

Hedge Your Bets – Looking at the future of Hedge Funds

May 2026

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HSBC Asset Management

Investors in hedge funds should bear in mind that these products can be highly speculative and may not be suitable for all clients.

The value of investments and any income from them can go down as well as up and investors may not get back the amount originally invested. Past performance does not predict future returns. The return may increase or decrease as a result of currency fluctuations.

There are several key issues that one should consider before making an investment into hedge funds. The risks specific to this type of investment may include, but are not limited to:

Regulation

The hedge fund industry is lightly regulated, with the majority of funds domiciled in offshore jurisdictions. Hedge funds are generally classified as “unregulated” and are not typically subject to the same levels of scrutiny and protection as a traditional investment fund. A thorough due diligence process can mitigate these concerns.

Gating

In event that redemptions requests on a particular dealing date are much higher than the normal level and full satisfaction would jeopardise the longer term portfolio balance, a gate or partial execution of redemption requests may be implemented generally on a pro-rata basis.

Side pocket

There may be instances when certain assets in a fund portfolio could become less liquid and the fund manager may segregate these illiquid positions from the main portfolio into a side pocket (or a separate vehicle).

Suspension of redemption

Suspension of redemption is a temporary halt in exiting the fund during a given redemption window. This is a stronger measure than gating because there is no dealing for the fund. This is generally used under special circumstances such as when liquidity conditions have markedly deteriorated in a short period of time or when there are heavy asset outflow such as the loss of a core investor.

Access

Hedge funds operate larger investment minima than traditional investment funds. Investors are often unable to access a hedge fund unless they were willing to invest US\$500,000 to US\$2million.

Liquidity

Hedge funds typically have much longer dealing cycles than traditional investment funds. Depending on the strategy being utilised, a hedge fund may only allow subscriptions and redemptions on a monthly or quarterly basis. Furthermore, some hedge funds have long lock-up periods, where an investor is not permitted to redeem from the hedge fund unless a period of 6 months, a year or even 2 years has passed. Some may allow a redemption before the lock-up period is over, but the investor would have to pay a hefty penalty to be able to do this.

Transparency

Many hedge fund managers are wary of regularly publishing their positions in the belief that this will remove any advantage that they have over their peers. This can pose a problem to the investor, as he or she cannot be certain to which stocks, geographies, markets or even strategies he or she will be exposed to when investing in the hedge fund. However, trusted investors who have built strong relationships with the hedge funds can access this information for the majority of funds, enabling thorough monitoring of the investment.

Manager failure

Over time, a number of hedge funds will close or fail, due to weak performance or operational difficulties. An investor must take this into consideration before making an investment, seeking professional advice to help minimise the risk of investing in a fund that is likely to fail.

Alternatives

There are additional risks associated with specific alternative investments within the portfolios; these investments may be less readily realisable than others and it may therefore be difficult to sell in a timely manner at a reasonable price or to obtain reliable information about their value; there may also be greater potential for significant price movements.

We have spent much of 2026 evidencing to our clients and prospects the benefits of allocating to hedge funds as part of their wider portfolio construct. With a 30+ years' experience in advising on and investing in hedge fund solutions for our clients, the HSBC hedge fund platform has successfully navigated some of the most turbulent market environments ever witnessed, both in the hedge fund industry but also the wider financial ecosystem in which hedge funds operate. With our three decade track record in mind, we continue to hold a strong conviction in the value hedge funds can play in client portfolios in both the present market environment as well as for years to come.

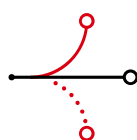
This paper will explain our rationale for why hedge funds could offer an opportunity at present but also go on to look at some of the long-term trends we are seeing in the hedge fund space, and what this can mean for hedge fund investing moving forward.

The current market environment

We believe there is an abundance of opportunity at present in markets, which hedge funds are well positioned to capitalise on given their ability to invest across different financial instruments.



Macro – A fertile macro trading environment as uncertainty, disruption and volatility persist (especially given the elevated rates and geopolitical picture). In saying that, consistent alpha generation could prove difficult given episodic bouts of volatility, thus emphasising the need for astute manager selection.



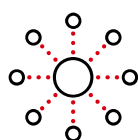
Managed Futures – We continue to believe timing trend-following allocations is unlikely to add consistent value, thus the focus is on building resilient and consistent exposure. A blend of both alternative and traditional trend followers offers greater diversification with more idiosyncratic returns.



Equity Long/Short – We would expect managers who harvest rising stock dispersion through disciplined stock selection and thematic positioning while keeping overall market exposure controlled to bear fruit in this market. In Asia, cheaper valuations and uneven liquidity may be supportive of both long and short alpha.



Event Driven & Credit – The strategy is positioned for an active opportunity set, with a preference for multi-discipline managers who can allocate across capital structures and regions as deal activity remains supportive despite rich valuations and global conflict.



Multi-PM – An opportunity dense hedge fund landscape combined with the strong structural advantages of multi-strategy managers could see managers in the space continue delivering returns. Additionally, we view the scale of these managers as a key differentiator, important for both competition and asset raising.

Should you wish to read more on our current outlook for hedge funds at present, please reach out to your HSBC relationship manager to receive a copy of our Quarterly Hedge Fund Strategy Outlook.

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Source: HSBC Asset Management Alternatives, Bloomberg. As at May 2026.

Given it is the 30th anniversary of the HSBC hedge fund platform's flagship product, much of our recent conversations with clients have covered performance across the last 30 years. However, we have also discussed our view on the longer-term direction of the industry. Given the market paradigm in which we find ourselves, and the re-assessment of portfolio allocation which many investors are performing, we have identified three themes which we feel could shape the hedge fund industry's future.

■ The potential impact of artificial intelligence

We're very aware of the seemingly endless excitement surrounding artificial intelligence, not only for its impact on financial markets but also for the ways in which we work. A consistent theme we hear from managers – and a regular topic of conversation when we meet with them – is the potential benefits that artificial intelligence and large language models can bring to hedge funds. While the opportunities appear extensive, several points are repeatedly highlighted. First, given the intense focus on computer science and coding over the last decade or so, the introduction of AI has been a step-change: much of the coding that has been highly sought-after in recent years can now be completed in a fraction of the time. With a sharp reduction in the cost and time required to build software, the development of new models, strategies, and optimisation tools could enable managers to widen their focus. In addition, many managers see significant scope for productivity gains from AI models' ability to summarise information while performing multiple actions at once. For example, collating and summarising financial information can support investment decision-making. We are already seeing artificial intelligence and LLMs being integrated into investment processes across the industry, with top tier models now table stakes for operating effectively. The sheer quantum of data which hedge funds are privy to (both internally and externally) provides a huge opportunity for further refinement of investment decision making.

■ Growth of the largest managers

While the 2010s were a period of more muted performance for hedge fund strategies, the decade also saw the growth of the Multi-PM model. As these platforms developed in the early 2020s, we have seen steady outperformance from these managers versus more single-strategy focused funds across market cycles. Why is this? Ultimately, the broad range of strategies, split across pods that dynamically deploy capital, means there is broad coverage of market environments in which allocators are positioned to deliver compelling returns. 2022 was a notable example. As wider equity markets slumped, many multi-strategy hedge funds delivered positive performance, with some net returns in excess of 20%. We believe this dominance will continue. The mature platforms on which these managers operate create environments well-suited for traders to deliver alpha. In addition, their scale enables them to attract superior talent – an imperative in an ever-more competitive industry. Recent large launches highlight some of the barriers to entry that exist at present, which bolsters the case for established multi-PM managers to continue growing in size. This growth could be reflected in a greater number of strategies being launched, as well as higher total assets under management.

■ Don't forget the 'small' guys

Much of the initial conversations we have with clients can focus on the biggest players in the hedge fund industry. However, as one of the largest hedge fund allocators globally, we continue to see value creation in an array of the relatively smaller managers, both established and new launches. This value creation is evidenced in the number of multi-PM hedge funds which are increasingly allocating to external managers as a way to diversify their own Fund's returns without having to necessarily build out a given team. In noting the potential benefits of AI for hedge fund managers, we believe there is scope for this to be of particular benefit for smaller managers. Where in a pre-AI era employing first-rate software engineers was imperative to competing as a hedge fund, AI models being able to perform the same role to a very similar degree could somewhat narrow the gap between more junior hedge fund platforms, and those established players with years of experience.

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Source: HSBC Asset Management Alternatives, Bloomberg. As at May 2026.

Taking into account are more short-medium term outlook as well as our more long term outlook, it is clear that the hedge fund industry and hedge funds as an asset class will continue to be a key consideration for many asset allocators when looking to diversify portfolios away from the traditional 60/40 portfolio construct. The prevailing market provides a fertile environment for hedge fund strategies, with the potential long term trends also a tailwind for the continued longevity of the asset class.

With hedge funds back in vogue as the alternative asset of choice, investors should weigh a few key considerations before allocating capital to maximise their chances of achieving attractive risk-adjusted returns.

- ◆ **Robust Due Diligence** – Investors should perform ample and granular due diligence before allocating to a given hedge fund manager. With the potential for material gains in productivity, there is the potential for greater performance dispersion amongst managers who develop and improve at differing rates. Consequently, it is imperative for investors to perform qualitative, quantitative, and operational due diligence to ensure the returns of managers and their processes are relatively strong, and also repeatable.
- ◆ **Access To Managers** – With our expectation for the largest managers to grow further with new products and/or wider capital raises, getting access to these managers will be an important driver of returns, especially given their strong track record in delivering returns across market environments.
- ◆ **Diversified Allocations** – We believe investors, especially those who are new to allocating to hedge funds, should look to maintain a diversified portfolio of different managers to emphasise the diversification benefits the wider asset class can have for traditional asset allocation. Not all hedge funds are the same, and so allocating to a selection of managers could enhance risk-adjusted returns whilst limiting the downside.

The HSBC Hedge Fund Platform has an **extensive track record** in performing **robust due diligence** (both investment and operational) on hedge funds to create **diversified hedge fund solutions** for our clients with allocations to what we view are **best-in-class managers** – many of whom are hard to access. As a truly **global, well-resourced** investment team with **strong industry connections**, we are able to evaluate a significant quantum of managers on a continuous basis to **onboard top talent**, both established and newly launched.

HSBC Hedge Fund Platform

30+ Years

Investing in Hedge Funds

42 Investment professionals

dedicated to Hedge Fund investing

\$364 bn

Assets under management¹

>140

Funds eligible for use in client portfolios

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Source: HSBC Asset Management Alternatives, Bloomberg. As at May 2026. 1) AUM figure as of March 2026.

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