Broadridge

5 KEY TRENDS

Hedge funds drive innovation with digital transformation

Having generated returns of over 10% in 2021, inflows into hedge funds continue to grow, with the asset class now looking after a record $4 trillion AUM. Hedge funds need agility and flexibility with multi-asset class support to scale for growth in public and private markets. Broadridge examines what the coming year could hold for the hedge fund industry.

TREND #1

Appetite for hedge funds will be healthy

Despite the Omicron fueled market volatility causing hedge funds to suffer losses in November, performance for the full-year 2021 was strong, up 10.3% according to HFR. As a result, total industry AUM (assets under management) has now stormed past the $4 trillion mark – a new record. With experts now skeptical that inflation will be a transitory phenomenon, institutional investors are jumping into alternative asset classes such as hedge funds, which have historically outperformed equities and bonds during inflationary periods. Assuming Omicron's impact on returns is short-lived, hedge funds will continue attracting significant investor inflows in 2022.

$4T
hedge fund
AUM

TREND #2

The industry's adoption of technology will only grow

Whereas previously, only large hedge fund managers leveraged tools such as AI (artificial intelligence), machine learning and Natural Language Processing to identify performance opportunities, mid-sized managers are now starting to follow suit. Again, this reinforces how important it is for managers to check that the data being inputted into their systems is accurate. In operations, hedge funds are increasingly automating their core systems and eschewing manual processing, facilitating significant cost benefits. Wider adoption of technology across the front, middle and back-office will be a recurrent theme in 2022.

TREND #3

Labor scarcities fuel outsourcing demand

Labor shortages are threatening the wider global economic recovery, and it is an issue that is starting to affect some hedge funds. With many experienced hedge fund staff leaving for other roles or leaving the industry altogether, some hedge fund jobs are going unfilled. In areas such as operations, this is forcing hedge funds to outsource certain functions. With these labor scarcities likely to persist, the need for hedge funds to outsource their operations will only grow.

TREND #4

ESG investing becomes the norm

Investors' appetite for ESG (environment, social, governance) products is growing, and hedge funds are being forced to respond. Although some hedge funds are yet to be convinced by the merits of ESG investing, 40% of managers told a study by BNP Paribas Securities Services that they are integrating ESG into their decision-making processes. As managers look to widen their investment appeal, many will increasingly incorporate ESG into their portfolios next year.

TREND #5

Prime brokerage refocuses on risk management

The prime brokerage industry had a challenging year in 2021, with several prominent players incurring sharp losses linked to a highly leveraged family office, which subsequently collapsed. This debacle has already prompted one major banking group to exit prime brokerage altogether while another has retreated from providing cash prime brokerage in the US and Europe. As a result of the fall-out, there will likely be greater regulatory oversight of certain synthetic instruments, while prime brokers will certainly sharpen their risk management practices. This also opens the possibility of further consolidation in the prime brokerage industry. The hangover from this episode will last well into the coming year for prime brokers.

Read more about our solution for hedge funds.