

Hedge funds are popular, while Emerging markets are in pole position. And risk has remained under control

Performance slightly positive for liquid alternatives, with volatility of 6.7%, compared with 29.4% on the stock markets

In 2020, the best performance (10.8%) was from specialist products on developing markets, stimulated by China

by **Patrizia Puliafito**

Liquid alternative funds (products which replicate typical hedge fund strategies) have also suffered the repercussions that the pandemic delivered to the stock market: steep collapses alternating with sudden recoveries as a result of massive monetary interventions by central banks. However, as per their mission, liquid alternatives have been able to mitigate the risk well, closing 2020 with a higher average performance than the European stock market (+0.29% against +0.11% for the Eurostoxx Total Market Net Return), and more limited volatility (6.79% against 29.46% for the stock markets). Nevertheless, liquid alternatives still closed the *annus horribilis* with overall assets down by € 46 billion on 2019 (€ 215.6 billion against a previous figure of € 261.9 billion).

The mechanism

"The loss is mainly due to the redemptions that took place in the first quarter of last year which were not entirely justified given the performance that the funds were registering, even in the most critical phases of the stock market cycle. The trend reversed in the fourth quarter. Investors returned to look at this market segment with

interest", remarked Stefano Gaspari, MondoInvestor's sole director. Long/short equity funds have always held the largest market share (with € 31 billion in assets under management), followed by multi-asset funds (with € 29.7 billion in assets), macro funds (€ 26.7 billion), multi-strategy funds (€ 25.3 billion) and fixed income alternatives (€ 23.2 billion).

The contest

With an average result of 10.87%, 2020's best performers, awarded at the MondoAlternative Awards 2021, were managers specialising in emerging markets, thanks to gains in equities in these areas, primarily driven by China's rapid exit from the pandemic, which allowed it to continue on its path of economic growth.

With an average performance of 5.44%, funds with relative value strategies took second place on the podium thanks to arbitrage and their ability to take advantage of market volatility. The bronze medal went to long/short credit funds, which drew benefit from widening and narrowing bond spreads, with the category reporting an average performance of 3.23%.

Managers adopting the long/short equity strategy, which were able to navigate the highs and lows of the stock markets while controlling

volatility, just missed out on the podium with a performance of 3%. Multi-asset, fixed income alternatives and event-driven strategies were also positive.

However, products using volatility trading (6.68%) and risk premia (13.54%) strategies slipped to the bottom of the rankings. Turning to the Italian market, the most striking news from 2020 was the return to significant performance by alternative investment funds (AIFs), which employ hedging strategies that respond to the AIFM Directive. Funds of hedge funds closed the year with a performance of 9.06%.

"A significant result, accrued over a year of high volatility, demonstrates that hedge funds are able to take advantage of opportunities at the right moment", explained Gaspari. "These products' high managerial flexibility, higher than for liquid alternatives which respond to more stringent regulations, will also help them obtain good results in the coming months".

In particular, seven funds of funds, which allow investors to access the market in a diversified manner, closed 2020 up, and seven individual managers obtained an average result of 1.27% in 2020.

	2020	Volatilità 2020	
Media generale	0,29%	6,79%	S.A. Fonte: MondoInvestor
Emerging Markets	10,87%	9,41%	
Relative Value	5,44%	6,32%	
Credit Long/Short	3,23%	8,49%	
Long/Short Equity	3,00%	7,65%	
Multi Asset	1,82%	8,46%	
Fixed Income	1,78%	6,93%	
Event Driven	1,02%	10,07%	
Multistrategy	-0,74%	7,56%	
Equity Market Neutral	-2,52%	2,50%	
Global Macro	-2,64%	10,41%	
Managed Futures	-3,73%	5,99%	
Volatility Trading	-6,68%	7,56%	
Risk Premia	-13,54%	6,92%	
Fondi di fondi	0,08%	6,60%	



Analysis
Stefano Gaspari,
who heads the
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