BOREALIS
STRATEGIC CAPITAL PARTNERS, LP

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# BEYOND THE PLATFORMS

*Finding Opportunity and Alpha Outside Multi-Manager Hedge Funds*

## The Rise of Multi-Manager Platforms

Multi-manager hedge fund platforms – firms that allocate capital across dozens or hundreds of autonomous portfolio managers/teams – have grown significantly in recent years as institutional investors have embraced their strong risk-adjusted returns and lower correlation profiles. According to research from Goldman Sachs Asset Management, from 2017-2023, multi-manager firms grew assets under management by 175%, while the rest of the hedge fund universe grew by only 13%[1].

However, as more capital floods into these platforms, it's worth asking: *What are institutional investors missing by putting so many eggs in the multi-manager basket?* The traits that make multi-manager funds attractive also impose constraints that may leave significant opportunities and alpha untapped.

## Built for Liquidity and Low Volatility

Multi-manager firms' inherent leverage requires strict risk controls, limiting how much capital each underlying portfolio manager can deploy, defining their maximum loss tolerance, and limiting their exposure to various market factors. They focus on liquid positions to enable effective risk monitoring and management, and many require underlying strategies that produce steady monthly returns with minimal volatility.

This disciplined approach has yielded steady returns with modest risk even in turbulent markets. However, it narrows investment opportunities to major markets and asset classes in which large positions can be built or unwound quickly.

## The Opportunity Set Overlooked

Several categories of strategies that can't be easily traded, scaled meaningfully, or tightly and consistently controlled for volatility fall outside the multi-manager paradigm:

- **Niche and Esoteric Strategies**: Opportunities in "off-the-beaten-path" areas of the market that lack obvious scalability but can provide differentiated, sustainable alpha. These strategies may include a long/short equities specialist focused on a specific "frontier" emerging market or a commodities specialist investing in congestion rights in a specific power market.

- **Less Liquid Investments**: High-alpha opportunities in certain strategies, including micro-/small-cap equities and litigation finance, that can't be readily traded. These investments may only offer episodic liquidity around certain events core to the portfolio manager's thesis.

- **Longer-Duration Opportunities**: Investment ideas requiring years to play out, including those in distressed debt and thematic strategies tied to longer-term themes and theses. For instance, a distressed debt strategy may require several years to fully capitalize on a compelling restructuring opportunity/process, and a macro strategy focused on a specific theme – in fixed income, rates, equities, currencies, or commodities – may require longer-duration capital to fully monetize the opportunity.

- **Higher Volatility Trades**: Strategies that embrace volatility rather than suppressing it, such as concentrated, directional sector-specific bets. For instance, a long/short equities sector specialist may have a high-conviction directional view on a specific sub-sector that is best monetized by active trading and dynamic sizing – capitalizing on the opportunity created by short-term volatility.

- **Opportunistic, Flexible Mandates**: Strategies that invest dynamically and tactically across a range of geographies, securities, sectors, and/or sub-strategies. These "go-anywhere" strategies rely on their opportunistic, flexible mandates to nimbly shift capital to the most attractive risk/reward opportunities at a given point in the market cycle.

## Why These Overlooked Strategies May Offer Alpha

These strategies can be gold mines for those willing to venture there. With less competition in these areas, a talented specialist might face less "sophisticated" competition trafficking in that particular market segment. Further, based on these more favorable competitive dynamics, less crowded trades often come with wider mispricings and higher alpha potential.

Single-managers outside multi-manager constraints have greater freedom to express their best ideas without being forced to reduce or liquidate positions due to temporary loss limits or market volatility. This flexibility can lead to higher conviction bets and potentially greater returns over time, albeit with more volatility.

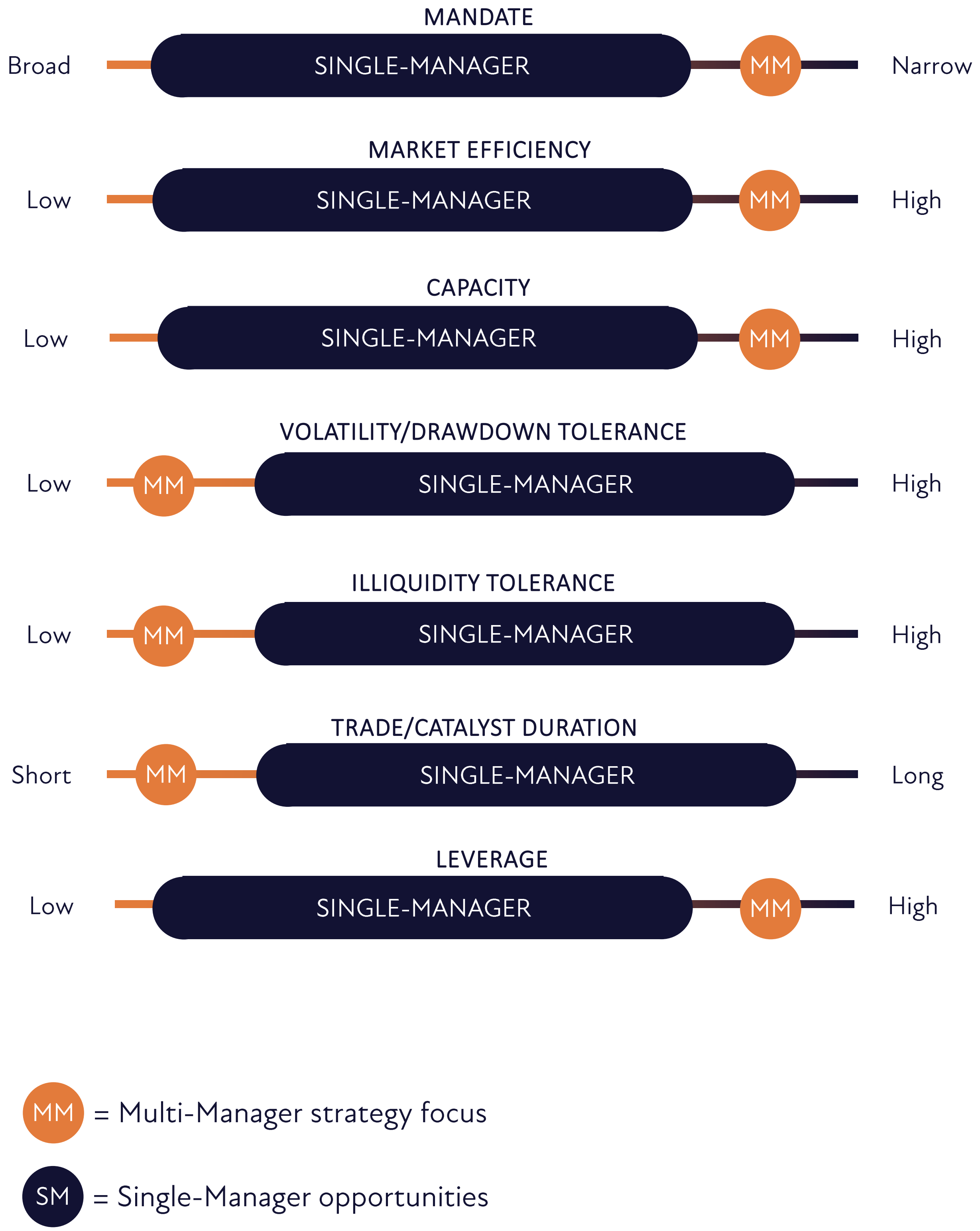
While multi-manager portfolios often end up heavily weighted in similar equity-centric, short-term relative value trading strategies, single-manager portfolios are better equipped to capture alpha in less liquid, less scalable, and longer duration themes/strategies, many of which necessarily embrace volatility.

## Contrasting Approaches: Multi-Manager vs. Single-Manager

To be clear, neither model is universally "better." Multi-manager firms excel at risk management and consistency, often boasting enviable Sharpe ratios. They provide "one-stop" exposure to various strategies under strict risk oversight, resembling a fund-of-hedge funds but with tighter control and typically lower volatility.

On the other hand, single-manager hedge funds rely on the singular vision of their portfolio manager. This approach may carry more "risk" but enables bold, differentiated bets in strategies and securities that multi-manager platforms would avoid. In times of market turmoil, single-manager funds have the discretion and leeway to reshape their portfolios to capitalize on rare opportunities or concentrate capital in high-conviction ideas – actions typically unthinkable at multi-PM firms.

## Contrasting Approaches: Multi-Manager vs. Single-Manager




The above information is being shown for illustrative purposes only and there is no guarantee that single-managers or multi-managers will meet any or all target metrics. The ratings for each category are not to scale and provided for discussion purposes only. Please reference Disclaimers for additional information.

## Broadening the Hedge Fund Lens

Institutional investors should think critically about the limitations of the multi-manager model. While these platforms may provide steadier returns and mitigate volatility, they aren't a panacea for alpha. A wide breadth of the global markets landscape and alpha opportunities remain untouched by multi-manager funds.

Investors can complement their portfolios with targeted allocations to strategies that thrive where multi-manager funds are less likely to tread – illiquid strategies like distressed credit and special situations, specialized sector-focused managers with longer-term themes and trades, or niche funds that prefer flexibility to capture alpha in capacity-constrained markets. Co-investments or bespoke trades/strategies alongside single-manager funds represent another potential path to capitalize on high-conviction ideas with attractive risk/reward profiles.

The hedge fund industry continues to evolve, and multi-manager platforms are an important component – but not the final destination. By casting a wider net, investors can capture both the refined, low-volatility alpha that multi-manager funds produce and the potentially higher-octane variety found in strategies beyond platform confines. A balance of both may be key to constructing a truly robust, diversified hedge fund portfolio.

[1] Goldman Sachs Asset Management: Industrializing Alpha: A Look at Multi-Manager Hedge Funds and Modern Allocation Strategies - Goldman Sachs Asset Management