Innovation to play critical role in managing hedge funds

(AIMA) – Hedge fund managers are innovating and increasing their investment in technology to create new competitive advantages and to address regulatory and operational issues, according to a new study by KPMG International, the Alternative Investment Management Association (AIMA) and Managed Funds Association (MFA) titled *Transformative Change: How innovation and technology are shaping an industry*. An overwhelming percentage of hedge fund managers, 90 percent, say they are investing in technology today to improve controls and compliance, with an almost equal number, 88 percent, identifying efficiency objectives as a top reason.

The survey polled more than 100 global hedge fund managers representing approximately US$300 billion of assets under management (AUM).

> "This new survey underlines how the alternative investment industry continues to invest in technology across the entire fund management organisation," said AIMA CEO Jack Inglis. *"Investment in new technologies will help to keep the industry ahead of the competition over the long term, delivering consistent and positive risk-adjusted returns for investors while continuing to address the ever-increasing regulatory burden."*

Of those polled, 58 percent of managers say that AI and machine learning will have a "medium to high" impact on the sector over the next five years. As one hedge fund manager noted in the study, "AI is going to continue to make inroads in the sector. There's a very strong business case for replacing humans with algorithms in a lot of areas of the business."

Seventy-four percent said they believe automated trading technologies will have at least "some impact" on hedge fund returns over the next five years. Virtually all – 94 percent — fully expect technology to have an impact on competition over the next 5 years.

> "Hedge fund managers may not be building slick customer apps just yet, but they are clearly focused on making sure they are innovating – in the front, middle and back office – to ensure they remain competitive," said Robert Mirsky, KPMG's global head of hedge funds.

The survey found that 32 percent of hedge fund managers polled are already using predictive analytics to uncover new trends and new opportunities. However, 42 percent (largely smaller funds) said they are still unsure of the value and are just monitoring the industry and 27 percent said they don't expect predictive analytics to play any role in their trading strategy.

As hedge funds start to rely more heavily on technology, many managers are becoming increasingly concerned about data risk. Hedge fund managers around the world are clearly worried about the safety of their most valuable data, with 83 percent of respondents ranking cyber security as an important technology capability that will attract significant investment.

> "Hedge fund managers are making investments in their future and are focused on

becoming more efficient in both their regulatory compliance and operations," said Richard H. Baker, President and CEO of MFA. *"Ultimately, this should lead to a stronger sector with tighter controls and improved performance – something that regulators, investors and managers can all support."*

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