

BAI Newsletter III/2023 – June 2023

Editorial article from Frank Dornseifer, Managing Director, BAI e.V.

Dear Ladies and Gentlemen, dear members,

Alpha into the portfolio!

Around 4 trillion USD AuM, a fund universe consisting of +9.000 funds, average annualized returns - including downside protection - in 2022 in a range between +12% and -11% depending on the strategy, moderate outperformance in 2023 compared to a typical 60/40 portfolio, a trend towards increasingly large multi-manager platforms, and in the favor of German institutional investors rather on the back ranks! You can guess it, the strategy cluster or the asset class this newsletter is about is called hedge funds and liquid alternatives.

Even if institutional investors in Germany continue to be unfamiliar with hedge funds & co. and the average allocation remains at a low level, for the BAI the relevant strategies still belong in the institutional portfolio and therefore on our association's agenda. And this is also the reason why we eagerly await the results of the BAI Investor Survey 2023, whether and what changes will take place among the participating investors in the short term or in the SAA. While we do not expect any big surprises here, there are still good reasons to get alpha into the portfolio, e.g. in order to follow global macroeconomic trends, to position oneself in a market-neutral way or to express a negative market view and go short, or to detect trends in the global financial market with the help of artificial intelligence and to follow them.

And also the Greek alphabet does not consist now only of the letter beta, but begins first of all with the very meaningful letter alpha. In modern portfolio management, too, it is not only important to focus on beta, but to implement alpha as a source of return in a targeted manner. Serious macroeconomic and geopolitical changes and risks require active management, and special manager skills will remain important selection and differentiation features in the future, as recent developments, e.g. in the segments of impact investing or thematic investing. Last but not least, hedge funds and ESG are not contradictory, as PRI has shown not only a long time ago; liquid strategies are the segment in which, for example, ESG implementation, as well as data availability and support by service providers is well advanced and investors have a wide range of ESG-compliant products, even if this is not yet the case for every specific hedge fund strategy, and furthermore non-European providers are still somewhat - behind in ESG compliance.

Looking at a typical investor portfolio, which is now almost 25% from alternative investments, it should be obvious, only in view of the portfolio management alone, to also keep an eye on the allocation hedge funds and, if necessary, to expand them further. The often used narrative of so-called longtermism, which is more decisive than so-called shorttermism, or the frequently quoted of asset-liability matching, all of these aspects have their - depending on the type of investor - justification, however, a portfolio can neither do without liquidity nor without diversification. And that brings us back to the topic of hedge funds & co. to which we dedicate this newsletter. In addition, we are also

increasingly observing hybrid or semi-liquid structures, which can be seen as an indication that investors are indeed looking for a certain degree of liquidity, even in private market strategies.

At the same time, of course, it must also be noted that the pressure on managers, especially now with the return of inflation and interest rates, remains very high to deliver on the promises of returns and hedging that they regularly make. If then fee models are used, which some investors consider to be no longer "state of the art," then it is not surprising if investors shy away from the not inconsiderable effort and expense to invest in this segment and to build up the appropriate resources. But this is precisely why a good selection of managers and the involvement of qualified consultants is so important in order to bring top managers into the portfolio.

Particularly with a view beyond the borders and the quite significant allocations of Scandinavian, Dutch, UK and US pension funds etc., it becomes clear that hedge funds & co. are and will remain a significant and exciting asset class, especially in 2023. Therefore, BAI will continue to fly the flag for hedge funds and will not only dedicate the current main topic of the association's work and of this newsletter, but also to a new [fact sheet](#). In addition, we accompany the strategy cluster throughout the year as part of our various platforms and events and in our further lobbying work and, of course, also next year at the AIC!

Upcoming BAI events after the summer break

The summer break is approaching and soon for example NRW will start its school vacations. For a few weeks it will therefore also be a bit quieter in the BAI office, even if in the background of course our lobbying activities around the Future Financing Act, AIFMD review, Sustainable Finance 2.0, etc. will continue. After the summer break, we will be back at it again, with events such as the InnovationsDay, the Real Assets Symposium, the ESG Workshop, the Science Awards Ceremony, etc. Whether you are interested in authoritative technology and investment topics that are (or will be) occupying the AI industry, on the latest developments in the fields of Infrastructure and Real Estate, or hands-on on the new requirements and implementation approaches in the field of ESG & impact, or even about interesting work of young scientists, the BAI always has an exciting and varied range of topics waiting for you. So take a look at our homepage, our member platform and especially on the programs of our next events. In any case, we are looking forward to seeing you again soon and to the personal exchange with you.

About the articles in this newsletter

Finally, as always, I would like to thank the many authors and sponsors who contributed to this newsletter and once again to the very readable contributions on the topic of hedge funds and liquid alternatives. I also wish you - as I hope you always do - an informative and enjoyable reading of the BAI Newsletter and - also on behalf of the BAI Board and the BAI Office - happy summer holidays!

Frank Dornseifer