2016 Global Hedge Fund and Investor Survey compiled by EY, entitled “Will adapting to today’s evolving demands help you stand out tomorrow?”

Our short summary of the survey

Methodology of the survey (which has been conducted in 2010 for the first time):From June to September 2016, Greenwich Associates conducted:

• 100 telephone interviews with hedge funds, representing nearly $1.1 trillion in assets under management (AUM).

• 63 telephone interviews with institutional investors (FoHF, pension funds, endowments and foundations) representing more than $1.5 trillion in assets under management, with roughly $280 billion allocated to hedge funds.

- More so than ever, investors have achieved a level of sophistication that is challenging managers.
- Midsize and smaller providers are emphasizing existing products rather than developing new ones.
- Managers with over $10b AuM are in the driving seat.
- Inevitably, managers are responding by aggressively refining their infrastructure to eliminate redundancies and excessive costs, as well as cutting management fees.
- Talent management is crucial for gaining and retaining institutional assets: 75% of investors indicate that it plays an important role in their due diligence process.
- Hedge fund managers and investors agree that changing investor preferences represent the top risk for managers going forward. Those providers that listen to changed investors needs will be best positioned to “weather the storm”.
- There have been some major asset outflows, particularly by North American investors. However, overall institutional investors continue to understand the benefit that hedge funds can provide to their portfolios.
- A larger percentage of investors anticipate increasing their allocation to hedge funds in the coming years. This is particularly evident among European and Asia-Pacific based investors where pensions and endowments tended to have allocated a smaller portion of their portfolio in the past to hedge funds.
- A lack of performance during a significant bull market and an increased comfort in trading on their own behalf, are causing investors to challenge fee terms. As a result, managers are reporting significantly lower management fees year over year. This trend is particularly evident among the largest managers — where management fees declined by 25 basis points on average. “Investors are demanding more and paying less. Adapt or lose out.”
- While investors have been focused on management fees, there is less pressure on performance fees. The sentiment is that incentive fees at least need to be earned by the manager.
- Investors have a strong desire to co-develop specific vehicles.
- Investors choose hedge funds for generating uncorrelated returns and diversifying their portfolio. Thus it is not surprising that investor sentiment has been somewhat depressed as returns for many managers have been increasingly correlated.
- While the largest managers enjoy a number of advantages, there continues to be a robust appetite among investors for start-ups.
- A majority of investors reported having separate and distinct investment and operational due diligence teams.