WHY HEDGE FUNDS WILL NOT FAIL

BY JAYESH PUNATER

September 23, 2016

Despite fee pressures, inability to consistently produce high alpha, and a lack of long term capital well-aligned with investment strategies, I believe hedge funds will overcome these challenges and succeed.

Why am I optimistic when other experts say otherwise?

There are **three primary reasons**:

1. A macro view of the asset management industry reveals that there are few other investments providing investors with long-term, above-market returns.

2. The talent running hedge funds comprises the most agile, innovative, and sophisticated risk-takers, capable of navigating changing market conditions successfully over a longer timeframe.

3. There is better financial alignment than other investment models; the managers typically have significant skin in the game so they are "eating their own dog food".

Markets are cyclic and we are currently in a cycle of low interest rates, high correlation, and excessive money supply. As these conditions change over time – money supply tightens or interest rates increase – hedge funds will be best positioned to take advantage and generate superior returns for their investors.

Many of the larger financial institutions that would typically take advantage of market dynamics are now mired in regulatory and compliance requirements, losing their ability to be quick and agile. As a result, large parts of the market are being abandoned, which creates opportunities for smaller firms – hedge funds – to rush in and capitalize on the banks' constraints.

Despite the longevity of hedge fund success, not all will remain the same. The best hedge funds will need to tackle the following to be successful:

- Fee and fund structures need to evolve to give investors flexibility and comfort in increasing their investments.

- Hedge funds need to embrace new and emerging trends that will allow them to replace other financial institutions in functions like corporate lending and project finance.

- There will need to be stronger collaboration between investors and funds; a role reversal in which funds evolve to piggyback on investor opportunities and partnerships.

- Lastly, the best funds will need to establish longer-term LP commitments akin to PE firms. This will allow funds to maintain their convictions and push through short-term market volatility driven by global events, and avoid making investment decisions based on corporate performance.

I am still long "hedge funds," though it is clear the next incarnation of these firms will be very different from what we've previously known.

JAYESH PUNATER
Founder & CEO

Jayesh Punater is the founder and CEO of Gravitas and has more than 22 years of experience working in entrepreneurial, high growth companies servicing the financial industry.

Founded in 1996 as a technology consulting firm, Gravitas has been servicing the alternative investment industry as a trusted provider of IT services including infrastructure, cloud hosting and support. Two decades later, Gravitas has evolved into a fully integrated, cloud-based front and middle office services platform exclusively for hedge funds and asset managers.

The Gravitas Platform combines people, process and technology to funds achieve operational excellence and smart scale, while reducing risk. Solutions enabled by The Gravitas Platform include Market Risk, Portfolio Accounting, Reconciliation, Compliance Reporting, Data Warehouse/ Security Master/ Reporting Tools/ Pricing, and Information Technology Services.

Gravitas is headquartered in New York with 275+ employees working out of its five worldwide locations in Chicago, Greenwich (Connecticut), Mumbai and Ahmedabad, and at various client sites. The firm has cultivated a roster of 80+ client firms that manage over $1.15 trillion in AUM globally.

Gravitas was most recently named "Best Middle Office Solution" in the HFM US Hedge Fund Services Awards, and "Best Outsourced Solution" in the 2015 HFM US Technology Awards. Past HFM US Hedge Fund Services Awards won by Gravitas include: "Most Innovative Technology Provider" (2014), "Best Outsourced Technology Infrastructure Provider" (2013) and "Best Overall Technology Firm" (2012).

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