

Hedge funds poised for larger role in private wealth portfolios

Christian Hoffmann



Diversifying portfolios has seen growing demand, and hedge funds can be a compelling option © Pexels

Hedge funds were historically often perceived as suitable only for institutional investors, but they can be a valuable addition to investment portfolios for a broader investor base.

Wealth advisers, in particular, can consider hedge funds as a compelling option for portfolio diversification — and demand is growing.

This interest stems from widespread dissatisfaction with the performance of traditional 60/40 portfolios and recent questions around the attractiveness of private credit and real estate.

The key question for financial advisers is no longer how many strategies are in an investment portfolio but whether those strategies truly diversify risk.

What does true diversification look like?

Diversification is frequently misunderstood as simply holding a balanced mix of asset classes — equities, bonds, and alternatives. But when market conditions

become more challenging, as they did in early 2025, many investors discovered their portfolios weren't as diversified as they thought.

Alternative assets such as private credit, private equity and real estate often behave similarly to traditional investments.

Private credit is typically exposed to the same macroeconomic risks as traditional credit, while real estate is sensitive to inflation and interest rates. These are not true diversifiers, they are familiar risks in different packaging.

To improve outcomes, advisers should seek investments that behave differently from existing holdings — recognising that finding these differentiated investments can be difficult because many investment options within equities and fixed income are quite similar.

Why hedge funds?

Hedge funds might be one such attractive investment option for financial advisers and certain high-net-worth individuals that are seeking diversification.



Hedge funds have rebounded in recent years, delivering a 10.1 per cent return last year and outpacing 2023. Post-Covid they have shown resilience amid market turbulence and shifting investor sentiment.

Their broad investment universe and flexibility — such as the ability to go long or short, use relative value strategies, and operate across time horizons — give them a greater toolkit to navigate volatile markets.

Depending on the type of fund, they may also employ rigorous risk management and leverage large data sets to inform investment decisions.

According to Barclays' Hedge Fund Outlook, hedge funds have rebounded in recent years, delivering a 10.1 per cent return last year and outpacing 2023.

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As such, the appetite to invest in hedge funds has grown.

Strength in volatility

In recent years, we have seen traditional diversification struggle in the face of inflation shocks, geopolitical tensions, and policy shifts, and we have seen that even well-constructed portfolios are not immune to drawdowns when macro forces hit.

In such environments, correlations break down, and hedge funds have demonstrated their value by capitalising on volatility and identifying market signals.

The role of systematic strategies

Systematic hedge fund strategies may be particularly effective diversifiers. Their investment decisions are based on studying relationships between data changes and investment outcomes.

The continuously expanding world of data sources allows such managers to broaden their field of analysis, processing more information than what would be possible by individual analysts. From that information advantage, they can express their investment views over different time horizons and potentially across long or short opportunities in markets.

This adaptability makes them well suited for today's complex markets.

A growing opportunity for wealth advisers

Hedge funds are increasingly seen as a way to enhance the traditional 60/40 equities and fixed income portfolios, and serve as complements to alternative assets including private credit and real estate, especially for high-net-worth individuals.

Administratively, it has also become more feasible and easier for financial advisers to access hedge funds for their clients.

Wealth management-gearred alternative platforms, such as iCapital, are providing access points that can be used across managers and come with potential custody options that leverage the advisers existing infrastructure.

As demand for uncorrelated returns grows, hedge funds are poised to play a larger role in private wealth portfolios.

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