A New Dawn

Stockholm (HedgeNordic) – Hedge funds are the favored asset class to enhance the traditional 60/40 asset-allocation portfolio – the mix of 60 percent equities and 40 percent bonds, according to a survey conducted by Credit Suisse from December 2020 to mid-February among institutional investors. Credit Suisse's 2021 Hedge Fund Investor Survey, entitled "A New Dawn," surveyed over 200 institutional investors representing about $800 billion in hedge fund investments.

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"The current rate environment is creating a sense of urgency for investors to identify new sources of returns for their fixed income portfolio," says John Dabbs, Global Co-Head of Prime Services and Co-Head of Americas Equities at Credit Suisse, in a press release. "Our survey highlighted that investors are looking to hedge funds in addition to other asset classes in meeting their long-term obligations."

The survey shows that about 70 percent of investors plan to make changes to their portfolio this year due to the current environment of lower bond yields. The respondents indicated that hedge funds were their favored asset class to enhance the traditional 60/40 portfolio, followed by high-yield credit, equities, and private credit. According to Credit Suisse, the net demand for hedge funds, measured by subtracting the proportion of investors decreasing their allocations to hedge funds from the percentage of investors increasing their hedge fund exposure, has increased significantly in recent years. The net demand reached 52 percent in the most recent survey, compared to 39 percent in 2020 and 12 percent in 2017.

The pensions, endowments, foundations, consultants, private banks, family offices, and funds of hedge funds that participated in Credit Suisse's survey indicated a strong appetite for equity-oriented hedge funds strategies. Seven of the top ten overall strategies were equity-oriented, with investors favoring healthcare, fundamental, emerging markets, and technology, media, and telecom (TMT). Equity healthcare strategies had the highest net demand at around 44 percent.

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"Investors indicated continued strong interest in equity-oriented strategies, particularly around sector and regional specialists," says Jaynita Sodhi, Head of Credit Suisse Capital Services Americas, in a press release. "We also noticed a large sentiment upswing for discretionary macro and multi-strategy managers," she continues. "Hedge fund dispersion for firms employing these strategies widened considerably in 2020, highlighting the importance of manager selection in driving portfolio returns."

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An increasing number of investors are relying on hedge funds to access private markets, according to the Credit Suisse survey. About 53 percent of allocators invest in private equity markets through hedge funds, with family offices, endowments and foundations the most active. "We've seen an uptick in demand from LPs to access private markets through hedge funds, given a manager’s ability to apply the breadth of their public markets investing acumen to private opportunities,” says Joseph Gasparro, Head of Content for Credit Suisse Capital Services Americas. “Privates also allow managers to engage with next-generation companies that could be disruptive to publicly-traded peers.”

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