Survey of Allocators’ Investment Trends
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Industry Background

The financial year of 2020 will be remembered: it began with exuberance and then the world collapsed. As surreal as it became, while the world was still on its knees from the Pandemic, not only did the financial markets resurrect from free-fall, but they were put on a rocket ship and blasted off. On the back of near-zero interest rates and mammoth government stimulus packages, the benchmark S&P 500 index ended the year with a gain of 16.3%, or a total return of about 18% with dividends. Powered by high-flying big tech stocks, the Nasdaq composite soared 43.6%. As stated in Fed Reserves’ research notes: “stock prices are forward looking and reflect expectations about profits and discount rates even as far as decades ahead.”[1] Once again, the Fed Put proved to be the ultimate Beta enabler.

A deserted Times Square, March 2020

On the backdrop of stellar market performance, the HFRI Fund Weighted Composite Index posted a return of 11.6% in 2020. Global Hedge Fund AUM reached an all-time high of $3.6 trillion at the end of 2020. In general, the hedge fund industry was able to redeem itself by delivering one of best up-market capture rates and ‘alpha’ in 2020 after years of comparative lackluster performance. New fund launches reached all-time low in

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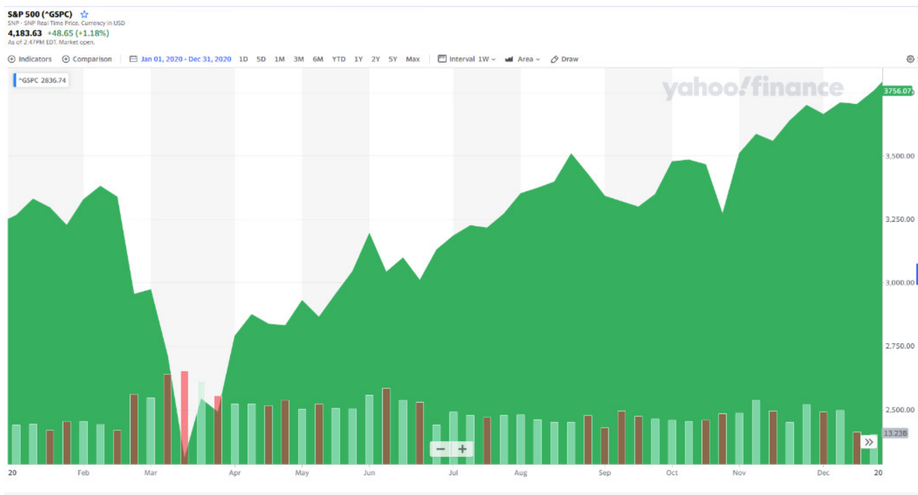
[1] The Fed - The Stock Market–Real Economy "Disconnect": A Closer Look (federalreserve.gov)

“The hedge fund class of 2020 is more resilient than in 2008” Financial Times the 4^{th} quarter of 2020, however investors seemed ready back new hedge fund managers in 2021 again.

The Hedge Fund industry has been experienced net outflows over the past several years. After a significant drawdown in early 2020, fund flows started to turn positive in November 2020 and have continued its positive trend into 2021. This was on the back of 80% of funds reporting positive returns in February 2021 with an average return of 3.22%[2].



S&P 500 Index, Jan-Dec 2020

One year after the meltdown of 2020, we continue to grapple with the knock-on effects from the Pandemic. With the possibility of herd immunity and mass vaccinations within reach, on the dawn of a Post-Covid world, investors and fund managers face an ever-changing asset management landscape.

Survey Summary

With both 2021 and 2020 being years of strong gyrations, we think it makes sense to look at both years for trends relative to past investor sentiments. Some of the main conclusions from the investor survey would be:

- The **characteristics and record performance of hedge funds in 2020 have helped its reputation as producer of alpha**. Investors seem prepared to deploy more assets in 2021 to the space. All the respondents in our survey indicted strong or tentative interests in hedge funds/alternative investing in 2021. Given the enormous amount of money siting on the sidelines, investors are eager to put money at work.

[2] Evestment

- Investors' preferences among different investing strategies took a U-turn in 2021. These rotations might be investors' preemptive actions to reposition their portfolios into undervalued markets. In particular, **to avoid being overexposed to US equity market from recent rallies and highs, investors seem to seek diversification in Emerging Markets**. Investors believe that Emerging Markets, trading at a discount in relative to US market, would likely enjoy its post-Covid market recovery bump later that developed markets.

- **Investors highest priority is getting Meaningful Performance**. If you can deliver a great absolute return, other criteria become secondary, such as Portfolio Characteristics, High Fees or Star Management.

- As the result of higher inflation expectations and possible rate hikes, **investors seem to shift away from Credit & Fixed Income strategies**. Ultra-low interest rates, couple with government stimulus packages, cannot be sustainable without inflation creeping in.

- **Investors are shunning away from Commodity & Energy strategies**. After recent rallies in this space, their evaluations are considered relatively elevated. As ESG factors become more relevant in the asset pricing model, investors may also reduce their exposures to traditional fossil energies.

- **Past bad performance seems to have soured investors' appetite for Event Driven and Macro strategies**. Some Quantitative hedge funds also suffered heavy losses in 2020 since machine powered strategies based on academic models likely failed to adapt to unprecedented market conditions, in addition to the new phenomena of masses of risk-taking individual retail investors.

- **Investors continue their affinity to Private Equity**. PE has been the preferred asset class in recent years and has exhibited an incredible resilience to the Pandemic crisis. On the back of a strong IPO market, PE managers remain upbeat in 2021, and exploiting deal opportunities offered by business dislocations from the Pandemic.

- **ETFs/Mutual Funds lost their luster in today's environment, while being a top consideration in 2020 when liquidity was highly prized in a more volatile market.**

- In general, of the group surveyed, alternative investing helped their investment goals during the last year's turbulence, and they plan to allocate more.

The survey also asked some questions regarding virtual vis-à-vis in-person events:

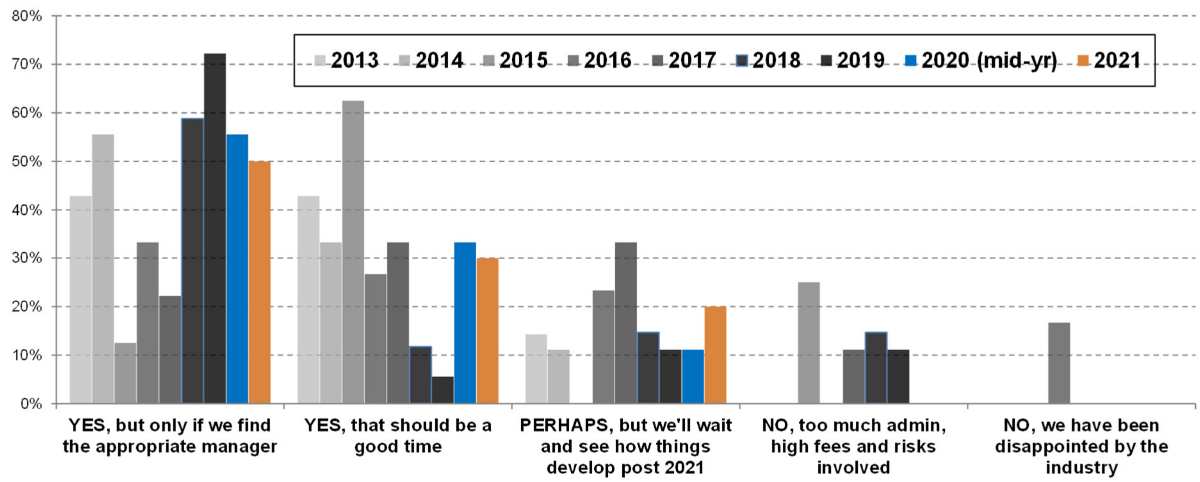
- **During the last year, investors think virtual events have been a mixed bag**, with some finding it effective, and some waiting for the return of in-person events.

- The **majority thinks they will start attending in-person events again in the early fall period**, with some indicating they could start visit during the summer but also some more reluctant and perhaps waiting until 2022.

The studio of a virtual Catalyst Cap Intro Event, Sep 2020

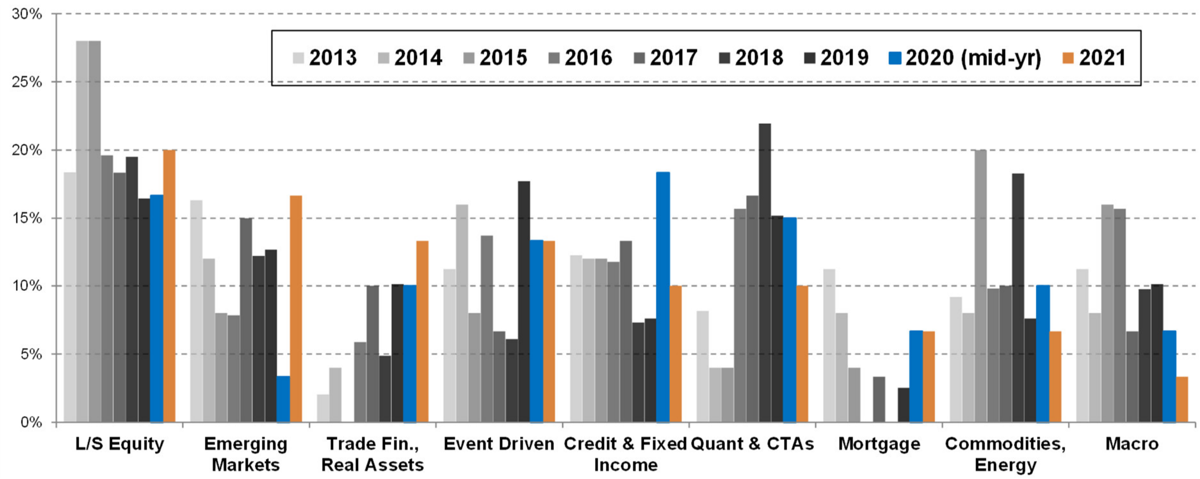
Survey Results

1. In 2021, would you consider allocating to alternative investing funds?



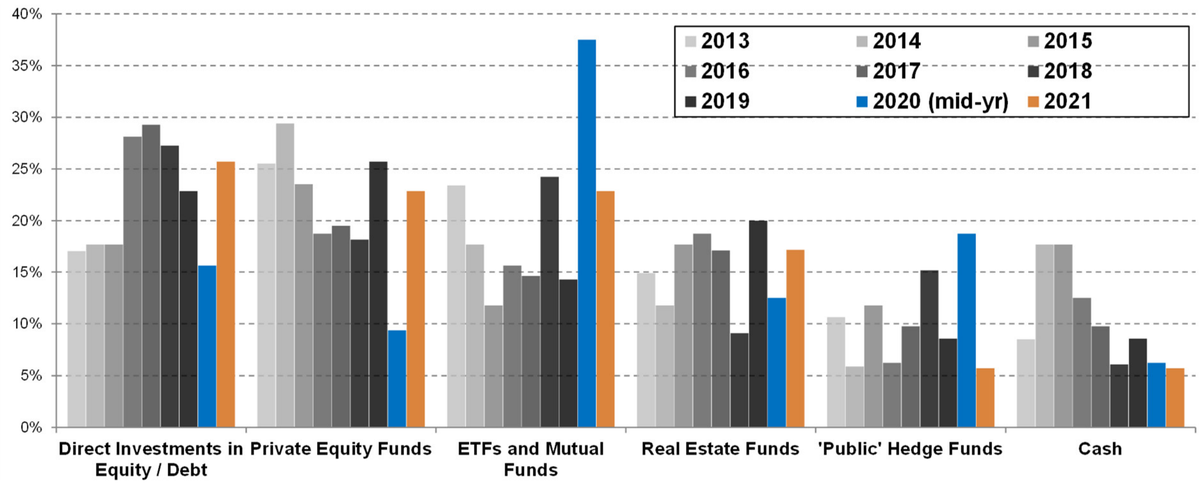
- All of respondents expressed relatively positive interest in allocating to alternative investing funds for 2021.
- About 2/3 of respondents expressed definitive positive interests. Among them, 40% are ready to start the allocation process while 60% are looking for the right manager.
- About 1/3 expressed somewhat positive but cautious interests, but incline to adapt "wait and see" approach.

2. **In 2021, what strategies do you think would be especially interesting within the hedge fund space?**



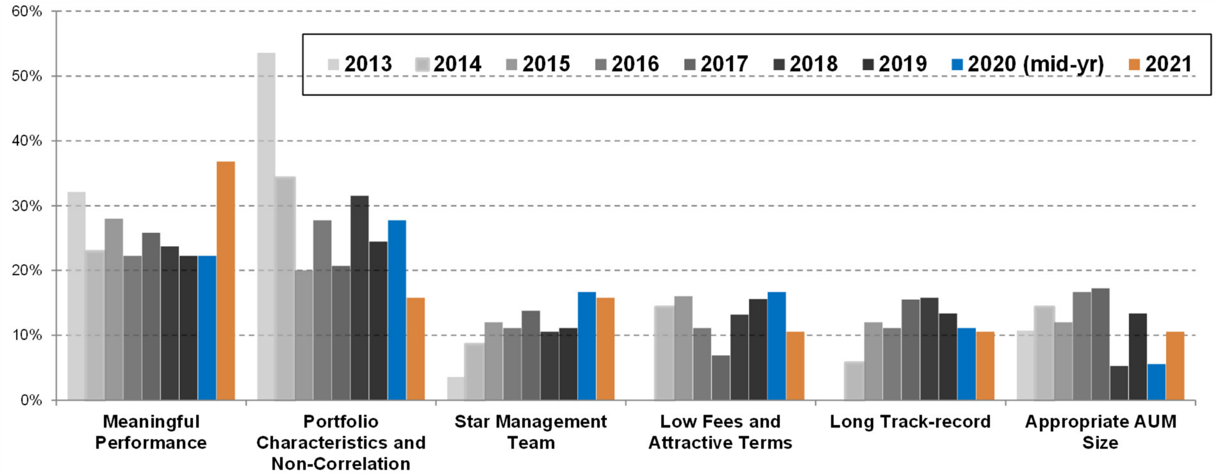
- Investors are increasingly interested in L/S equity, Emerging Markets, Trade Fin./Real Assets and Mortgage strategies.
- There are decreasing interest in Credit & Fixed Income, Event Driven, Quant & CTAs, Commodities Energy and Macro strategies.
- **There is substantially increased interest in Emerging Markets.** Compared with the record-high valuations of US equity markets, emerging markets equities have been traded at a discounted valuation.
- The second largest interest is in L/S equity strategies. A successful L/S equity trading strategy adds alpha by shorting overvalued stocks, and by being able to navigate the dislocations still affecting the markets.
- The **steep drop in Credit & Fixed Income strategies** likely stems from higher inflation expectation and higher yields of bond markets.
- **ESG factors increasingly impact the asset performance**. The new administration's clean energy policies will likely damp investors' interests in the Energy sectors.
- **Quantitative hedge funds suffered heavy losses in 2020** since machine powered strategies based on models failed to adapt to unprecedented market conditions.

3. In 2021, what other investment opportunities would you prefer over hedge funds?



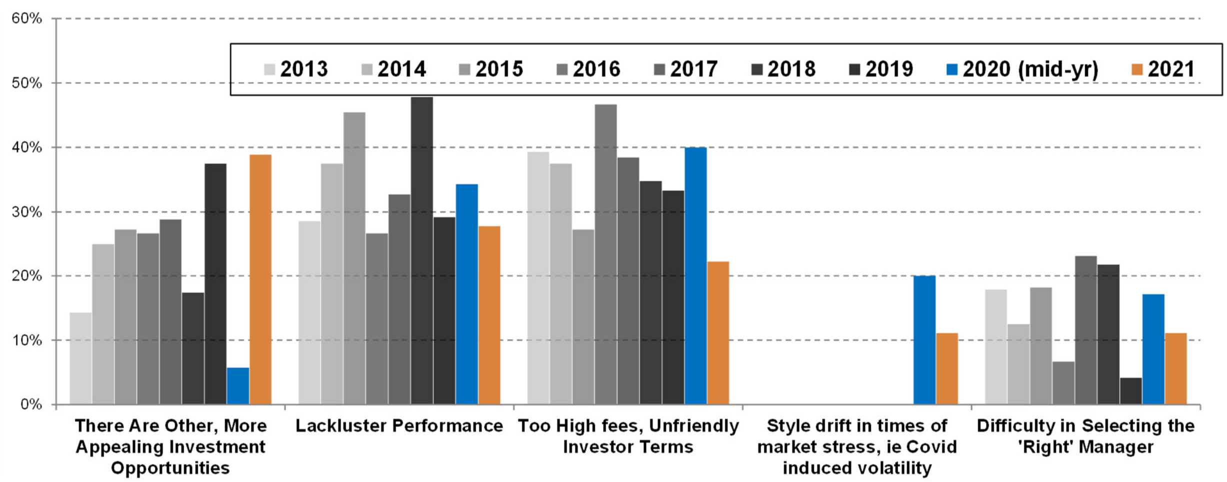
- There has been a **quick gyration in 2020 to liquid from illiquid strategies, and back again in 2021**, as illustrated by the jump from PE to ETFs/Mutual Funds which in 2021 was reversed.
- **PE managers remain upbeat in 2021** in adding value to existing portfolios and exploiting new deals with businesses suffering dislocations from the Pandemic crisis.
- **Despite low fees, ETFs/Mutual Funds are out of favor**. It might reflect the view that ETFs doesn't add Alpha but offer Beta performance.
- '**Public' Hedge Funds is out of favor, too**. Investors becomes less sensitive to liquidity conditions.
- The demand for Cash remains steady but low.

4. **In 2021, what would be the most important criteria for a hedge fund that you would consider investing in?**



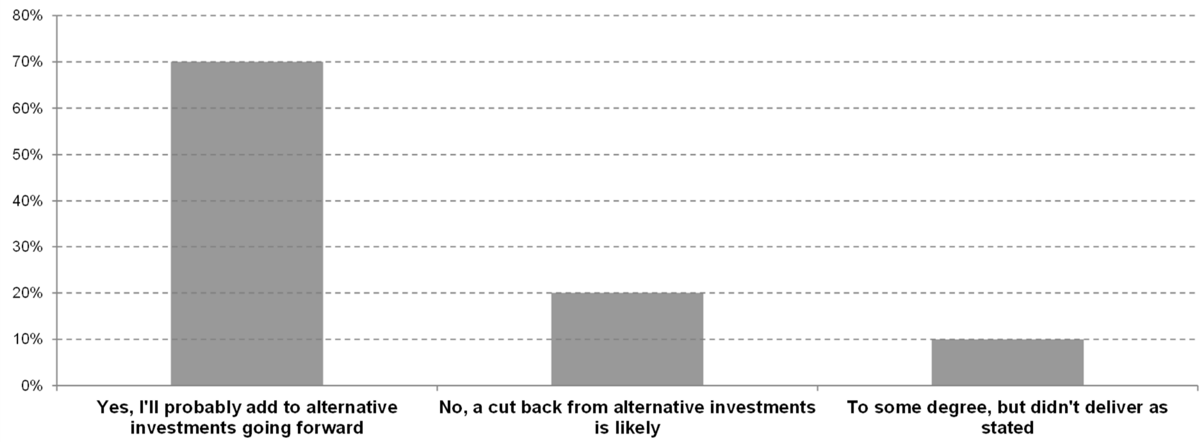
- **On the back of stellar market returns in 2020, investors are increasing looking at funds that can deliver meaningful performance**.
- 2021 seems poised to be a great year for hedge funds, as **Low Fees and Attractive Terms become less of an issue for investors**.

5. **Post Covid, what consideration(s) would discourage you most in investing in hedge funds?**



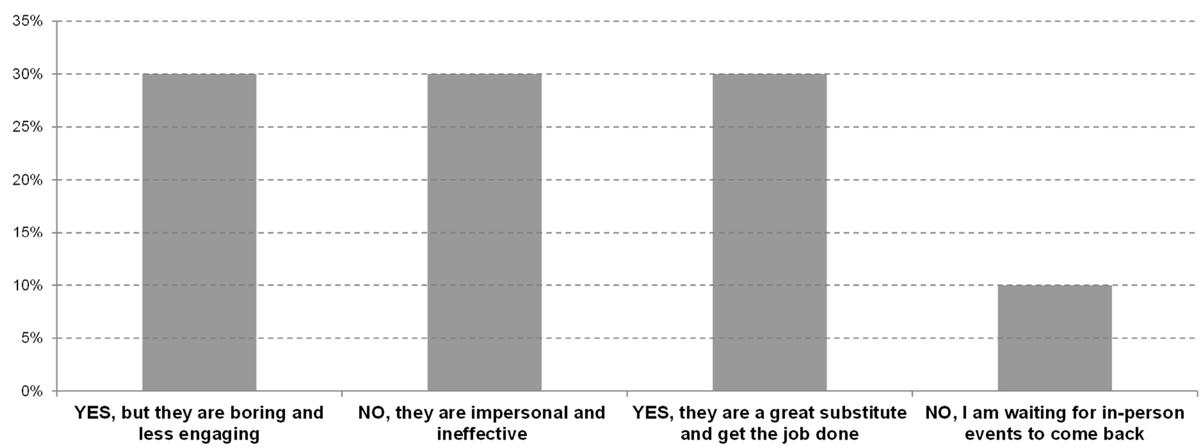
- **Investors sentiment with hedge funds fluctuated considerably during 2020 and 2021 as effects of the Pandemic crisis lingered**.
- In 2021, sentiments seemed to normalize and the main deterrent to hedge fund investing was other, more appealing investment opportunities.

6. Special Question 1: Did your alternative investments help your overall portfolio during the last year's market turbulence?



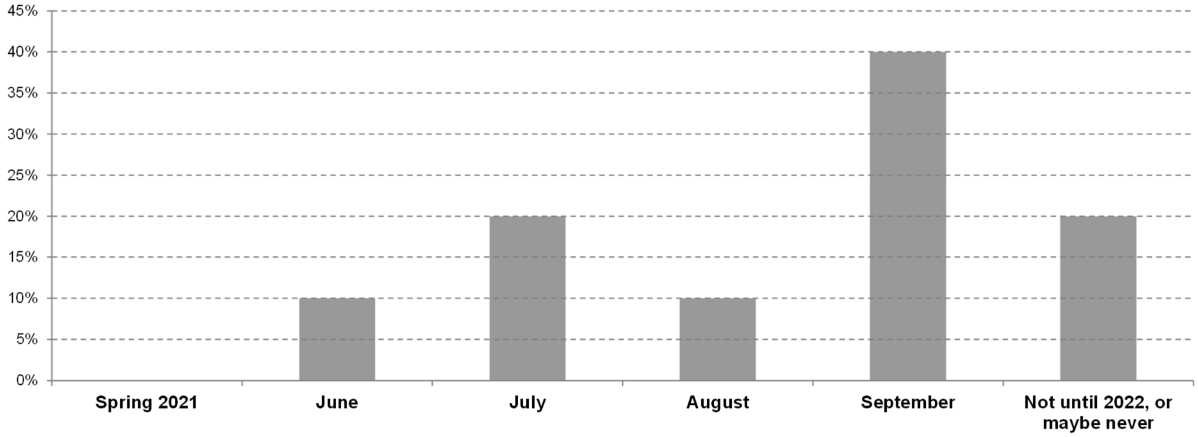
- In general, **alternative investing helped investors investment goals during the last year's turbulence, and they plan to allocate more**.
- About 30% of investors were not happy with their investments and some (20%) planned to decrease exposure.

6. Special Question 2: Are you satisfied with virtual events the last year?



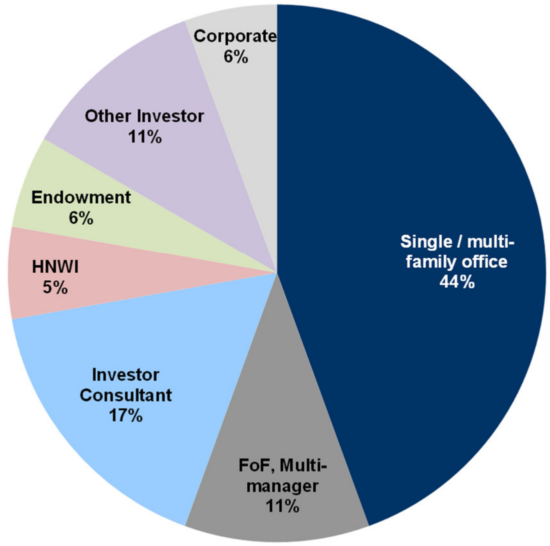
- During the last year, **investors think virtual events have been a mixed experience**, with some finding it effective, and some finding it boring or impersonal.
- A small portion of investors are preferring to wait for the return of in-person events.

7. Special Question 3: When do you think you will attend in-person investor conferences again?



- A **majority of investors think they will start attending events in the early fall period**, with some indicating they could even start visiting during the summer.
- However, some seem poised to wait until 2022 or beyond.
- This finding seems to indicate that some **virtual or hybrid events will be with us for an extended period** ahead.

Over 500 allocators were sent the survey in April 2021, of which a portion responded:



About the Authors

Carl Berg runs Catalyst Financial Partners, an investor events firm for the private funds industry. The firm links alternative investment managers and investors together through investor events. It has established itself as one of the leading, independent cap intro event providers.

He also works with selected alternative investment firms in a capital raising capacity through Catalyst Fund Advisors and consults with investors on their allocation mandates.

He also runs **COIN** – the **C**atalyst **O**nline **I**nvestor **N**etwork - which is members-only capital introduction platform for qualified investors and institutional allocators who focus on alternative investing. 'COIN Funds' are hand-picked alternative investment funds with a focus on alpha-oriented, institutional-grade small to mid-sized managers.

Susan Weerts is an independent research analyst, investment consultant and a contributing writer to Seekingalpha.com. Current research areas are strategic trading games on ETF and its underlying index, market-neutral L/S strategy. She is also a consultant on China-related business. szweerts@yahoo.com

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