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Is AI empowering Hedge Funds to unleash the next Alpha boom?

Q2 OVERVIEW	1
LATEST NEWS	2
TRANSFER WINDOW	3
UPS & DOWNS	4
HEDGE FUND STRATEGIES IN 2023	5
THE IMPACT OF AI	6
THE BEST IN HEDGE FUND TALENT	6

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Q2 OVERVIEW



- Over 30 hedge funds in talks to establish in Abu Dhabi.
- Brevan Howard, Florin Court Capital among early movers.
- UAE positioning as a global hub for hedge funds.
- Equity hedge funds had the second-highest gains in June, primarily driven by exposure to growth strategies and artificial intelligence.
- Bridgewater Associates announces ChatGPT's successful completion of its investment associate test.

Hedge Funds see 2.2% uptick in June, boosted by AI stocks and banking crisis recovery

HFR data highlighted a 2.2% rise in global hedge funds in June, driven by AI-related stocks and easing banking crises, contributing to a 3.45% gain in H1 2023.

HFR President, Kenneth J. Heinz, credited this growth to dynamic investments, primarily in AI.

Among all categories, equity hedge funds led in performance but trailed the S&P 500's 16.9% H1 increase. Despite early-year setbacks, macro hedge funds managed to trim their annual losses to 0.47% by June end.

Event-driven and relative value strategy funds also posted healthy gains, reflecting a robust performance across the industry.



LATEST NEWS

- Portfolio Manager David Lipner opted to stay at Millennium Management after being offered a one-year paid sabbatical and an incentive upon return.
- Hedge funds are increasingly using expensive tools to hire and retain traders, highlighting the intense competition for talent and demand for steady returns in a volatile market.
- Deals involving tens to hundreds of millions in guaranteed payouts are becoming increasingly common.
- Eisler Capital, a London-based firm, is investing heavily in talent as part of its transition to a multi-strategy hedge fund.
- The industry is also resorting to hefty signing bonuses, a higher share of trading profits during initial periods, and multi-year non-compete agreements to secure and retain top talent.
- Besides financial incentives, firms also offer benefits such as collaborative culture, team-building support, tolerance for explainable trading losses, and flexibility to work from any location.
- Even when these tactics fail, large hedge funds tap into top traders at smaller firms to manage significant amounts externally.
- The trend towards external management is rising, with just over half of all multi-manager hedge funds allocating to outside traders.
- Despite the high fees, investors are still attracted to the top-performing hedge funds, viewing the significant returns as worth the cost.
- The Nasdaq Composite had a strong first half, up 31% year-to-date, while the S&P 500 also rose around 15%. However, fund managers foresee a potential market reversal as the Federal Reserve plans to raise interest rates to curb inflation.

2.3% YTD

Multi-strategy had another positive month with 0.8% growth, resulting in a 2.3% YTD increase, with large multi-manager hedge funds like Point72 and Citadel's Wellington fund performing well.

0.5%

On a regional basis, performance was consistently positive, with North America (0.5%) marginally outdoing both Europe and Asia, which each achieved a 0.4% increase.

2%

The surge in assets managed by hedge funds has led to a hiring spree, and the robust performance of these firms allows them to charge higher than the traditional 2% management fee.



32

New Hedge Funds are prepared to be launched.

$60M

Hedge fund giant Millennium has offered guaranteed pay packages nearing $60 million, leading to comparisons with top-tier athlete salaries such as NBA's Steph Curry or NFL's Lamar Jackson.

$1B

Over the past two years, discretionary funds exceeding $1 billion globally have significantly outperformed funds under $1 billion, generating remarkable surplus returns.



TRANSFER WINDOW

The hedge fund industry is witnessing a significant talent movement, with firms hiring specialized staff to focus solely on recruitment.

Stuart Heiss has been recruited by **Capstone Investment Advisors** to serve as the deputy chief compliance officer at their New York location.

Marc Luff, a former executive with an extensive 23-year tenure at **Goldman Sachs**, has been hired by **Millennium Management** to spearhead its operations and middle office in Asia. Luff, who left Goldman Sachs while serving as the head of equities operations in Asia, joined the $58 billion firm's Singapore branch this month.

Jet Theriac, previously the CIO of AllianceBernstein's 2050 CleanTech Solutions Fund, has reportedly moved to **Schonfeld Strategic Advisors** following the closure of his former fund. In his new role at Schonfeld, he will serve as a portfolio manager with a focus on energy.

Qube Research & Technologies (QRT) is establishing a new office in Zurich, Switzerland, with Marco Bartolucci, a former Credit Suisse professional, at the helm. Bartolucci, who previously served at the Swiss investment boutique ISP Group for four years, will join QRT as the CEO of the Switzerland office this month.

Freestone Grove Partners, a hedge fund startup with over $2 billion, has onboarded Ravi Paidipaty as their deputy Chief Investment Officer. It's believed that Paidipaty began his role at the firm's San Francisco main office this month. The enterprise is headed by Todd Barker, previously the lead at Surveyor Capital.

Hector Chan, previously the Chief Investment Officer of the Chorus division at **AXA Investment Managers**, has been recruited by Qube Research & Technologies for a role concentrated on Asia.

Chris Moore, Senior Managing Director, has been promoted to the position of Deputy Chief Investment Officer at the $4.5bn foundation of the **University of Wisconsin**.

Boothbay Fund Management, a multi-manager platform, has onboarded Michael Weaver, previously a business strategist at Voloridge Investment Management, as its new Chief Operating Officer (COO). Weaver succeeds Scott Mahoney and will operate from the company's New York office.

UPS

0.6%	Hedge funds started Q2 with a 0.6% rise, breaking two-month loss streak, adapting to global economic turmoil.
$6BN	Tairen Capital, Hong Kong, saw fastest growth in BDC group last year, doubling assets to $6bn, ranked 9th.
$1BN	Keystone Investors, a Schonfeld Strategic Advisors spinoff, accumulated $1bn mid-year since its April launch.
9%	Assets linked to global macro strategies remained steady, while event-driven funds saw a 9% increase.

DOWNS

$4BN	Greenwoods Asset Management fell from 2nd to 14th rank, hedge fund assets now ~$4bn.
$3BN	Value Partners Group and Antipodes Partners saw large asset declines, both over $3bn, now 21st and 25th respectively.
33%	Multi-strategy and mixed arbitrage firms in Asia experienced a ~33% decrease in assets.
17%	Equity hedge funds assets dipped 17%, with Greater China-focused funds seeing a 28% reduction.

HEDGE FUND STRATEGIES IN 2023

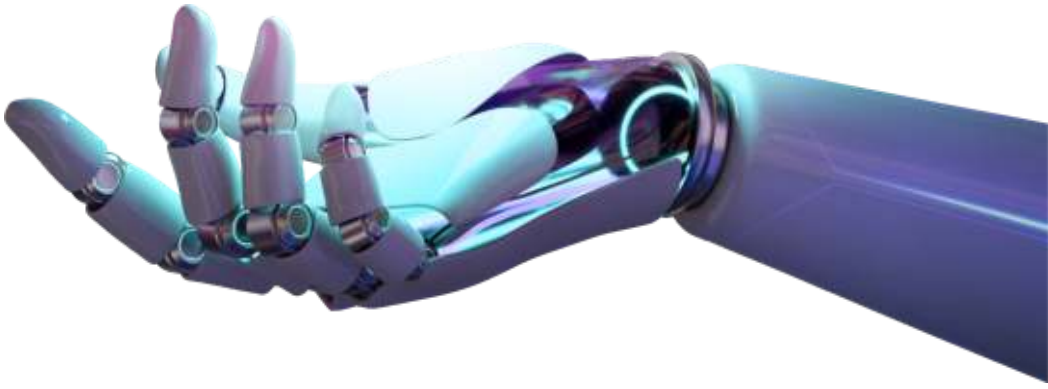
This analysis explores the varying outlooks for several investment strategies, ranging from Micro Quantitative and Macro Quantitative Strategies to Event Driven, Equity Long/Short, and Equities. Each section discusses the anticipated market conditionons, potential opportunities, and associated risks, providing a comprehensive overview of the investing landscape in the face of evolving economic trends. Whether the expected volatility could spur gains or the threat of a recession could impose a challenge, understanding these insights can be pivotal for an investor's decision-making process.

Equities	The expectation of heightened recession fears and a downside asymmetry. Noted are positive short rebates, favoring managers with more active short portfolios. However, there's a high degree of leverage in the system, increasing the risk of non-fundamental price moves and short squeezes.
Micro Quantitative Strategies:	Positive outlook as volatility and higher interest rates are expected to fuel returns, providing trading opportunities. This includes statistical arbitrage and machine-learning strategies in equities.
Macro Quantitative Strategies	Downgrade in outlook due to concerns that these models will struggle with more volatile macro fundamentals. Despite this, they still add value for some investors seeking variable exposure to rates and commodities.
Global Macro	Positive outlook due to economic divergence and macroeconomic uncertainty driving dispersion, creating opportunities across asset classes and regions. However, risks include potential portfolio drawdowns and volatility, as well as crowded hedge-fund positioning.
Event Driven	Neutral outlook on Merger Arbitrage due to various headwinds. However, opportunities are created by wide merger spreads outside safe deals. Neutral on Special Situations, noting potential for opportunistic corporate events and increased activism, but cautious of low levels of leverage implying fewer opportunities.
Equity Long/Short ELS	Challenging outlook due to potential range-bound equities through 2023. Preference for less-directional managers, with a neutral rating for Market Neutral strategies and a negative rating for Long Biased managers. Quality companies with strong balance sheets are preferred for longs and those with weaker balance sheets for shorts.

The Impact of AI and chat GPT in Hedge Funds: A New Era of Investment

The financial world has been revolutionized over the last few years, thanks to the rapid advancement in artificial intelligence (AI) technology. Among the most impressive of these AI technologies is OpenAI's GPT (Generative Pretrained Transformer), a powerful language model capable of understanding and generating human-like text based on the information it has been trained on. In this article, we explore the influence of AI and GPT specifically within the hedge fund industry.

READ THE FULL ARTICLE



"Though AI has its place in data analysis and pattern recognition, it cannot replace the unique human talent in hedge funds. The complex decision-making, intuitive understanding of market shifts, and ethical judgment crucial to successful hedge fund management, remain inherently human skills. While AI assists, the core of hedge fund success still hinges on the irreplaceable human element."

Finding Alpha Through People



THE BEST IN HEDGE FUND TALENT

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