HEDGE FUND RESEARCH REPORT

Insights from 100 leading hedge fund managers on major trends reshaping the industry.

2022

sigtech

Unlock the true value of financial data

Foreword

In the annual SigTech Hedge Fund Report we surveyed 100 leading global hedge funds. The participating managers are well represented across all major hedge fund strategies and offer a good mix of those applying both systematic and discretionary investment processes. Collectively they oversee around $194 bn in assets under management.

In general, it is a healthy environment for hedge funds, with allocation from institutional investors expected to rise. As markets brace for uncertainty, investors expect hedge funds to offer positive returns while reducing portfolio risk. Focusing on the quant hedge fund market, there is strong consensus that the number of both systematic hedge fund managers and quantitative investment strategies will rise over the coming years.

Quantification is one of the most significant trends in the hedge fund industry, with no sign of abating. Discretionary funds show a growing propensity to systematise parts of their investment process, be it in the widening of their product range to include quant funds or the integration of systematic analytics.

Furthermore, as the scalability of the IT infrastructure (e.g. data management and analytics) offered by specialist technology providers now exceeds what most firms can build and maintain themselves - both from a know-how and cost perspective - there is a strong demand for outsourced solutions offered by third-party specialists.

The combination of high volatility and a nascent market structure explains why hedge funds see digital assets (e.g. cryptocurrency) as the best opportunity for generating alpha. In addition, adoption rates of advanced analytical methods such as machine learning and artificial intelligence are rising fast.

Given the recent turmoil in the financial markets, hedge funds are in a prime position to show their true value for investors; having the ability to deliver absolute returns in any market environment. However, to stay competitive and to profit from the general quantification of the industry, hedge funds need to continue investing in new technology and data.

Daniel Leveau,
VP Investor Solutions at SigTech

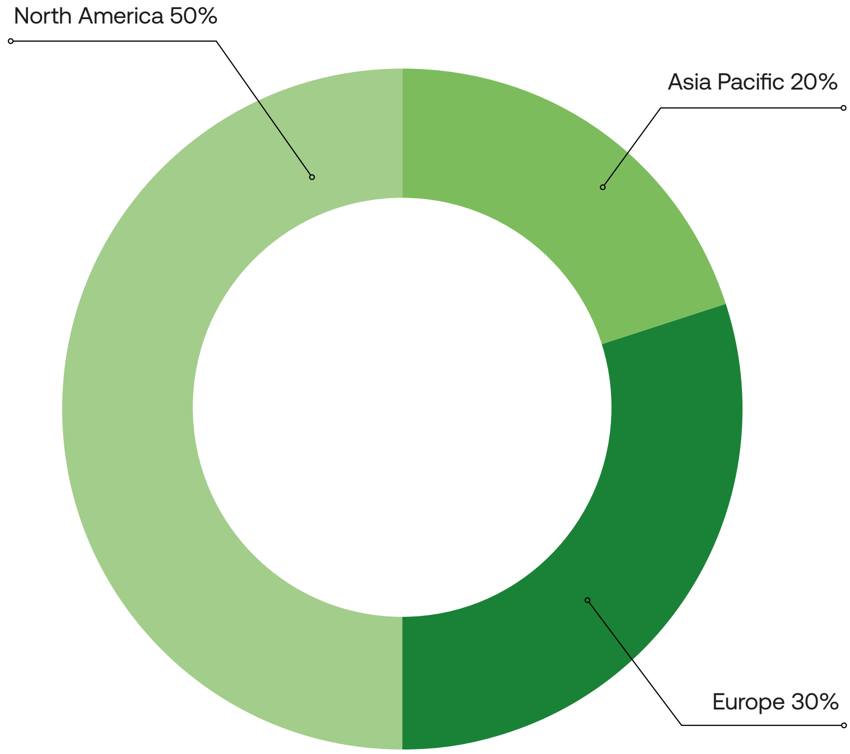
83% anticipate an increase in allocation to hedge funds

95% believe accessing high quality data and cutting-edge technology is key to generating alpha

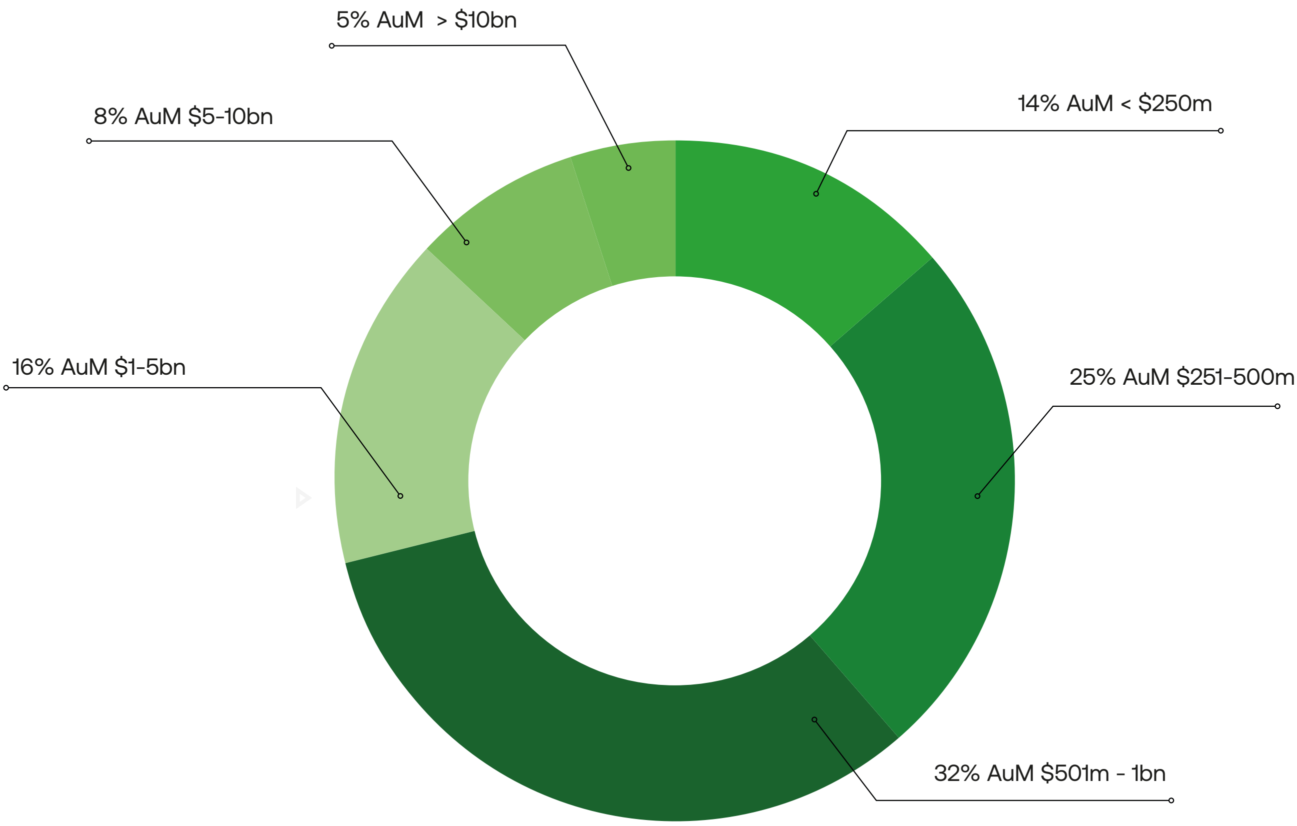
85% anticipate a rise in the trading of digital assets

95% expect an increased use of quant analytics by discretionary managers

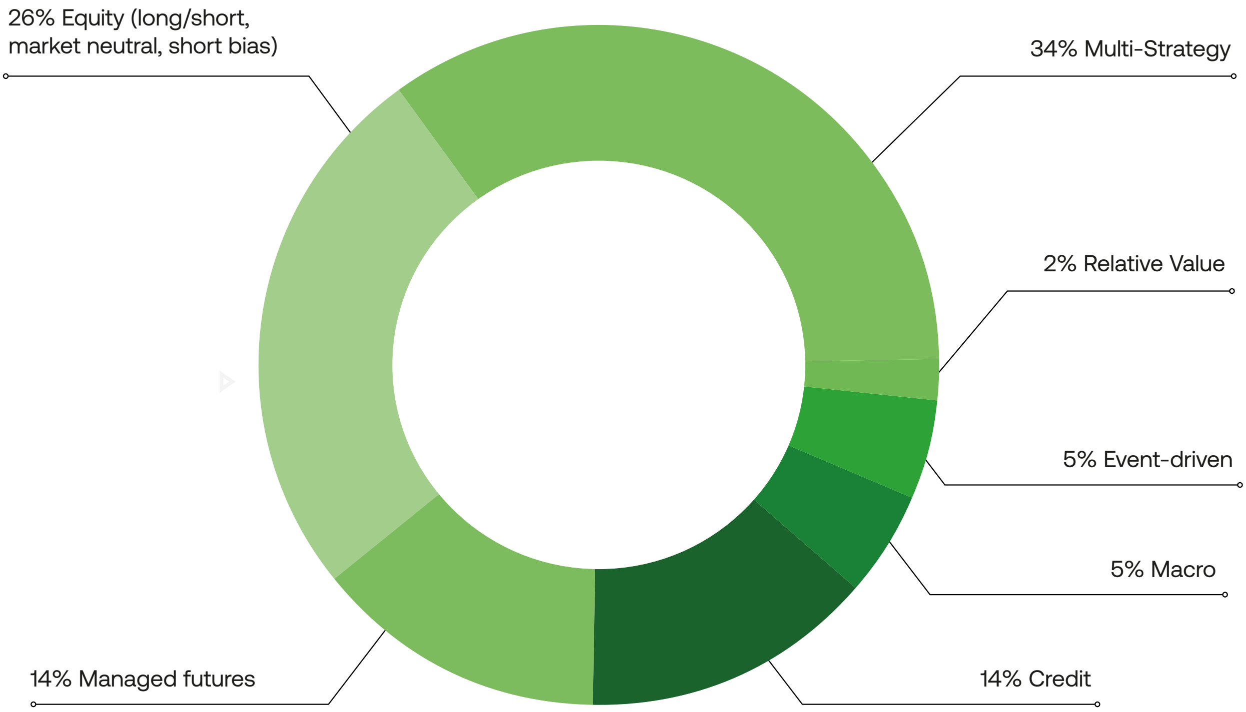
A survey of industry experts



We surveyed 100 leading hedge funds across North America, Europe and the Asia Pacific region collectively overseeing around USD 194 billion in assets under management. The interviews were conducted in Q2 2022.

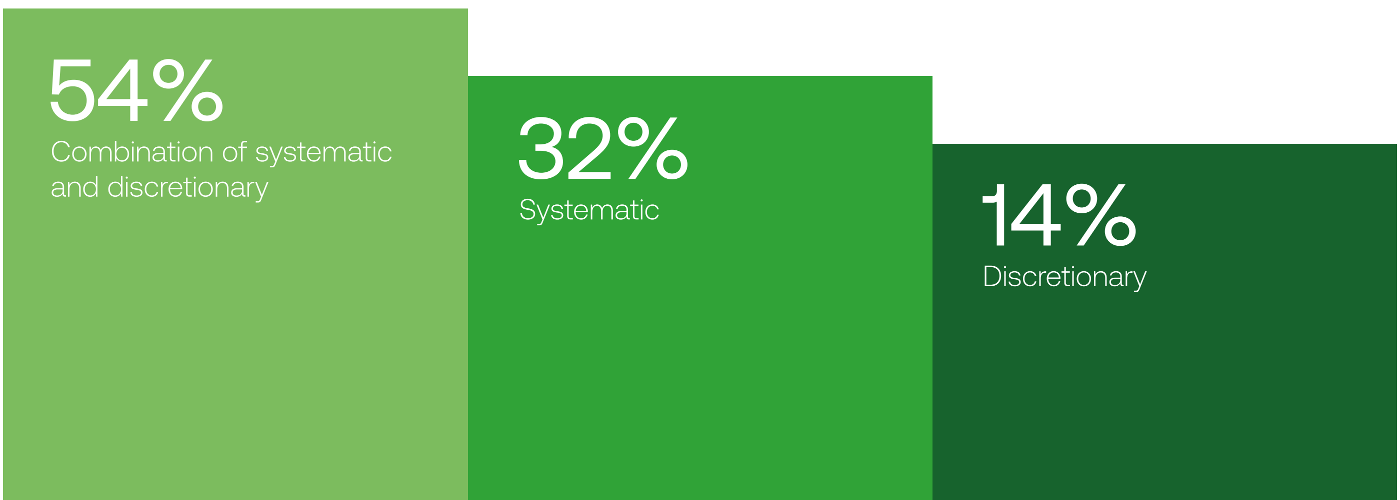


Fund managers from all major hedge fund categories represented



The managers surveyed represent all major hedge fund categories. It is noteworthy that the majority of hedge funds surveyed now apply a combination of systematic and discretionary analysis. This underscores the dominant trend among discretionary funds; the integration of systematic analysis into their investment processes.

How would you describe the investment process of the hedge fund firm you work for?



Over the next two years, how do you see allocation levels to hedge funds in general from institutional investors change?

60%
Increase dramatically

23%
Increase slightly

12%
Stay the same

4%
Decrease

1%
Don't know

Increasing demand for hedge funds

Four out of five managers expect institutional investors to increase their allocation to hedge funds over the next two years. This is predominantly due to hedge funds being expected to generate absolute returns, mitigate risk, and improve overall portfolio diversification irrespective of prevailing market conditions.

What are the main reasons for institutional investors to allocate to hedge funds over the next 5 years?

(1 having the highest impact, 4 the lowest)

1 To mitigate risks and improve overall portfolio diversification

2 Hedge funds expected to generate absolute returns in any market environment

3 Attractive risk-adjusted returns

4 Low return expectations for standard asset classes

How do you see institutional investors' allocation to quantitative investment strategies changing over the next two years?

28%
Increase dramatically

57%
Increase slightly

14%
Stay the same

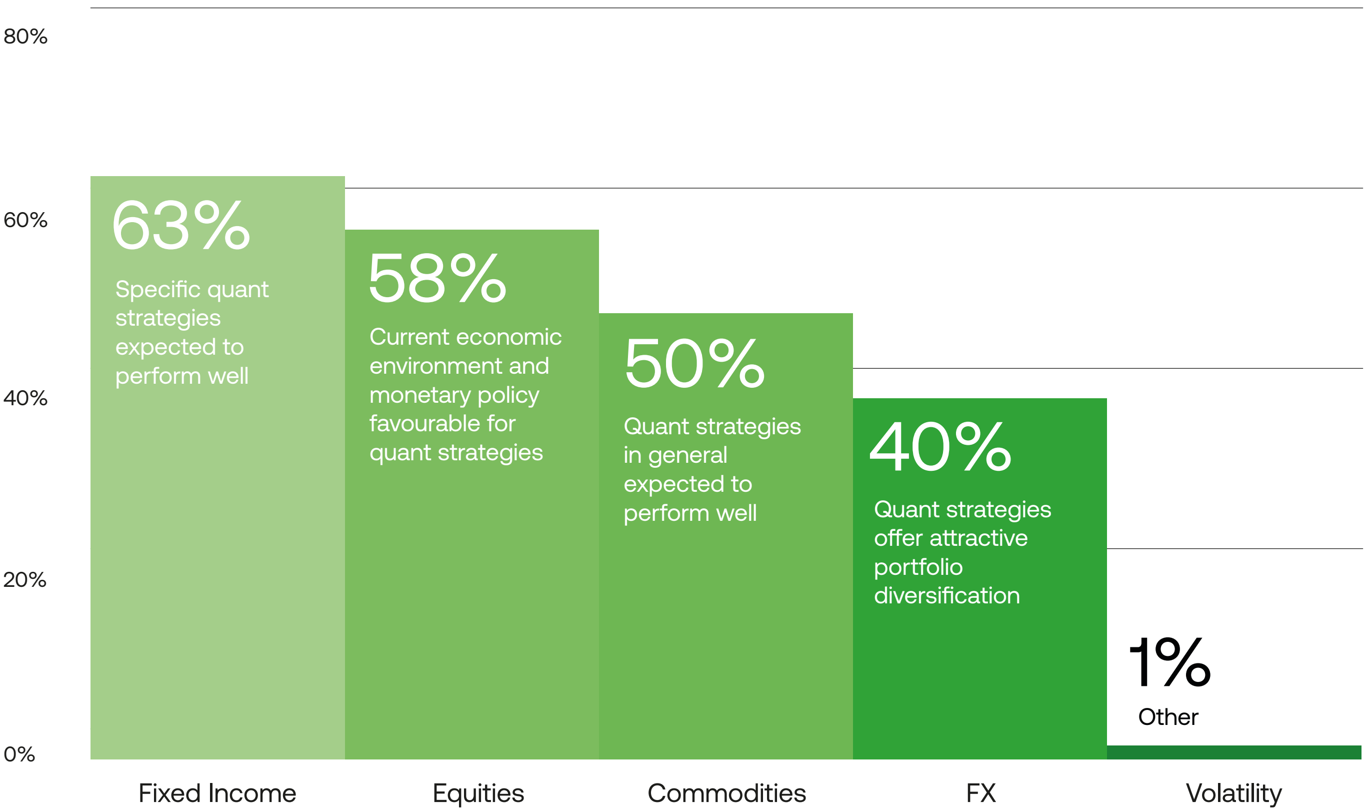
1%
Decrease

Quant funds expected to see inflows

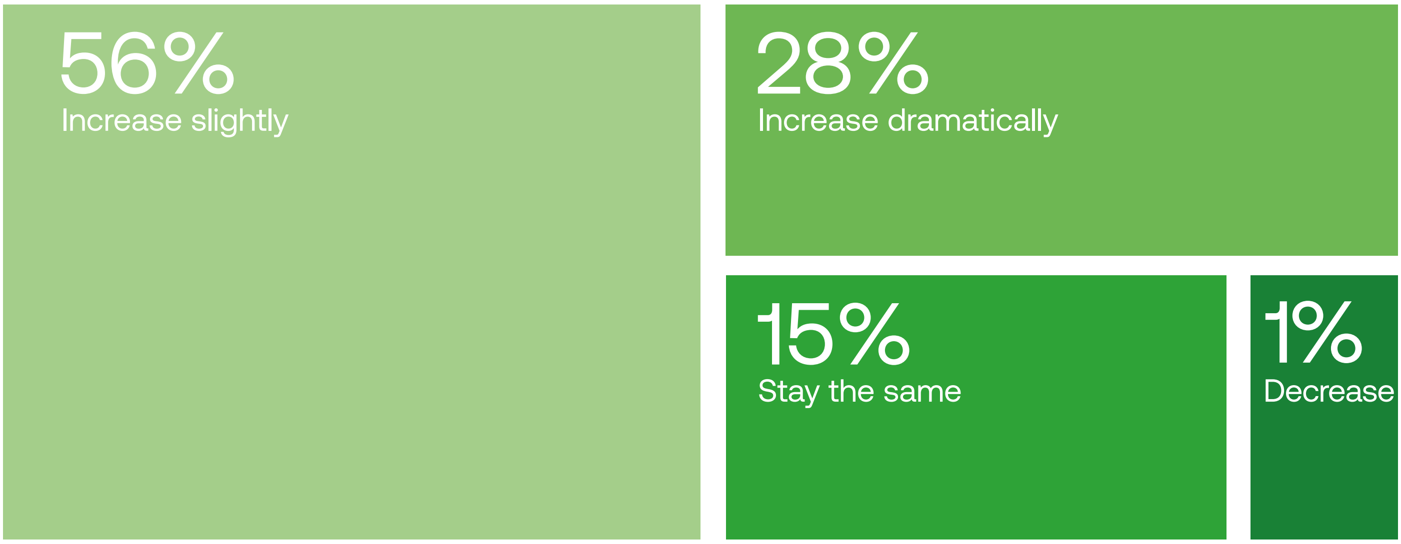
As with hedge funds generally, quantitative investment strategies are expected to enjoy continued inflows. Driving this trend are expectations of strong performance from specific quant strategies and an economic environment favourable to quantitative approaches.

If you think allocations to quantitative investment strategies will increase, why is this?

(Multiple replies possible)



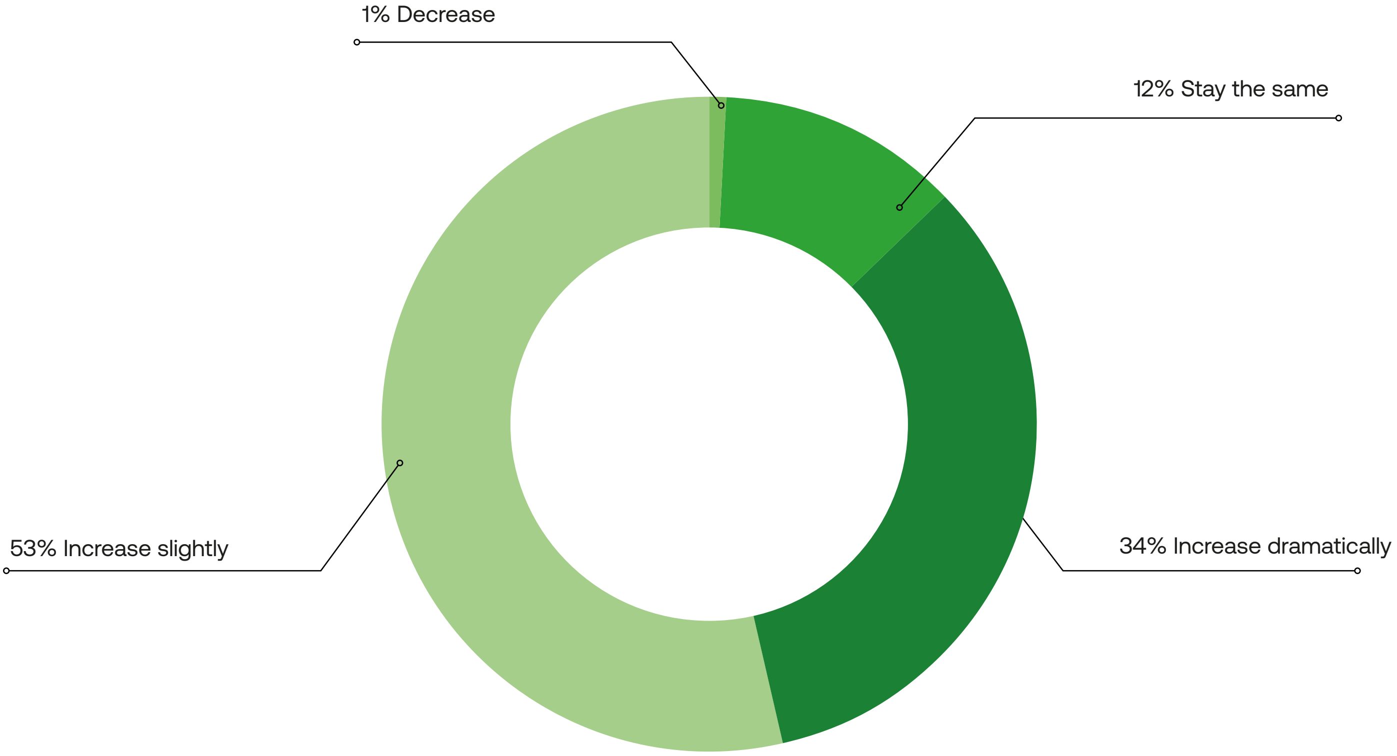
How do you see the number of quantitative investment strategies being launched changing over the next two years?



Quantification of the hedge fund industry

Hedge fund managers, by exploiting the rapid and relentless technological advancements within the industry, are expected to find new ways of generating alpha and efficiently scaling their business functions. Consequently, quantitative hedge fund managers and quantitative investment strategies are expected to proliferate over the next two years.

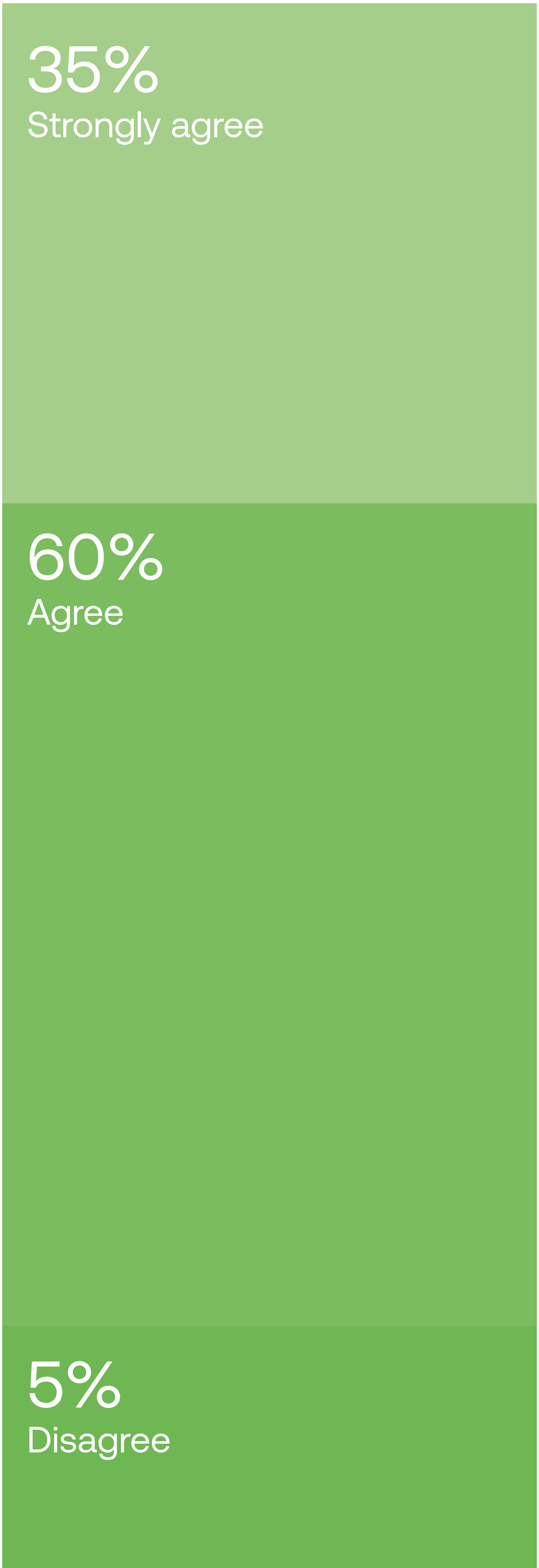
How do you see the number of quantitative hedge fund managers globally changing over the next five years?



Discretionary hedge fund managers are increasingly making use of systematic analysis and tools in their investment processes. How strongly do you agree?

Discretionary managers are embracing systematic analytics

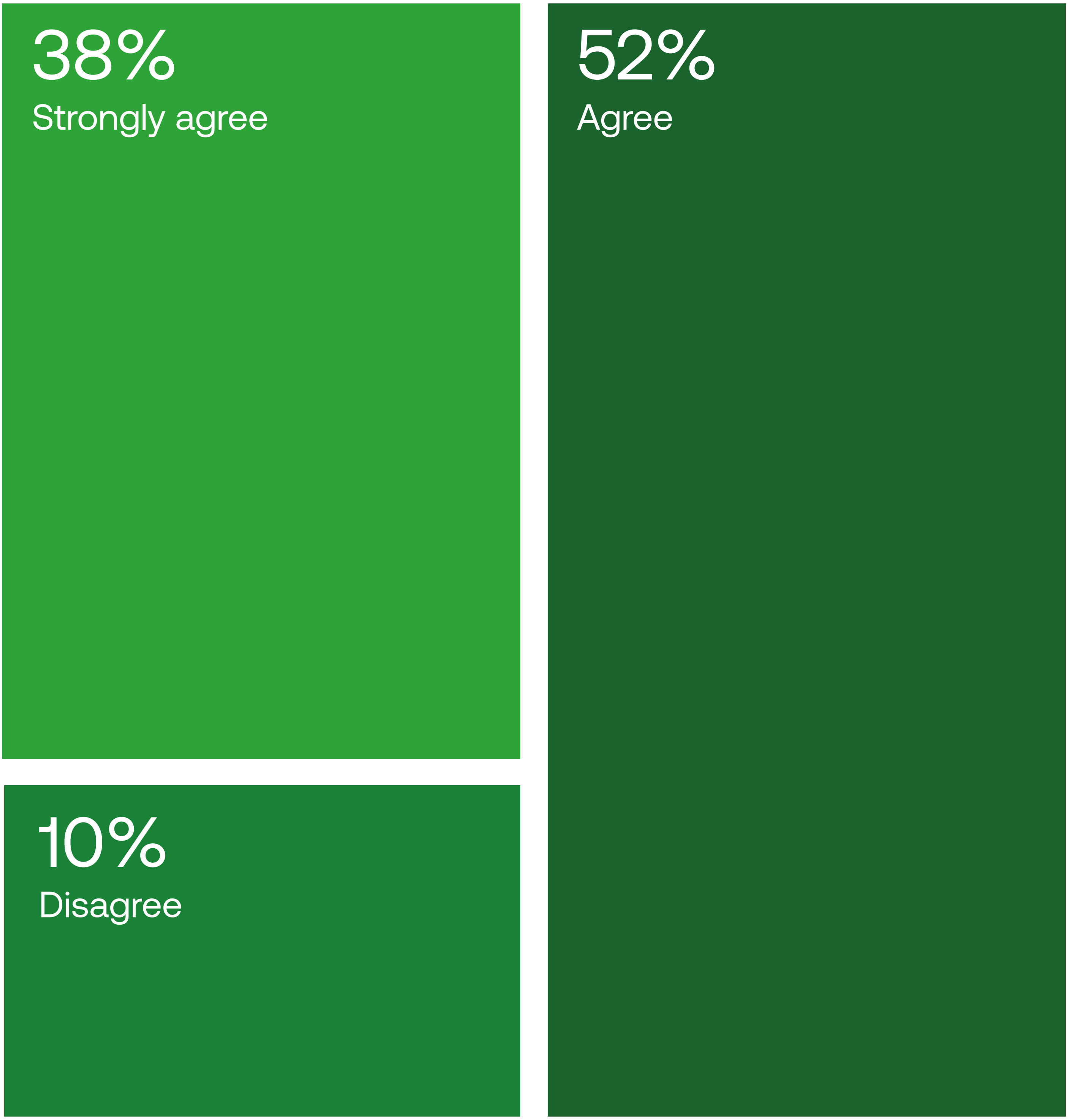
The digitisation of the investment industry has long been an observable trend and shows no signs of abating. To avoid obsolescence, discretionary funds show a strong propensity to systematise parts of their investment processes, be it in the widening of their product range to include quant funds or the integration of systematic analytics.



Institutional investors are increasingly demanding a higher level of transparency about hedge fund managers investment processes. How strongly do you agree?

Institutional investors demand higher transparency

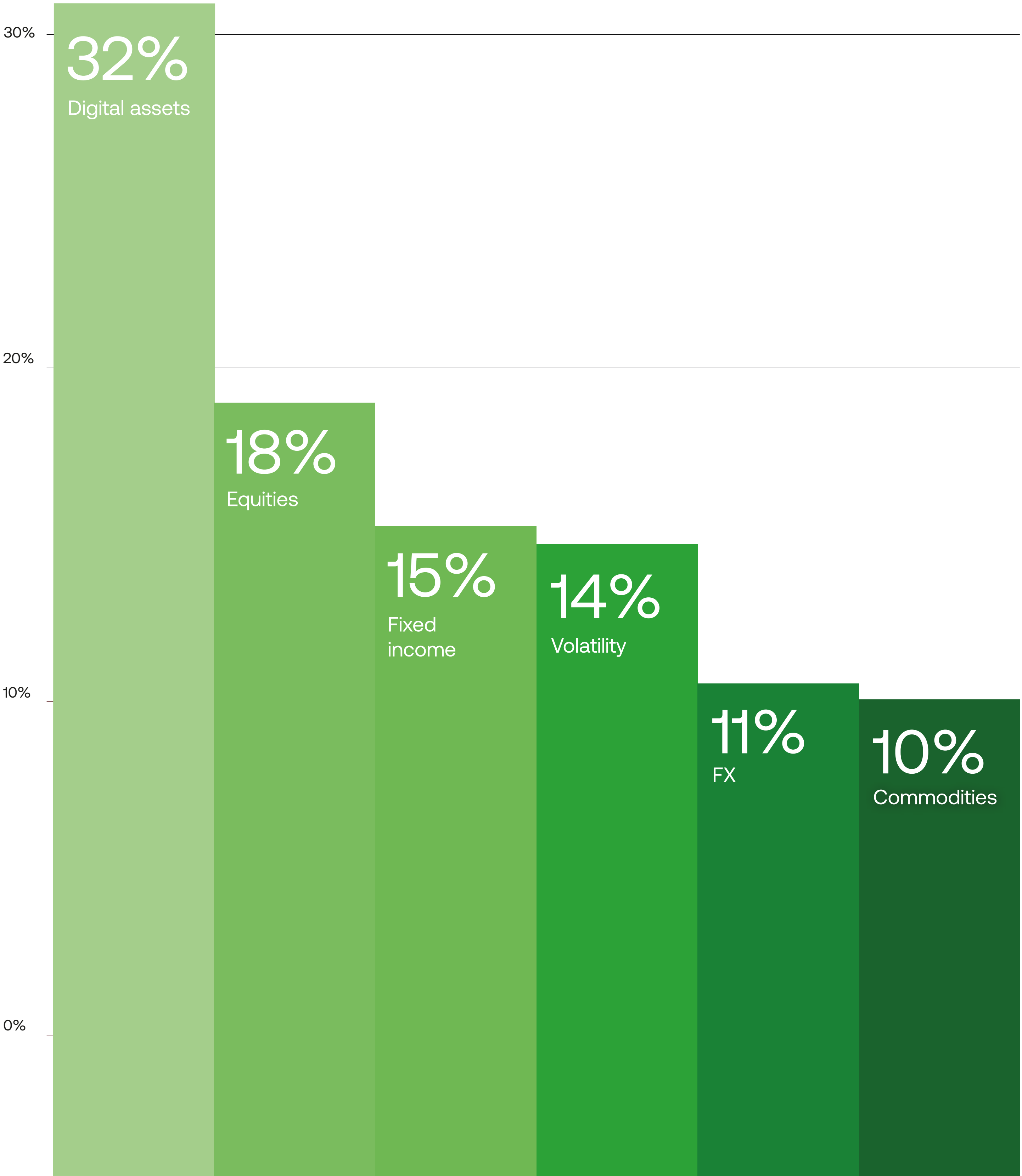
With historically opaque investment processes, some hedge funds have evaded investor scrutiny by referring to the so-called “black box”. This is changing. In our survey, 90% of hedge funds see an increased demand from institutional investors for greater transparency into their underlying investment processes.



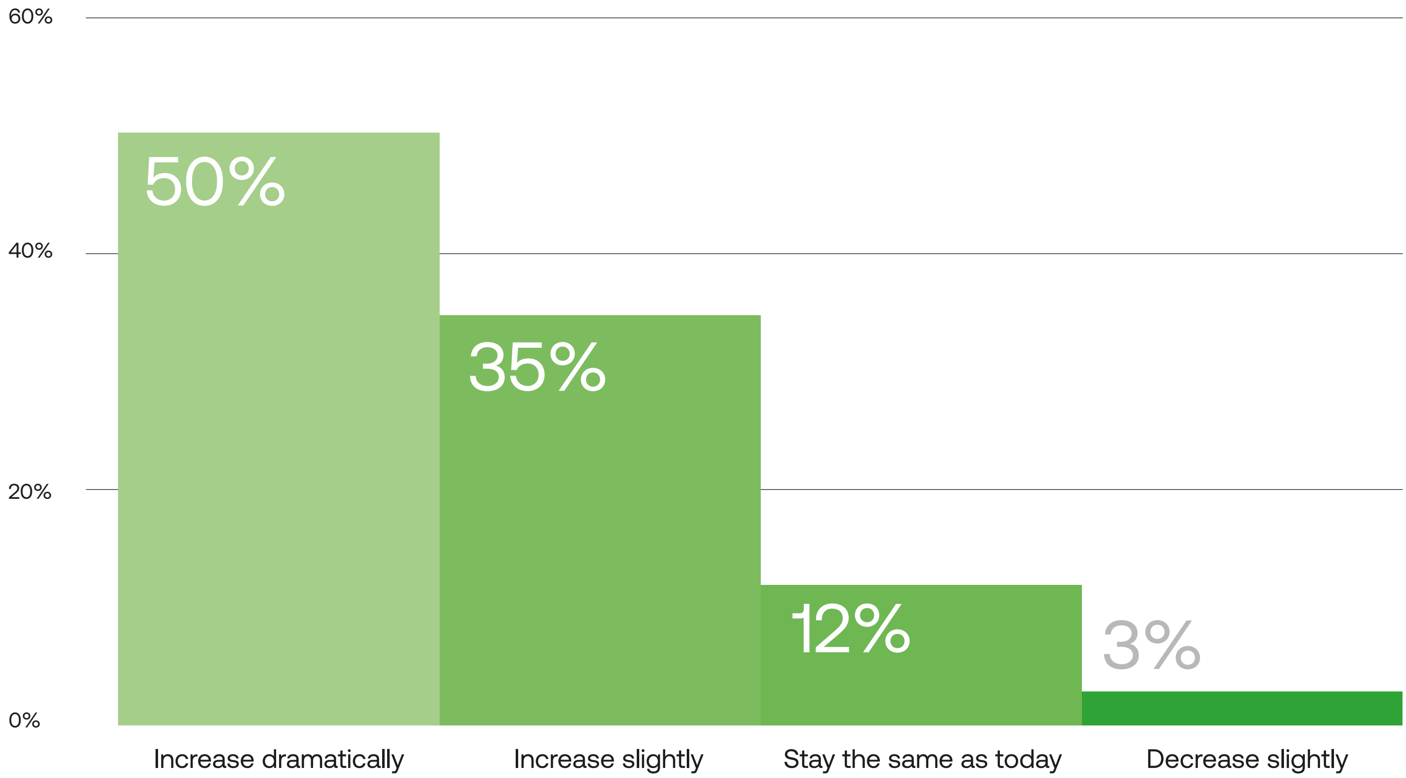
In which two asset classes do you see the largest opportunity to generate alpha over the next 3 years?

Digital assets offering the largest alpha opportunities

Hedge funds see digital assets (e.g. cryptocurrencies) as offering the greatest potential for generating alpha. This is due to their high volatility and the underdevelopment of their underlying market mechanisms, such as the centralised and decentralised exchange models.



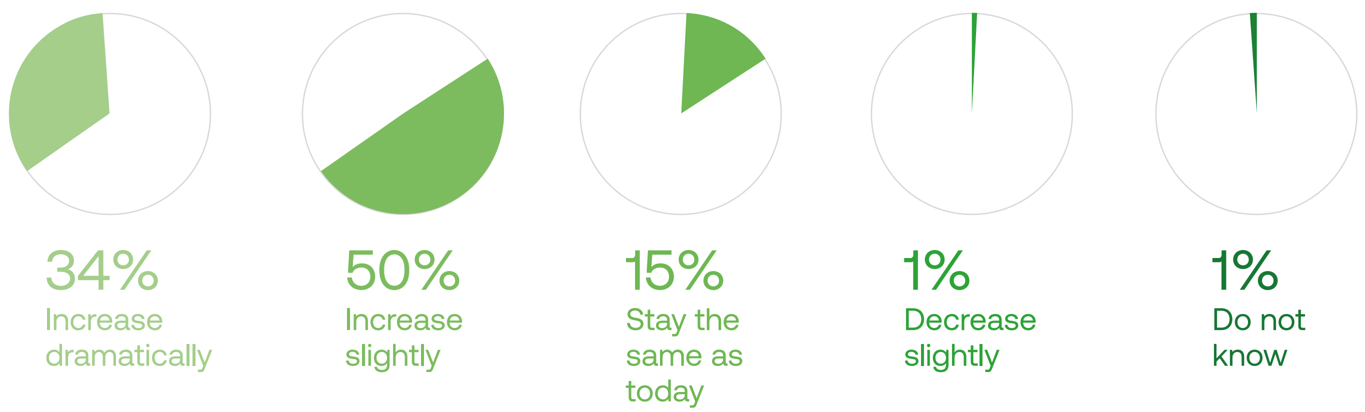
Over the next two years, how do you see the use of digital assets (e.g. cryptocurrencies) in hedge funds' investment strategies changing?



Digital assets and machine learning going mainstream

Hedge funds are embracing the use of digital assets such as cryptocurrencies. 86% of the managers surveyed expect an increase in their use, with 35% expecting a dramatic rise. Furthermore, adoption rates of advanced analytical methods - such as machine learning and artificial intelligence - are rising fast.

How do you see the use of machine learning and artificial intelligence in investment processes among hedge funds change over the next 3 years?



How has the use of social media by hedge funds to support their investment processes changed over the past 12 months?

28%
Increased dramatically

49%
Increased slightly

19%
Stayed the same as to-day

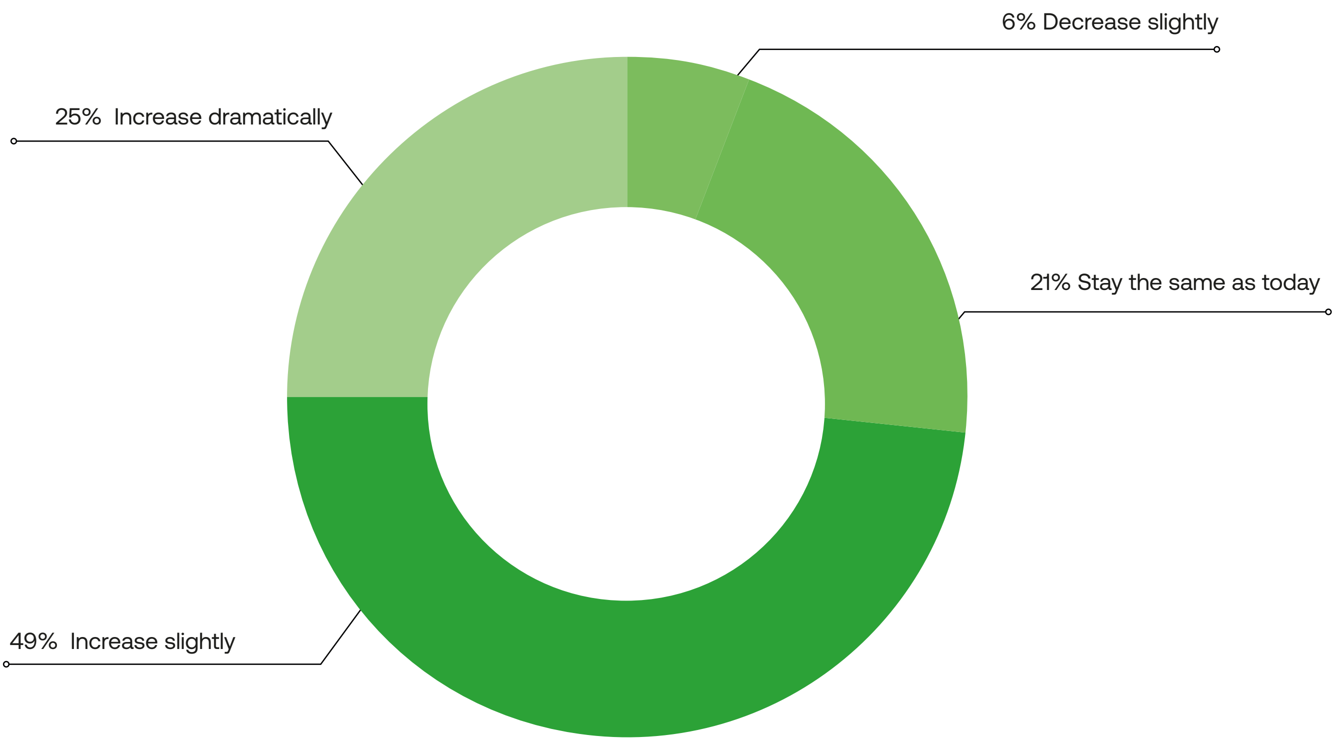
3%
Decreased slightly

1%
Do not know

Impact of social media data on the rise

Information retrieved from social media to support investment decisions has increased and is expected to rise further.

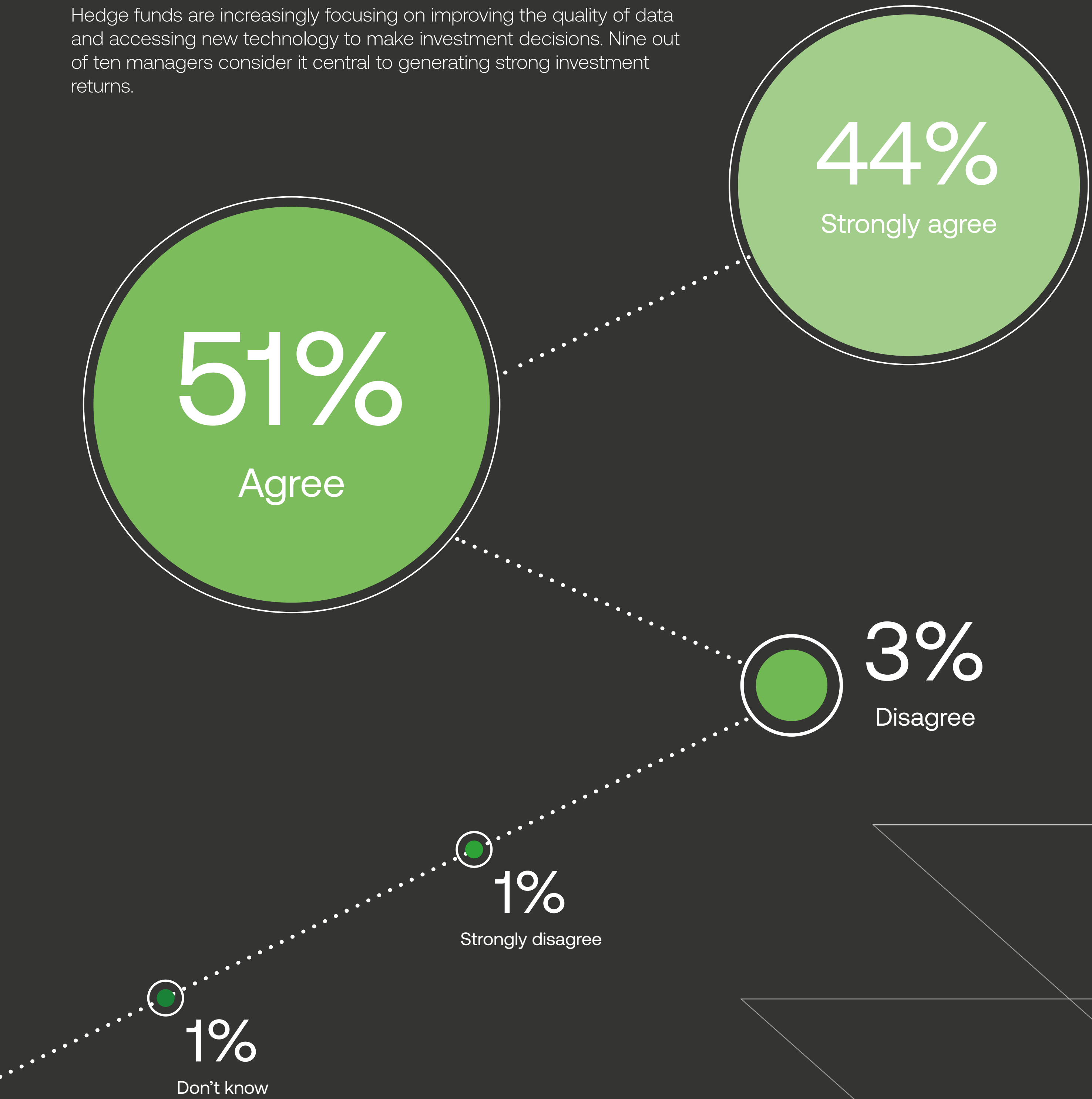
Over the next two years, how do you see the use of social media by hedge funds to support their strategies chang-



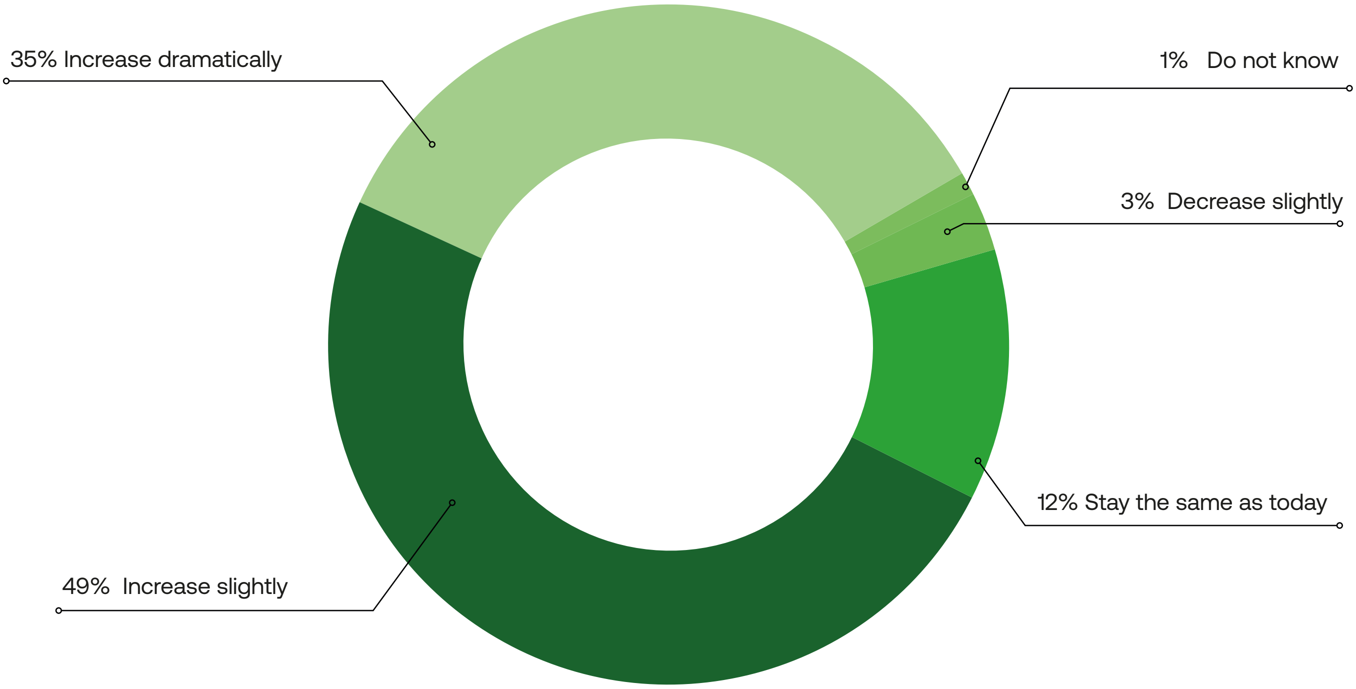
For hedge funds to achieve strong absolute returns in the future, they need to ensure both access to high quality and operationally ready data, as well as cutting-edge technological infrastructure. How strongly do you agree or disagree with this view?

High quality data and technology essential to generate alpha

Hedge funds are increasingly focusing on improving the quality of data and accessing new technology to make investment decisions. Nine out of ten managers consider it central to generating strong investment returns.



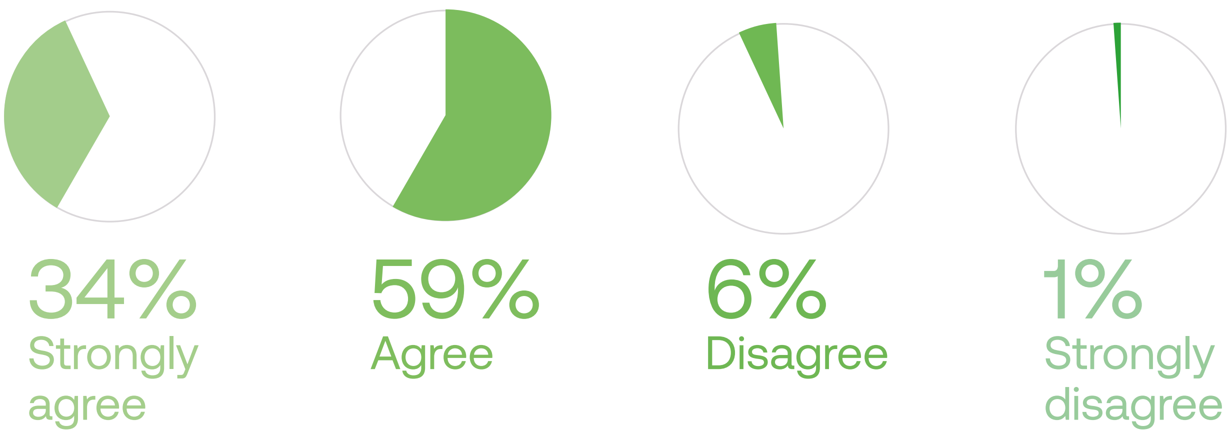
How do you see the level of outsourcing of services related to data, research and IT infrastructure change over the next 3 years?



Outsourcing on the rise

In the quest to improve operational efficiencies while capturing opportunities arising from technological advancements, hedge funds expect to increase outsourcing to specialist third party technology providers.

To increase operational efficiency, hedge funds are increasingly making use of cloud-hosted solutions powered by independent technology providers. How strongly do you agree?



Looking at the following areas of hedge fund organisations, over the next three years, which of these do you think will see the biggest increase in levels of outsourcing?

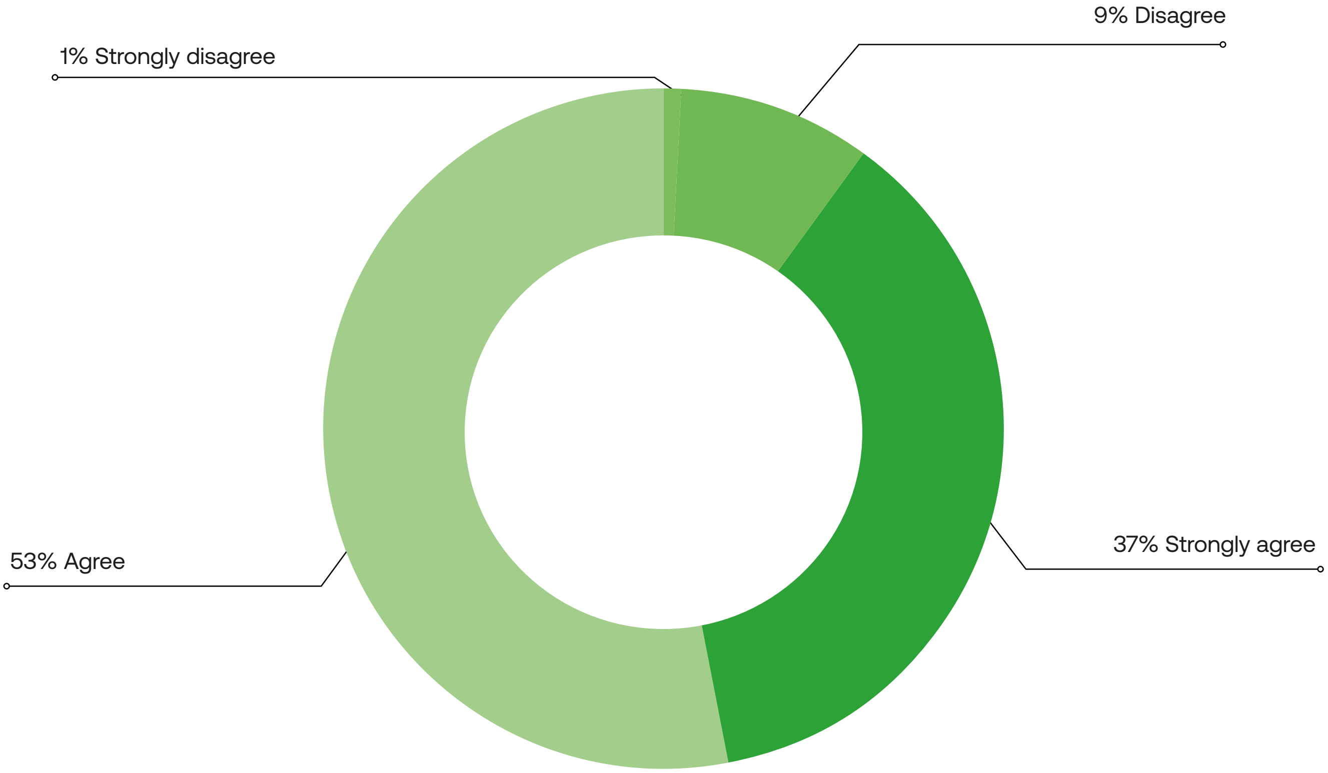
(1 having the highest impact, 6 the lowest)

Data and infrastructure focus areas for outsourcing

Hedge funds expect the largest increase in outsourcing to be in data management and IT infrastructure services.

1. Data management
2. IT infrastructure
3. Research infrastructure
4. Front-office systems
5. Back- and mid-office systems
6. Shadow accounting

Data is increasingly taking centre stage in hedge fund managers' investment processes. Compared to discretionary hedge funds, quantitative hedge funds are better prepared to unlock the true value of financial data. How strongly do you agree?



Data is key yet challenging

In the arms race to unlock the true value of financial data, quantitative hedge funds enjoy an inherent advantage over their discretionary counterparts. However, nine out of ten hedge fund managers find the process of evaluating data, ensuring it meets quality standards and negotiating with data vendors challenging.

The process to evaluate data, negotiate with data vendors and ensure that the data is clean and validated is challenging. How strongly do you agree or disagree with this view?

Value	Percent
Strongly agree	42%
Agree	45%
Disagree	9%
Strongly disagree	2%
Don't know	2%

How has outsourcing of data services at your organisation changed over the past two years?

37%
Increased dramatically

45%
Increased slightly

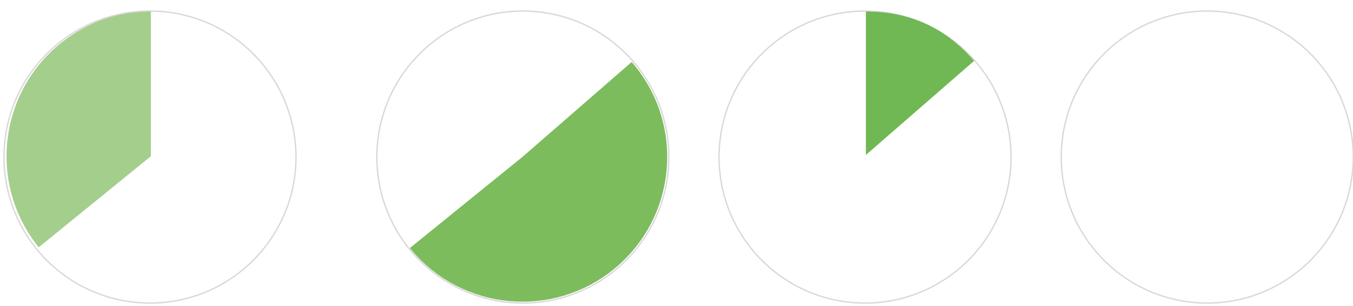
17%
Stayed the same

1%
Decreased

Strong trend for outsourcing

There is strong momentum among hedge funds to increase outsourcing of data services. The specialist skills needed to manage data and the increasing cost of acquiring those skills makes outsourcing an increasingly viable option, freeing managers to concentrate on what matters most: alpha generation.

How do you see the level of outsourcing of data services at your organisation change over the next two years?



36%
Increase dramatically

50%
Increase slightly

14%
Stay the same

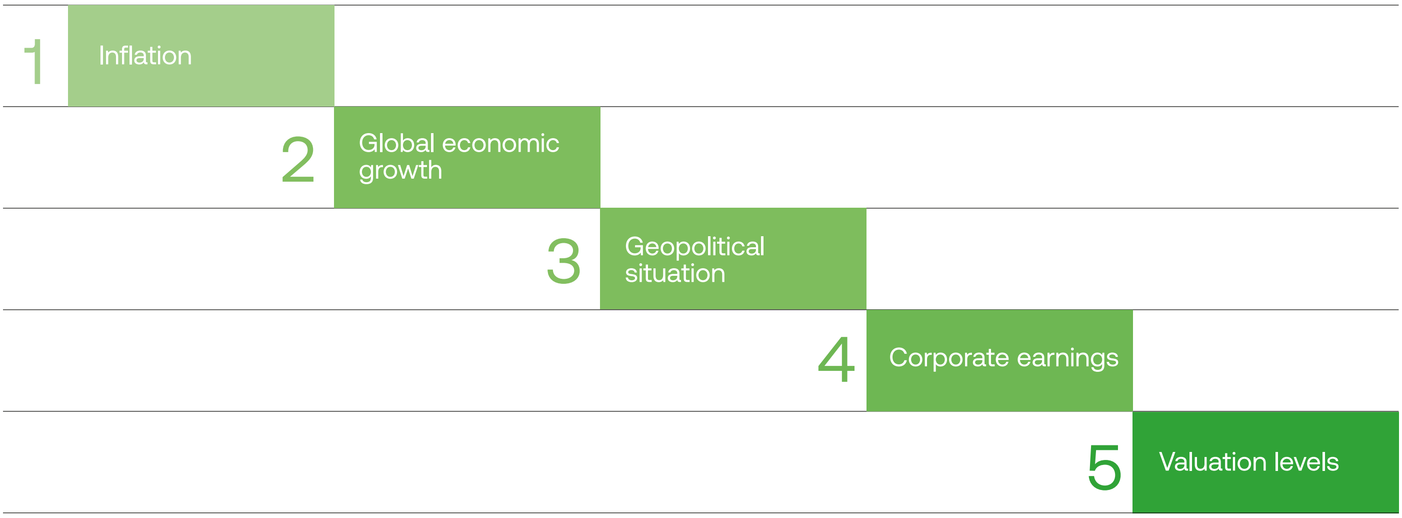
0%
Decrease

Which are the main market risks that could negatively impact your performance over the next 2 years?

(1 having the highest impact, 5 the lowest)

Inflation is the key risk

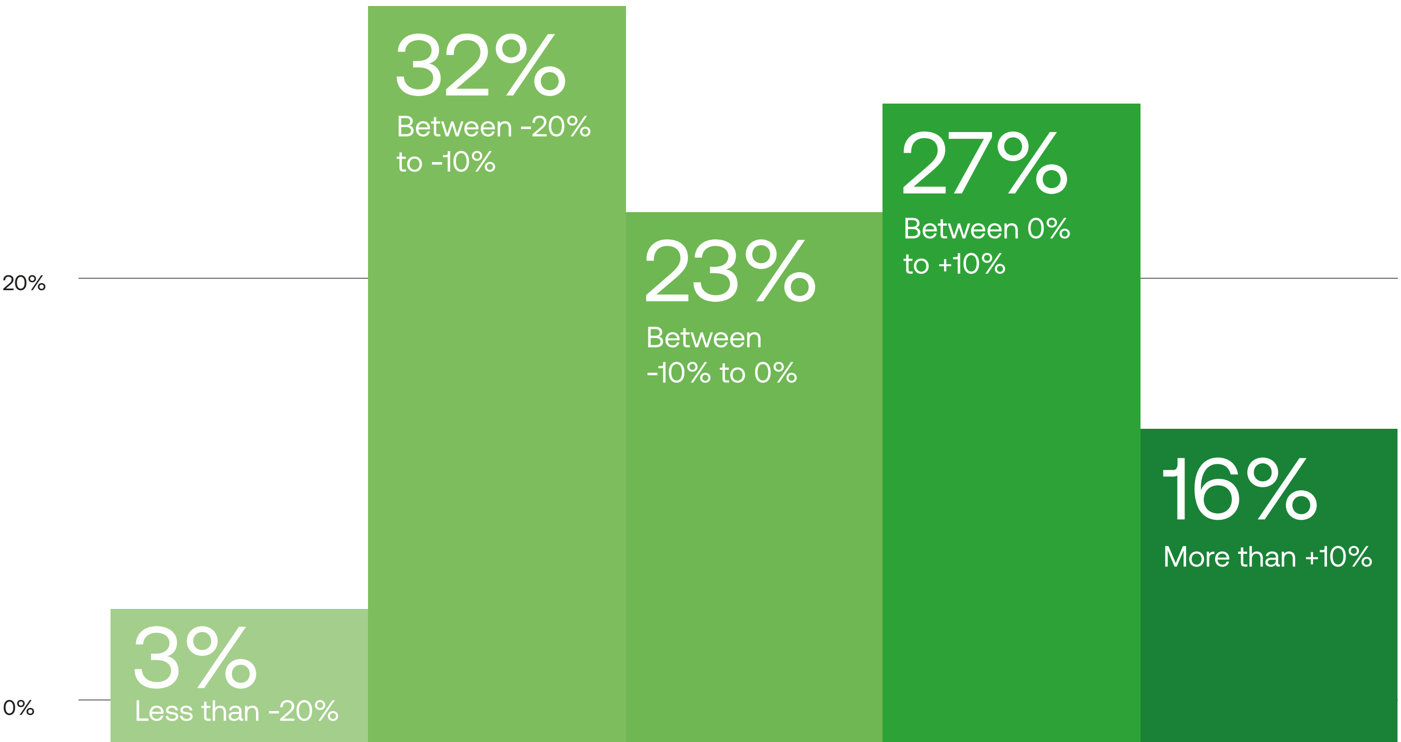
There is strong consensus among hedge fund managers that inflation is the key risk to monitor.



What do you expect the performance of the S&P 500 for the full-year 2022 to be?

Wide dispersion in expected return for the S&P 500

There is a wide dispersion in S&P 500 index expectations for 2022. Amongst the managers surveyed, the tendency was to assume that the index will rebound from current levels (June 2022).



About SigTech

SigTech offers quant technologies for global investors and data owners. Cloud-hosted and Python-based, SigTech accelerates the data-driven investment process, from research to live trading. The platform integrates an industry leading backtesting engine with clean, validated data across asset classes. SigTech eliminates the expensive upfront costs of infrastructure build-out, giving clients an edge in alpha generation from day one.

The SigTech platform was originally built over eight years ago to manage systematic investments at Brevan Howard, which remains a SigTech client today. After the spinoff into an independent company in early 2019, the team has grown substantially and established SigTech as the leading provider of quant technologies.

Get in touch to find out more hello@sigtech.com, or visit our website sigtech.com.

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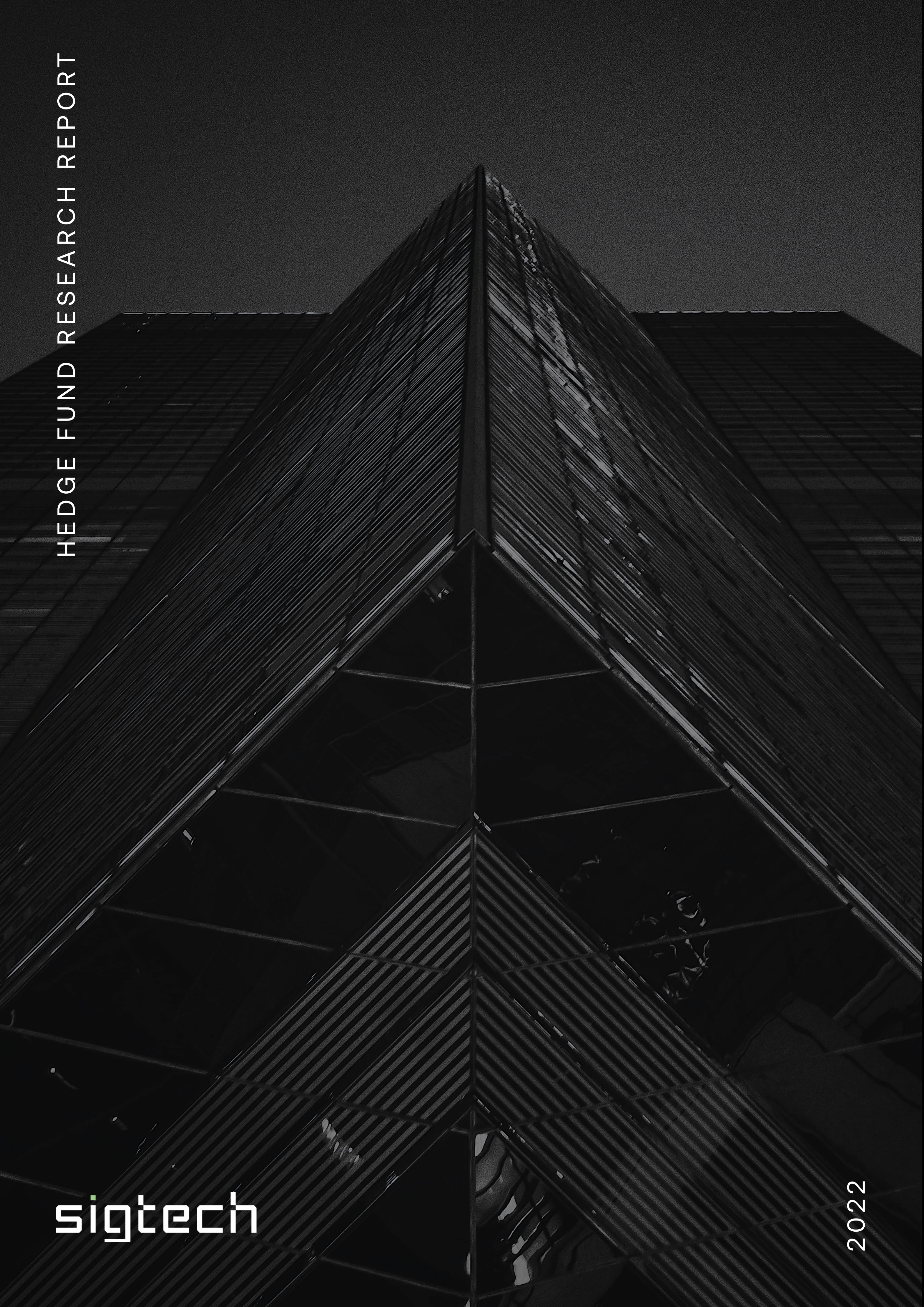

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