managers to consider incorporating ESG factors into their investment decisions, driven by investors' expectations (particularly on the east and west coast) to move investment to a more sustainable footing.

Further, the positive impact of ESG factors on investment performance (supported by a growing body of evidence) is resonating with fund managers, while the pandemic has made asset owners, globally more concerned about funding socially responsible and resilient business. This momentum shift will see asset managers in the US and elsewhere double down on sustainability, social issues, and climate change.

Secondly, when looking at the breakdown of these regions, the Americas contain a much higher proportion of smaller managers in comparison to EMEA and APAC, and as alluded to above, ESG is a lot less of a primary focus for smaller managers. This is shown in the table below:

"Perhaps with the Biden administration, we will see a different view being shown by US policymakers towards ESG and sustainable investment. Early signs appear promising with the US re-joining the Paris Agreement on climate change."

Steve Nadel, Seward & Kissel

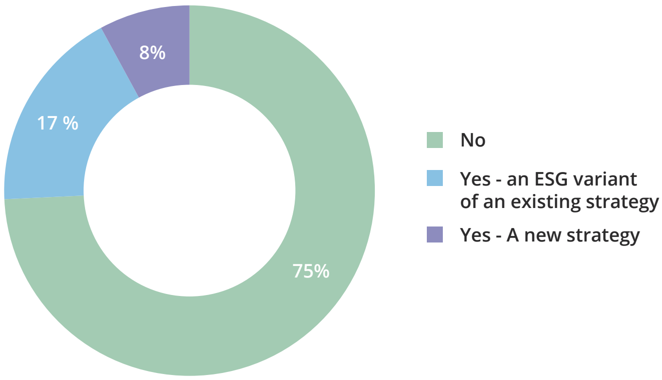
AUM breakdown by region

	Less than $1bn	Greater than $1bn
EMEA	41.2%	58.8%
APAC	31.2%	68.8%
North America	58.9%	41.1%

Plans to launch ESG oriented funds

Do you expect to launch any ESG oriented funds over the next 12 months?

(Hedge fund managers)



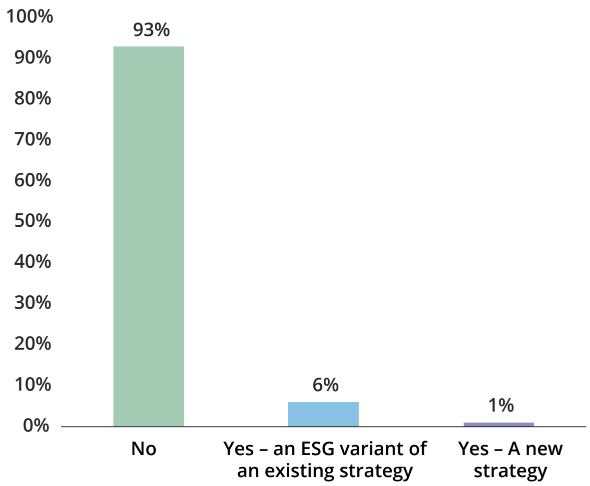
25% of hedge funds are expecting to launch ESG oriented funds over the coming 12 months. While this estimate may appear quite high, the extent to the level of ESG incorporation will vary among hedge funds from those who are simply screening stocks through to finding ways to invest in pure ESG strategies.

Over the same period, 8% of hedge funds are expecting to launch a new ESG strategy. This number is likely to grow over the coming years driven by an increase in demand from investors for pure ESG products, improving ESG data sets and the wider availability of technology that makes it easier to reconcile such data.

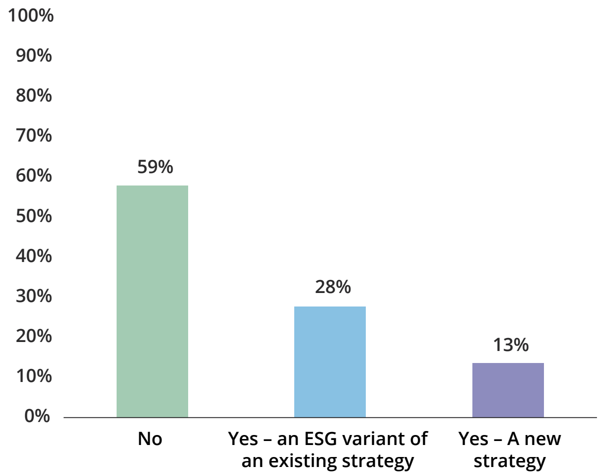
Do you expect to launch any ESG oriented funds over the next 12 months?

(Hedge fund managers: By AUM)

a) Less than $1bn



b) Above $1bn

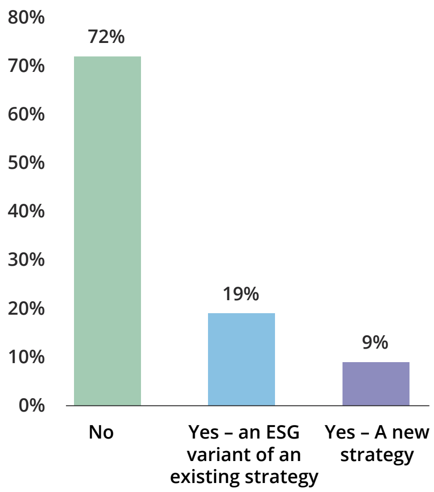


Just over 40% of all larger funds are expecting to launch ESG oriented funds, with only 7% of smaller managers looking to do this. While larger fund managers may have the capacity to have a dedicated ESG team, as well as cater for extra regulatory and compliance needs that come with investing in ESG, smaller managers may not have the dedicated headcount or resources to launch an ESG fund.

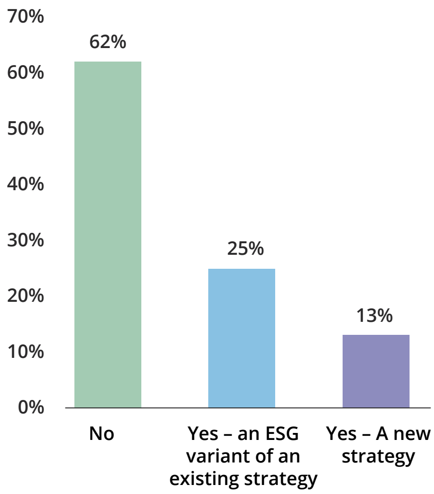
Do you expect to launch any ESG oriented funds over the next 12 months?

(Hedge fund managers region)

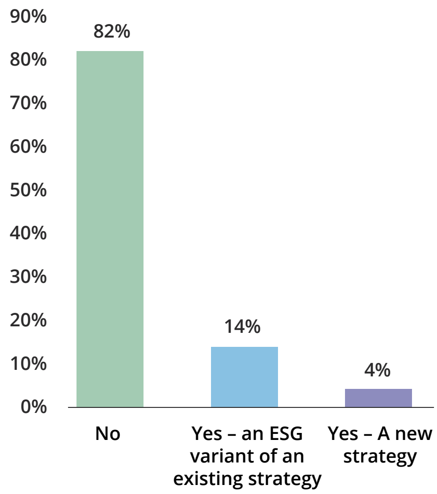
a) EMEA



b) APAC



c) Americas



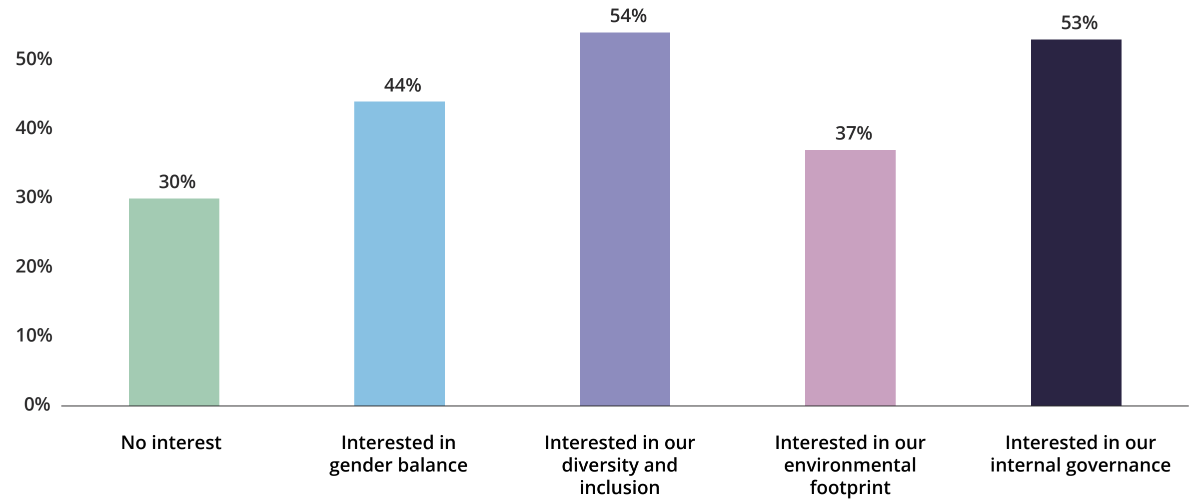
Regional breakdown of plans to launch ESG oriented funds.

Regionally, APAC is leading the way in terms of ESG launches, followed by EMEA hedge funds, while in the Americas only 18% of funds are looking to launch an ESG oriented fund. Unlike in APAC, the implementation of SFDR in the EU will see the costs of implementing ESG be more expensive for funds based there.

When it comes to ESG Asia has become the front runner of global economies. This is partially due to the initiative of governments, and partially to the fact that innovation is intertwined in many environmental initiatives, such as the electrification of vehicles as well as renewable and efficient energy sources, which heavily rely on technology. The speed of adoption of ESG in Asia may also be a function of the fact that the Asia economies have had relative success in containing the pandemic and is set to grow faster than the rest of the world in 2021/22.

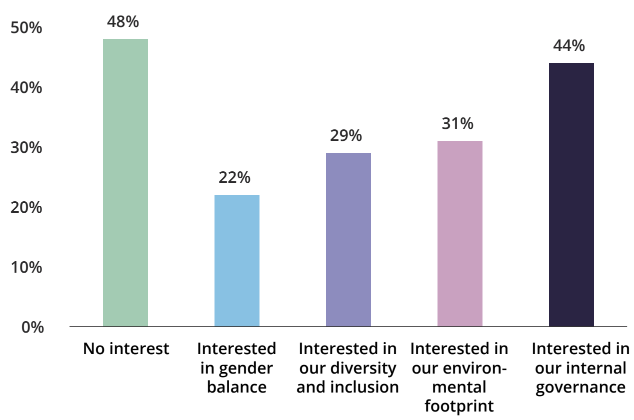
ESG Issues that interest hedge fund clients

At the level of your investment manager, do your clients take an interest in your investment manager level ESG profile (e.g. as part of their due diligence process)? (Hedge fund manager)

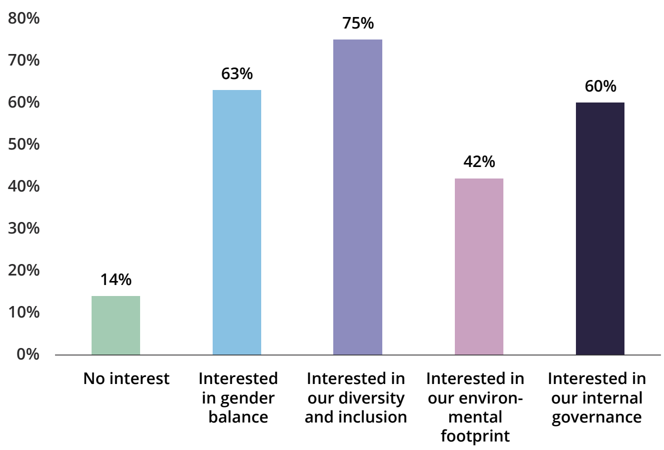


At the level of your investment manager, do your clients take an interest in your investment manager level ESG profile (e.g. as part of their due diligence process)? (By AUM split above and below $1bn)

a) Less than $1bn



b) Above $1bn



- 70% of all funds surveyed say their investors take an interest in their firm's ESG profile.
- 55% of all funds say investors want to know how their firms are engaging on diversity and inclusion issues. Over 40% reported that their investors are interested in gender balance.
- Just over half of all funds state that investors are interested in their firm's internal governance.
- Over one third of all funds state that investors are interested in their firm's environmental footprint.

Investors continue to influence the industry to adopt ESG as the calls for businesses to take greater corporate responsibility become even louder.

From our conversations with hedge funds, it is fast becoming an imperative for them to have an ESG policy at their firm level. At the very least, investors expect hedge fund firms to have considered the merits of doing so. By adopting such policies, firms can demonstrate that they have considered the issues of responsible investment while managing the expectations of their investors. Even if a firm chooses not to pursue a given form of responsible investment, there is still merit in providing a short explanation for not doing so.

With social justice movements growing in influence, diversity and inclusion has become an area of increasing importance for investors with EMEA and APAC based funds highlighting this as their number one area of interest among their investors.

Although only 40% of North America funds highlighted ESG as being of interest to their clients, the momentum for better diversity and inclusion practices in the region continues to grow. North American investors have led the rest of the world in pushing for greater social change, in particular addressing issues on diversity and inclusion.

The trends seen regarding North American investors interests in ESG issues is perhaps indicative of AUM size distribution in the region. While in EMEA and APAC, the hedge fund population largely compromises of larger managers, of the North American hedge fund population, just under 60% have assets under management of less than $1bn
(Please see table AUM breakdown by region)

The pandemic has reinforced the need to address climate change. Tackling climate risks received a welcome boost with President Biden’s decision to rejoin the 2015 Paris Climate Accord. The expectation is for a flurry of new green reforms with a growing consensus that there will eventually be a dramatic policy response that will impact on global financial markets.

As policymakers and investors increase their scrutiny, companies are working to provide more material information about climate change related risks. Initiatives like the TCFD have helped focus companies climate change reporting to provide investors with the relevant information to help inform any decisions they take on climate risks.

Investors have a variety of approaches to manage climate risks. The most common approach is asking their portfolio companies that they invest in to disclose (reduce) their carbon footprint and reduce the use of stranded risk assets.

Climate change and how to address it within investment strategies are also becoming more important for investors. Hedge funds are in an excellent position to deliver on this for their clients. Approaches include screening of securities (exclusionary or inclusionary), integration of ESG factors, thematic and impact investing as well as shareholder engagement.

In the pursuit of delivering ESG solutions, efforts to incorporate metrics to include how best to incorporate climate risks at the firm and portfolio level will increase.

Section 7:
Digitalisation of the Industry

Acceleration of Digitalisation Trend

The events of the past year have prompted many managers to ramp up their technology efforts.

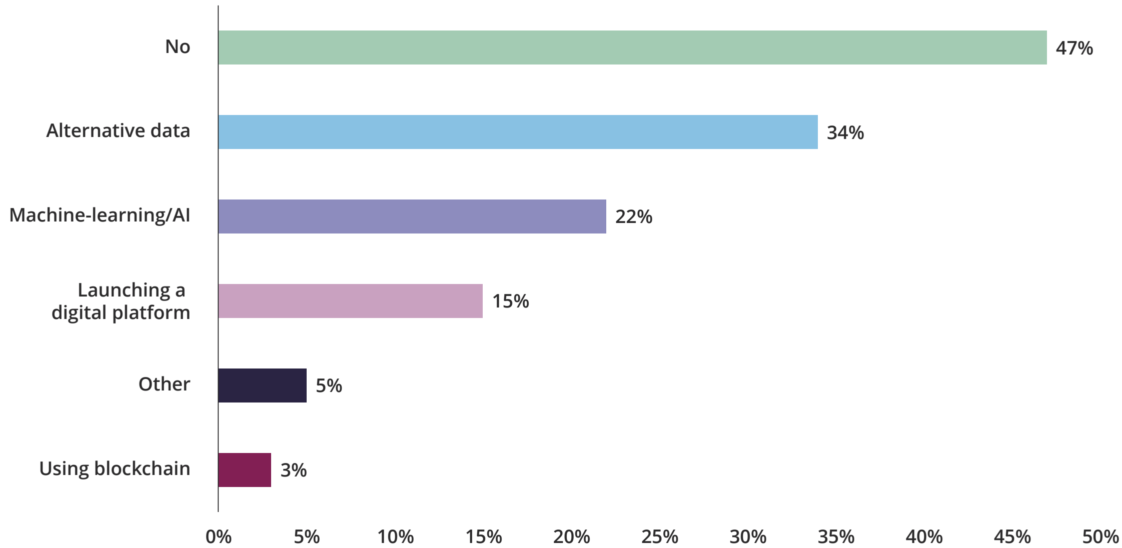
Attempts to run operations during the lockdown accentuated the urgent need for change with firms investing to improve their business digital infrastructure and ICT capabilities. Digital tools (such as video conferencing and virtual data rooms) have become the norm for asset managers and investors that have had to operate throughout in a decentralised environment.

"The industry is at a point of inflection and faces a mix of technological, regulatory and client drivers, which are re-shaping it. Asset managers are shifting the focus away from the products to the client. Digital technology will allow the industry to create bespoke solutions for clients tailored specifically to their individual needs."

Darren Fox,
Simmons & Simmons

Is your firm investing in new technologies?

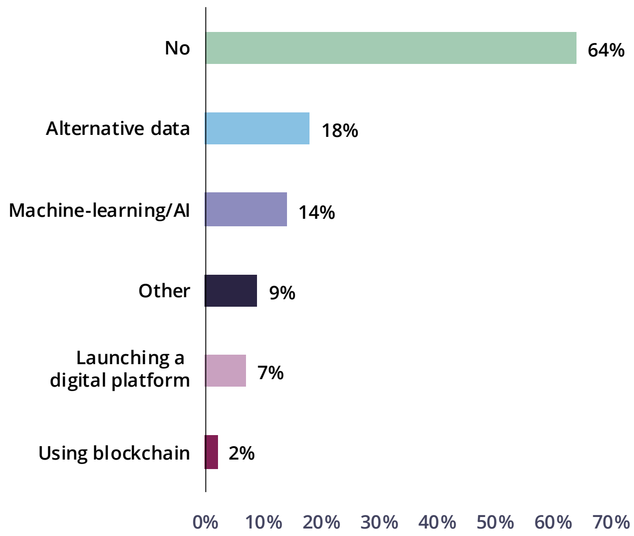
(Hedge fund managers)



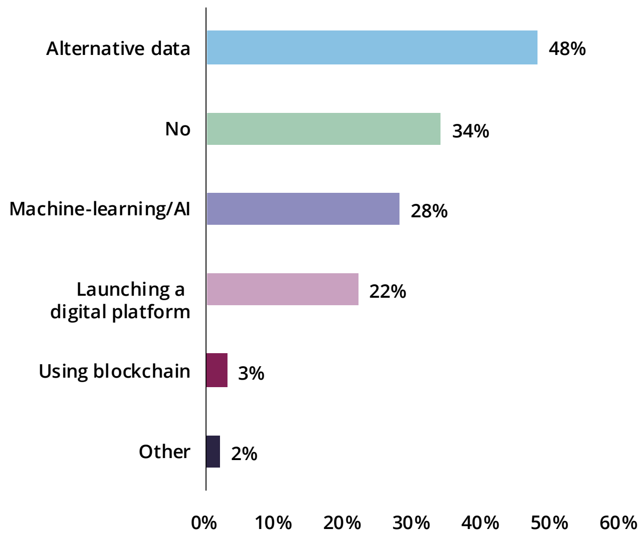
Is your firm investing in new technologies?

(By AUM billion dollar above and below)

a) Less than $1bn



b) Above $1bn



50% of firms are investing in new technologies. Larger firms with deeper pockets are being more active in their technology investment than smaller firms. Many firms have started to include the use of alternative data as a key part of their business-decision making processes, with one in three firms investing in alternative data.

Related to the popularity of alternative data, almost a quarter of all hedge funds are now investing in machine learning and artificial intelligence as firms seek a legitimate information edge to meet their client's investment needs in both efficiently managing risk and generating alpha.

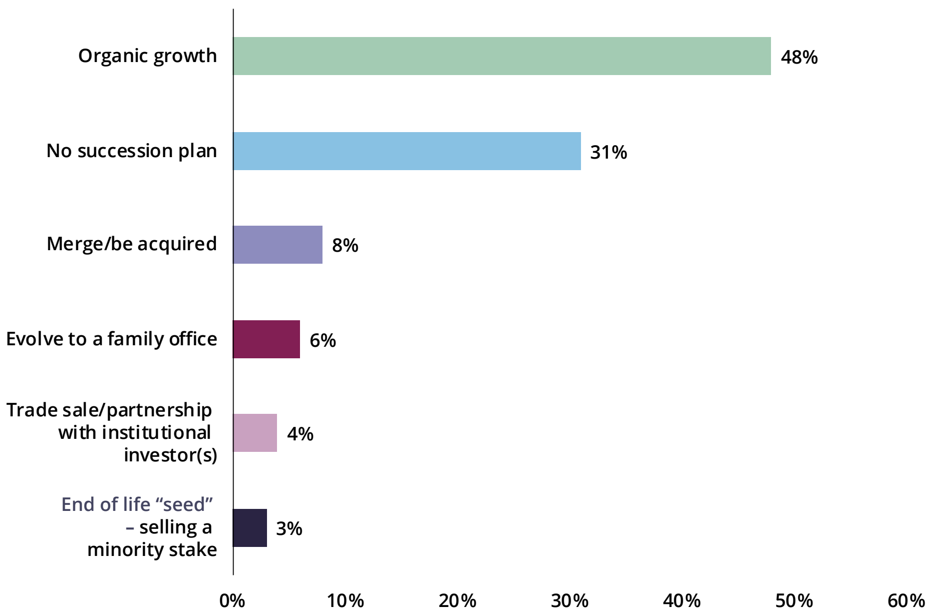
Elsewhere, the ecosystem for digital assets is continuing to develop. Albeit a modest number reported that they invest in blockchain, an increasing number of hedge fund investors are examining opportunities in blockchain and the distributed ledger technology (DLT) space.

Section 8:
People Issues/Succession Planning

While the hedge fund industry contends with an increasingly diverse talent pool, it is also grappling with the question as to what to do with the direction of the hedge fund including its principals. As highlighted earlier in this report, key person risk has moved up the list of priorities for firms to consider given the recent events of the past 12 months (see for reference internal challenges). Related to this, institutional investors are asking hedge funds what their plans are in building a firm for the future and to what extent succession planning will play a part in this.

What is your firm's succession plan?

(Hedge fund manager)

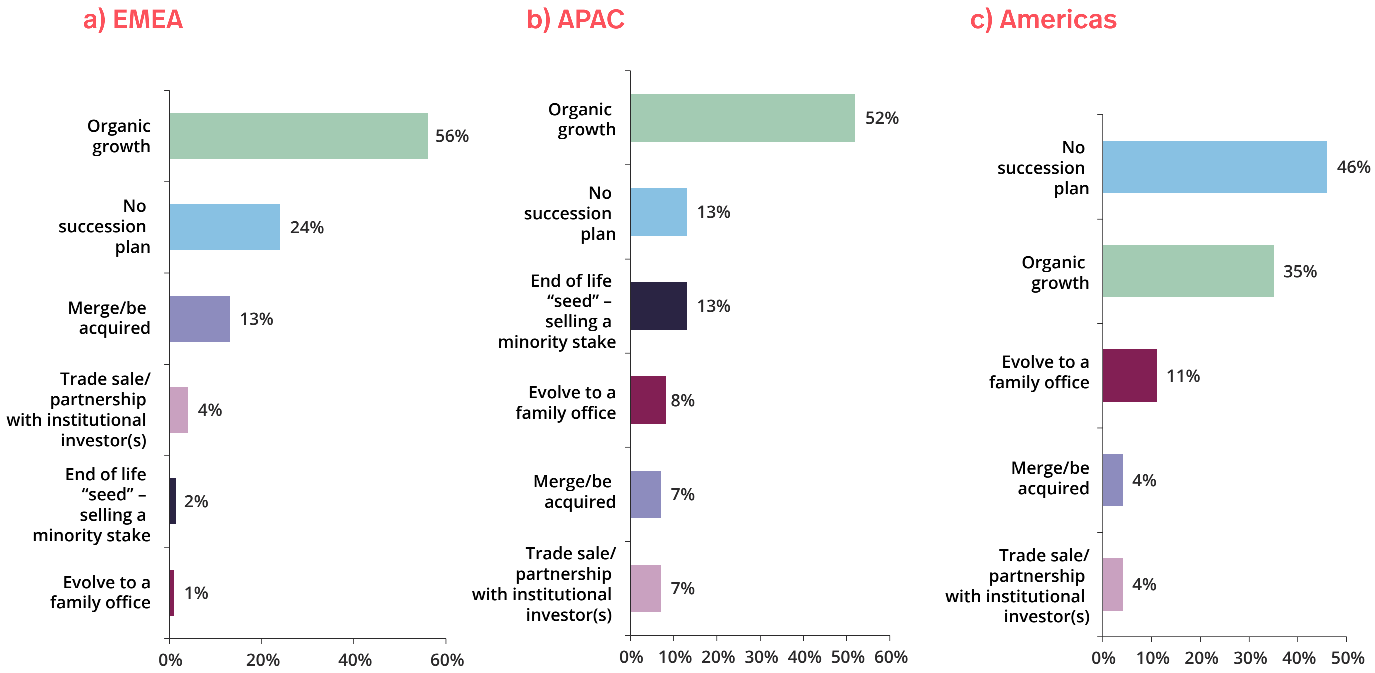


Two out of three firms are considering a succession plan. The most popular form of succession planning is via organic growth of the firm. Not only does this relate to the firm's principals, but also to the extent that the firm has considered succession across its main business lines.

Arising from our conversations with managers, hedge fund operations are less likely to centre on a star performer, rather on a team of skilled individuals, each of them with different specialisations.

What is your firm's succession plan?

(Hedge fund manager: region)



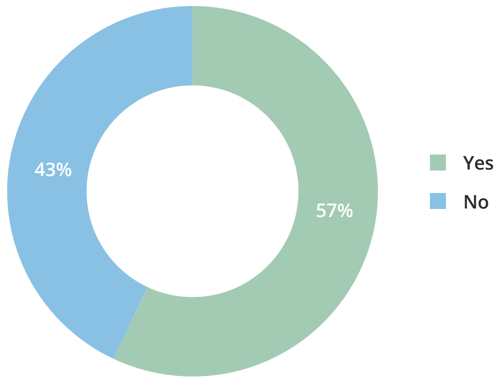
Selling equity to a third party to establish themselves as an enduring business is a popular succession plan approach for hedge funds. Such equity is already being bought by asset managers. Further selling equity provides hedge fund firms with an infusion of capital (which can be used to meet the increasingly expensive infrastructure demands faced by the industry), but it also acts as a statement of a firm's intent to continue as a going concern for its investors. APAC managers appear to be most predisposed to selling a minority stake in their business (13% of all respondents) compared to none among Americas based managers and just 1% of EMEA based managers

Section 9:
Tailored Solutions

The alignment of interests between managers and investors continues to strengthen. The appeal for customised arrangements, like separately managed accounts and funds of one continues to grow in popularity.

Is your firm exploring Managed Accounts?

(Hedge fund managers)

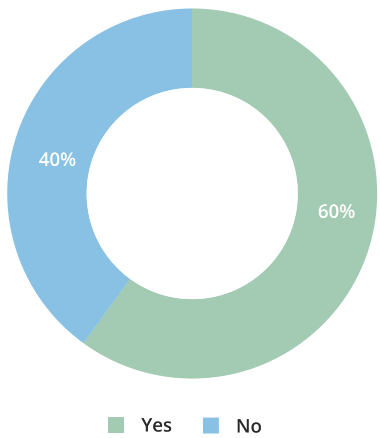


This change reflects a growing trend within the hedge fund industry as it moves away from the product-led environment of the past to a marketplace increasingly populated by more bespoke investor solutions and value advisory services.

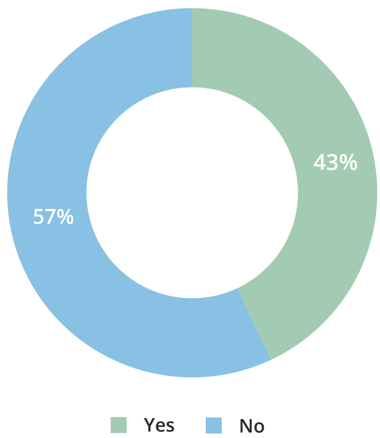
Is your firm exploring Managed Accounts?

(Hedge fund managers: by region)

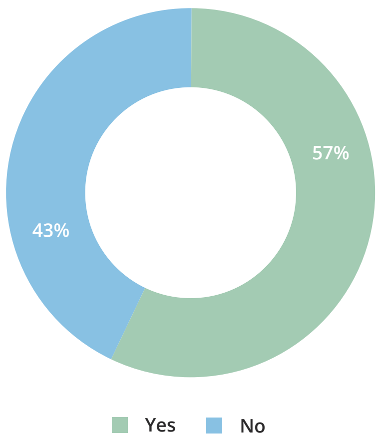
a) EMEA



b) APAC



c) Americas



While the majority of EMEA and Americas based managers are now using managed accounts, the APAC region is still in the earlier stages of adoption, with fewer investors allocating to this vehicle than elsewhere. Some managers that we spoke to are not considering separately managed accounts given the operational burden in managing these as well as the potential risk of alienating existing investors in their commingled fund structure.

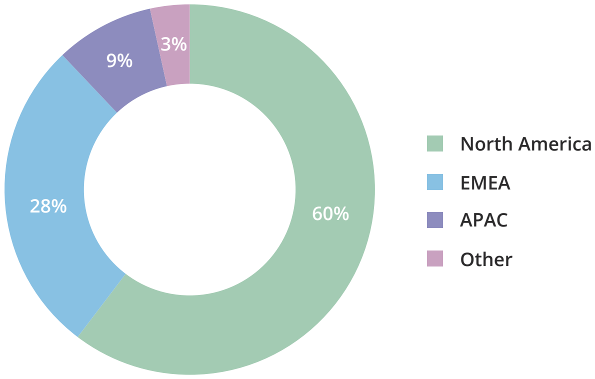
At the same time, managers appreciate that institutional investors preference is for arrangements of this type and so is therefore necessary to accept them as they look to grow their assets under management.

Managed accounts and other tailored solutions are proving particularly useful for investors and managers who are building an interest in more niche areas of the market, like the development of ESG solutions.

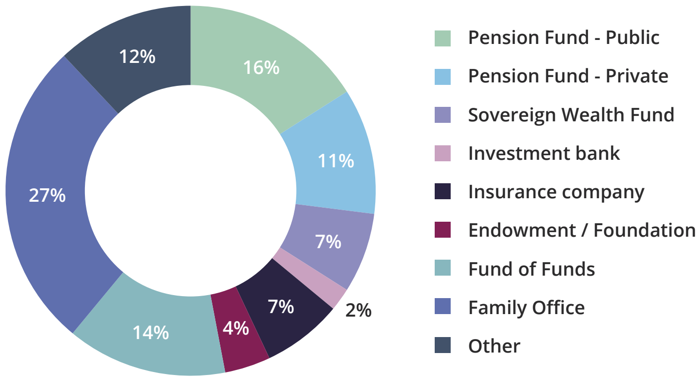
PART 2
The Investor View

Overview

Regional breakdown of investors



How would you describe your primary business?
(Investor type)

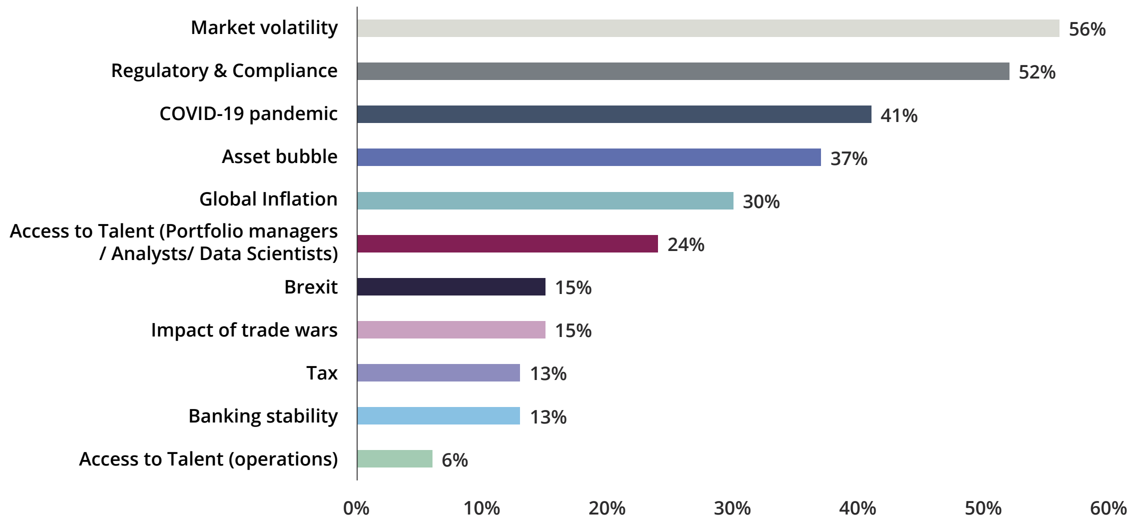


59 investors in total participated. Most investors (60%) that surveyed were from North America with just over one quarter of respondents being from EMEA and 9% from APAC region.

From this total, just over one quarter of respondents were pension plans (16% public pension plans, 11% private pension plans), one quarter were family office investors, 14% were fund of fund investors and 7% were sovereign wealth funds.

Industry Challenges facing the hedge fund industry:

Industry challenges facing the hedge fund sector over the coming 12 months
(Investors)



Top three industry challenges facing the hedge fund sector over the coming 12 months:

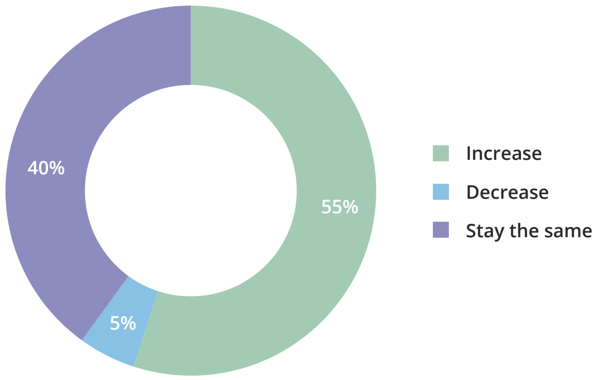
Like the view from the hedge funds who responded, the three biggest challenges for investors were (i) navigating market volatility, (ii) variety of regulatory and compliance issues both globally and local to the three main regions, (iii) COVID-19 related issues.

From the regional conversations held with investors; in addition to navigating market volatility, North American allocators highlighted the potential for an asset bubble in equity markets and global inflation as being among the leading challenges for hedge funds to contend with this year. By contrast, APAC investors considered the third biggest challenge for hedge funds over the coming 12 months is their ability to attract, extract and retain talent, made more challenging with the industry being forced to work remotely for the past year.

Allocation trends over the coming 12 months

To what extent are you looking to allocate to hedge funds in the next 12 months?

(Investors)



The strong hedge fund performance in navigating a series of market drawdowns during 2020 has not gone unnoticed by investors. This sentiment has been loudly echoed through conversations we have held with asset allocators who are reinforcing their interest in alternative investment funds.

Just 5% of investors that surveyed are decreasing their allocation to hedge funds, with 55% of the total number planning to increase their investment. There is a similar trend across the regions, with most investors looking to increase allocation to hedge funds, while only a small few are looking to decrease allocation to hedge funds.

Among the different investor types, the majority seemed to be looking to either increase their allocation to hedge funds or keep it the same. Only insurance companies and private pension funds are looking to decrease their allocation, although both are net positive regarding their allocation to hedge funds this year.

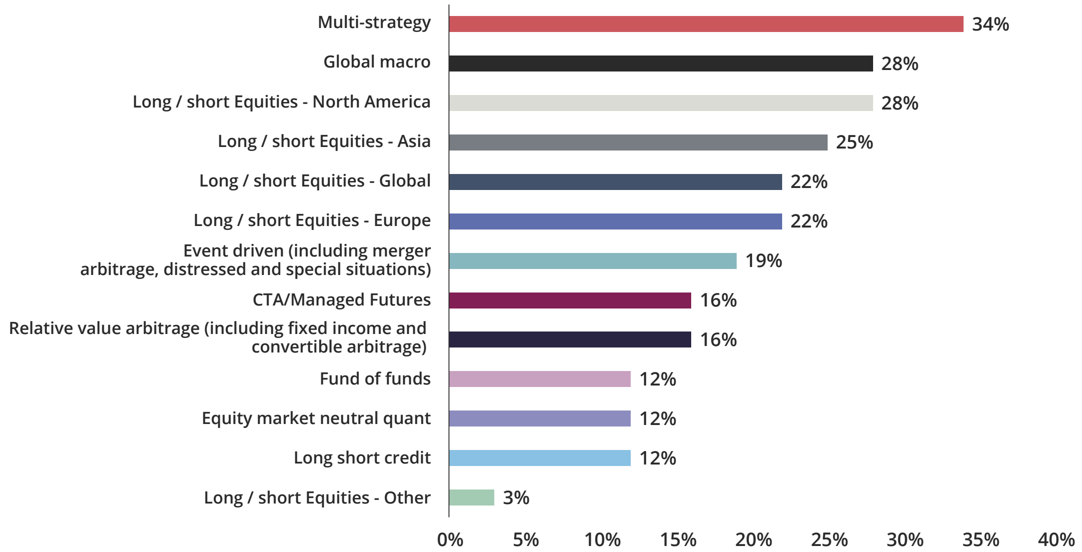
Strong hedge fund performance through 2020 in navigating a series of market drawdowns has not gone unnoticed by investors who report that hedge fund allocations have either met or exceeded their expectations.

With the industry continuing to report strong performances, there is a growing consensus that the hedge fund industry will record its first year of net inflows since 2017.

What strategies?

Where are you looking to increase (or decrease) your allocation?

(Investor)



Following strong performances through 2020, multistrategy, hedged equity (including long-only) and global macro strategies are among the most popular hedge fund strategies primed for investment.

Among the other more popular strategies for investors that surveyed, one in five suggest that they will allocate to event driven and distressed strategies. Coming out of the pandemic, investors are positioning themselves for improved economic activity with M&A activity expected to accelerate in the second half of this year. The strategy has started the year well, yielding positive returns for investors in comparison to equities and bond markets enduring a more challenging start to the year.

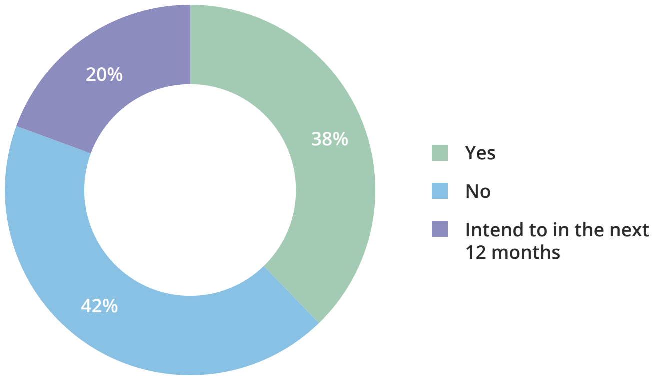
Despite a challenging past year for several high profile quantitative managers particularly those that offer risk premia products investors are not losing faith just yet in them bouncing back this year. Despite CTAs/Managed Futures funds enduring a difficult period in the first half of last year, most of them recovered strongly in Q4. Their lack of correlation to equities and ability to deliver returns regardless of market direction continues to be of appeal to investors.

ESG & Responsible Investment:

For the hedge fund view, please go to **section 6**.

Have you allocated to any ESG oriented funds yet/do you intend to?

(Investors)



A growing number of investors continue to deploy ESG to deliver double bottom line benefits. For reasons aforesaid (Section 6 of the report) demand for ESG from investors continues to outweigh the supply of solutions delivered by hedge funds. Investors are demanding more information about ESG risks in their portfolios given the explosion of interest in ESG and sustainable investing. Significant progress has been made but the scale of adoption remains hampered by the availability of good quality data for hedge fund managers to assess ESG risk factors. Spurred by a regulatory push for ESG adoption in both EMEA and APAC, better quality ESG data sets and the wider availability of technology to extrapolate new forms of data to help ascertain ESG risks, we expect to see many more hedge funds exploring and offering ESG oriented funds.

Almost 60% of all respondents have allocated to or intending to allocate to ESG oriented funds. Among the regional respondents, the distribution of results is very similar, with 40% of investors saying they will allocate to ESG funds. However, 27% of EMEA investors intend to in the next 12 months, while only around 20% do in the other regions, indicative of the greater appetite for ESG and sustainable investment strategies in the EMEA region.

AIMA

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SEWARD & KISSEL LLP

AIMA:

The Alternative Investment Management Association (AIMA) is the global representative of the alternative investment industry, with around 1,900 corporate members in over 60 countries. AIMA's fund manager members collectively manage more than $2 trillion in hedge fund and private credit assets.

AIMA draws upon the expertise and diversity of its membership to provide leadership in industry initiatives such as advocacy, policy and regulatory engagement, educational programmes and sound practice guides. AIMA works to raise media and public awareness of the value of the industry.

AIMA set up the Alternative Credit Council (ACC) to help firms focused on the private credit and direct lending space. The ACC currently represents over 170 members that manage $400 billion of private credit assets globally. AIMA is committed to developing skills and education standards and is a co-founder of the Chartered Alternative Investment Analyst designation (CAIA) – the first and only specialised educational standard for alternative investment specialists. AIMA is governed by its Council (Board of Directors).

For further information, please visit AIMA's website, **www.aima.org**

Simmons & Simmons LLP:

Collaborative, agile and partner-led: that's Simmons & Simmons. A law firm that challenges, creates new possibilities and offers opinion not just option. A law firm that acts as your business partner and works with you, not for you.

We focus on four highly regulated sectors (asset management and investment funds, financial institutions, healthcare and life sciences and technology, media and telecommunications) – using our specialist skills to understand your business, and the forces at play around it. All grounded in exceptional knowledge of the legal detail. This is how we consistently deliver smarter, more efficient ways to tackle our clients' most complex challenges.

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Seward & Kissel:

Seward & Kissel is home to one of the largest and most recognized hedge fund practices in the world, having formed what is considered to be the very first hedge fund, A.W. Jones & Company, in 1949. Our clients represent many of the largest hedge fund managers, based on gross fund assets managed, in the industry, as well as start-up and emerging managers. Our experience providing services to hedge funds extends beyond legal counsel – drawing on our extensive experience and industry network, we help our clients achieve practical solutions within a complex legal and regulatory framework. We have worked with advisors, managers and institutional investors globally.

Our hedge fund clients utilize a wide range of investment strategies, including but not limited to long-short equity, **credit and distressed**, quantitative, macro, activist, fund of funds, industry-specific, **commodities** event-driven, multi-strategy and structured products.

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