Marketing

Outlook for 2017

Sasha Jensen, CEO of Context Jensen Partners, outlines the top three trends that are dominating conversations with investors

The past year was a tumultuous one for the hedge fund industry. But despite some ups and downs and a number of high-profile fund closures, the industry still surpassed $3trn in global assets under management for the first time ever.

This important milestone points to the continued growth and maturation of the industry, especially as market participants look to reposition their portfolios for what may be a volatile 2017. In our conversations with investors and allocators in the market, three marketing themes stand out for the year ahead:

1. Changing fee structures: The Teacher Retirement System of Texas made waves in late December when it disclosed, via Albourne Partners, a "1 or 30" fee structure. This fee model, designed to allow investors to pocket 70% of the alpha generated by a hedge fund investment, is the latest example of institutional investors demanding more favourable terms.

Some hedge funds are getting the message. A few funds are trying to better align themselves with investors by charging a higher performance fee and a lower or non-existent management fee. Other funds are rewarding long-time investors by launching sidecars that don't charge any management fees. And to protect an investor's assets in the event of a collapse or SEC investigation, a few funds are also looking at different lock-up and gate structures that can offer increased liquidity. But the debate over fees isn't likely to end anytime soon.

Already this year, we've seen push-back against so-called 'pass-through' fees, which can be used to pay for everything from trader bonuses to lavish dinners or state-of-the-art technology. The days of these types of fees, and the traditional 2 and 20, are waning. With thousands of funds to choose from, investors will be hesitant to pony up for any but the most successful and exclusive of hedge fund managers.

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2. Credit and quant strategies leading the way: With trades in large-cap equities more concentrated than ever, hedge fund managers are increasingly moving to credit and quant-focused strategies in an attempt to provide portfolio diversification and generate consistent alpha.

Hedge funds have made significant inroads into the credit markets over the last few years, helping to fill the void left by the big banks following the 2008 financial crisis. According to BarclayHedge, fixed income assets under management ballooned from $145.2bn in 2009 to $535.8bn in 2015 and $564.4bn through the third quarter of 2016. Our hiring data backs up this trend. Credit and fixed income strategies, with 122 marketing moves, only trailed equity-focused strategies, with 144 marketing moves, for the first three quarters of 2016. Assets should continue to flow as more investors beef up their credit investments.

Meanwhile, the rise of artificial intelligence and machine learning has made quantitative investment strategies among the most popular – and successful – funds of 2016. By using computing power to identify market dislocations, these funds are able to keep a leg up on the average investor. Many of the world's largest hedge funds now offer some sort of quant strategy, with more likely in the pipeline for 2017.

3. Institutionalisation of the marketing role: Marketing hires continue to be at or near an all-time high, a positive sign that the hedge fund industry is increasingly emphasising the marketing function. In the third quarter of 2016, we tracked an all-time high of 231 marketing moves across all alternatives, up from 188 in the second quarter. Hedge funds remain by far the most active employers among alternative investment firms, with 94 marketing hires in Q3 and 76 in Q2.

This data is evidence that hedge funds are continuing to come out of the shadows and embracing a more public- and investor-facing role. Hedge funds are increasingly relying on marketers to help educate investors and provide transparency around returns and strategies, especially at the largest firms. While alpha generation will always be top-of-mind for investors, the past year shows that investors expect – and increasingly demand – a sophisticated marketing operation. Those firms that are able to deliver will have the best chance of success in 2017 and beyond. ▪