



July 6, 2017

\$7,000,000,000,000 in Hedge Funds and Alternatives

By Alan Snyder

For an industry that the financial press regularly excoriates as shrinking, performing poorly, charging disproportionately high fees and only populated by bandits, \$7 trillion is a passel of money. As we recently projected, such sums are not surprising with over 630,000 people attentive to this type of investing. While the press magnifies all negatives in their usual course of reporting, there are many positives as evidenced by the capital allocated to the space. Some of the charisma lies in the opportunity to access often elusive non-correlated asset classes, unique strategies, and uncommon talent. Talent flows like water to high-payoff vocations: “homeoeconomics.” Nevertheless, all is not gold; separating the wheat from the chaff is no easy task as we have noted, no doubt, [ad nauseam](#).

Like Dorothy in *The Wizard of Oz*, let’s peak behind the curtain for any learnings. Originally, hedge funds were strategies designed to smooth performance by going long one security and hedging that position by going short another. While this can still be true, hedge funds and alternatives include much more. Assets of all variety are held in “hedge fund” pooled investment vehicles, whether a limited liability company, limited partnership, trust, insurance dedicated fund, etc.

Most sources estimate that there are over 15,000 funds in existence, 70% being dedicated to a single asset manager while the balance is in so-called funds of funds, which aggregate several underlying hedge funds within one overall fund. In 2016, new launches were at an historic low, exceeding closures, but not by much. Equity and event-driven funds grew while multi-strategy and futures funds closed at a record pace.

Capital allocated to hedge funds alone approximated \$3 trillion in 2016, having increased by over \$100 billion from the prior year. Yet, outflows were high, suppressing historic growth rates of 35% that had been experienced from 1997 to 2007. Unsurprisingly, during the great recession in 2008, this sector witnessed a decline of 32%. The bounce-back has been modest. Most recently, growth has been relatively tepid, estimated at 3% - 4% for 2017.

Private equity in the alternatives category blossomed, reaching \$2.5 trillion total allocations in 2016. Illiquidity and long cycle times have not dampened investor enthusiasm. There are over 1,800 funds chasing capital and “great deals.” 830 funds raised \$347 billion in 2016, corroborating the allure of this category. Adding private debt, real estate, infrastructure and natural resources expands the pool to \$4.5 trillion. In toto, adding the whole shebang together nets our \$7 trillion sum. While measuring exact amounts of capital allocated to these areas is both imprecise and even a bit sketchy, the total sums involved confirm investor appetite.

Alternative lending (a.k.a. shadow banking, non-bank lending, marketplace loans, and niche debt) has not been left behind. The Association of Investment Companies (“AIC”), using Matrix Financial Clarity, estimates that advisers and wealth managers made record purchases in the twelve months ended March 2017. With banks hampered by bloated bureaucracies, outdated technology and regulatory constraints, investors partnering with alternative lenders has filled the void. Globally improving economies have continued to create additional demand for this capital. At Shinnecock, we see many opportunities to deploy capital at attractive risk-reward yields in alternative lending.

Upcoming Events

See attached schedule of industry related events at which Shinnecock will be sharing more in-depth information and let us know if you’ll be attending so we can look for you!



Upcoming Events

Shinnecock will be in attendance and Alan Snyder will be speaking at the following events. We'd be happy to have you join us!

September 17-19, 2017 – Dana Point

Context Summits West 2017

Monarch Beach Resort

1 Monarch Beach Resort N., Dana Point, CA 92629

For information and registration: <https://contextsummits.com/west/>

November 12-14, 2017 – Austin

Context Summits Texas 2017

Fairmont Hotel/Austin Convention Center

Convention Center, 500 E. Cesar Chavez Street, Austin, TX 78701

For information and registration: <https://contextsummits.com/texas/>

January 31 – February 2, 2018 – Miami Beach

Context Summits Miami 2017

Fontainebleau Hotel

4441 Collins Ave, Miami Beach, FL 33140

For information and registration: <https://contextsummits.com/miami/>