BAI Newsletter II/2024 – May 2024

Editorial article from Frank Dornseifer, Managing Director, BAI e.V.

Dear Ladies and Gentlemen, dear members,

Alpha in the portfolio, not only in times of crisis!

11% liquid alternatives in the portfolio, and - also - as "crisis alpha"! Christoph Junge, Head of Alternatives at the Danish Velliv Pension Fund, surprised more than just the 100 or so institutional investors in attendance during his investor presentation on the second day of the AIC conference. He backed up his impressive plea for CTA/managed futures strategies in particular with correspondingly positive return figures, not only in general, but also in particular when looking back at the crisis: starting with the so-called Volcker Recession in the early 1980s, through the dot-com bubble in the early 2000s and the GFC 2007-2009 to the interest rate shock in 2022; it was precisely during these periods that the performance of the S&P 500, for example, looked pretty old! And in the second investor presentation of the day, the AIC participants also listened very carefully when Elena Manola-Bonthond, CIO of the CERN Pension Fund, reported that it not only has a 50% allocation to alternatives, but that hedge fund strategies also play a major role in the portfolio. Any questions?!

It is well known that institutional investors in Germany are still unfamiliar with hedge funds & co and the average allocation remains at a - to put it kindly - low level, as not only our Investor Survey documents year after year. In February, Lupus alpha's annual Absolute Return Study also revealed record net outflows of EUR 35.1 billion from UCITS-compliant absolute return and alternative funds with an active management approach licensed for distribution in Germany. The market turmoil following the interest rate turnaround sends its regards, even if the average return of 5.28% calculated by Lupus alpha for liquid alternatives in 2023 is quite respectable.

Nevertheless, we do not expect any change or even a trend reversal in our upcoming Investor Survey 2024, even though our guest speakers at AIC repeatedly provide their German colleagues with positive experience reports. And I can assure you that they will continue to do so, and not only at AIC, because liquid strategies and, more recently, increasingly semi-liquid strategies and asset classes are - still - on the BAI agenda! Private and public markets should complement each other in the portfolio!

Both Ms. Manola-Bonthond and Mr. Junge named the good and diverse reasons that exist for adding alpha to the portfolio: e.g. to focus on global macroeconomic trends, to invest in commodities and, of course, digital assets, to position oneself in a market-neutral way, or to express a negative market opinion and go short, or to track and follow trends on the global financial markets with the help of artificial intelligence.

In any case, hedge funds recorded their best start to the year since 2021 in a bullish environment. According to PREQIN (Hedge Funds Q1 2024: PREQIN Quarterly Update), the positive returns globally have led to increasing investor interest in hedge funds in the first quarter after a rather volatile past few years. PREQIN puts the returns achieved in the first three months of 2024 at an average of 6.4 %; since November last year, this has been as much as 15 %, which is largely due to the rise in equity markets in the face of persistently high inflation and interest rates. It is of course also true that hedge funds have underperformed somewhat compared to the public equity markets, although this is not unusual in view of the special investment concept.

In short: PREQIN reports a positive sentiment for medium and long-term hedge fund allocations on a global level. This is particularly true for strategies with a lower correlation to the public markets, such as global macro, niche and CTA strategies. Although these often take a back seat to strategies with a higher correlation when markets are trending upwards, they come more into focus when markets turn downwards. And that brings us back to Mr. Junge from the Velliv pension fund and the "crisis alpha". The current and ongoing geopolitical tensions, the fragile inflation environment of around 3% and the unease about the high valuations on the equity markets, but also in other sectors (commercial/office real estate, for example), each pose unique threats that can lead to (hedging) strategies with lower risk and moderate returns supporting the overall portfolio in the event of a tail event, and it is precisely this circumstance that German investors should also keep an eye on.

From #AIC2024 to #AIC2025

AFTER the AIC is known to be BEFORE the AIC, so block out the days from May 6-8, 2025 in your calendar. Because that's when #AIC2025 takes place. But first, a brief review of this year's AIC, which was - once again - a complete success.

With a total of almost 1,000 participants, including more than 100 institutional end investors, we were able to set a new attendance record. The number of sponsors, the number of member slots, the number of presentations with investor participation, the number of participants at the investor workshop, the investor dinner, the get-together, but also at the regulatory pre-event, etc. were also record-breaking. Our line-up of keynote speakers was once again impressive. In addition to the investor speakers already mentioned at the beginning, these were Prof. Bernd Raffelhüschen, who entertained the participants in a whimsical way and encouraged them to think about economic sustainability in the area of conflict between politics and statistics; Prof. Isabell Welpe and Prof. Oliver Gottschalg, who impressively demonstrated how artificial intelligence is transforming the investment sector and the private equity world respectively; and on the political side, Hessian Finance Minister Prof. Ralph Alexander Lorz, who gave us a very progressive and promising assessment of Germany as a capital market location. Last but not least, there was of course our extraordinary get-together speaker Thorsten Havener at the Zoo Gesellschaftshaus, who read the thoughts of over 700 participants at the evening event. Another highlight of the conference was the Investor Workshop on the morning of the second day, which featured two excellent investor presentations in front of nearly 60 participants: The first was on "(Direct) Investments in Private Debt - A sensible building block in institutional portfolios even in the current interest rate environment?" by Maximilian Cosack, Head of Private Assets, HUK-COBURG Asset Management GmbH, and the second was on "From 0 to 100+ - How do I get PE on the road?" by Lars Körner, Senior Investment Manager, ALH Group.

In this respect, it was and is not particularly surprising that the feedback from participants was consistently positive. They clearly appreciate the professional - and often confidential - exchange on important investment and regulatory topics, as well as the diverse networking opportunities at AIC. Many participants even describe the AIC as a "class reunion" that you definitely don't want to miss, not only because there are many well-known and beloved colleagues from the industry, but also because the AIC has an educational claim, our conference USP! So, see you - at the latest - at #AIC2025".

About the articles in this newsletter

In addition to the liquid investment strategies to which we dedicate this newsletter, there are also more and more so-called semi-liquid funds on the market that are in demand from institutional investors. The world of open-ended and closed-ended funds is moving closer together. A good reason for us to take a closer look at semi-liquid strategies in this newsletter alongside liquid investment strategies.

As always, I would like to conclude by thanking all the authors and sponsors who have contributed to this newsletter and who have once again contributed some very readable specialist articles.

I also wish you - as I hope you always do - an informative and entertaining read of the BAI Newsletter.

Frank Dornseifer