

Hedge Fund 101

A hedge fund is a broad term for an actively managed investment strategy that seeks to generate alpha and attractive returns across market environments, with less reliance on broad market direction. Hedge funds typically have greater flexibility than traditional funds, including the ability to use tools such as short selling, derivatives, leverage and hedging to pursue opportunities and help manage risk.

How Hedge Fund Managers Seek to Generate Attractive Returns



Identify Opportunities

Investment teams analyze markets, companies and events to uncover mispricings and inefficiencies that others may overlook.



Position the Portfolio

Hedge fund portfolio managers may take long positions in investments they expect to rise, and short positions in those that they expect to fall.



Manage Exposures

A range of tools may be used to help adjust risk, hedge market exposure and enhance return potential.



Seek Alpha

Active decision-making and flexible positioning help hedge fund managers pursue returns beyond traditional market exposure.

Hedge fund strategies can be offered through a variety of vehicles, with liquidity, fees, lockups and investor eligibility varying by structure.

Hedge funds typically allow for a great deal of flexibility in portfolio construction, use of leverage and investment selection across asset classes. Investors commit capital to a pooled fund managed by an asset manager, who deploys capital across a defined strategy or opportunity set.

Common Hedge Fund Characteristics

While hedge fund strategies can vary widely by mandate, asset class and investment approach, many share a common emphasis on flexibility, active management and an objective to seek returns beyond traditional broad market exposure. These strategies can also be offered through a variety of vehicles, with liquidity, fees, lockups and investor eligibility varying by structure.

Common characteristics may include:

Flexible investment mandate: May invest across equities, credit, currencies, commodities, derivatives and other asset classes, depending on the strategy.

Actively managed: Often invest in liquid markets and actively adjust positions as opportunities, risks and market conditions evolve.

Long and short investing: Typically employ both long and short positions, enabling them to potentially profit from both rising and falling asset prices.

Use of leverage and derivatives: Can use leverage through borrowing or derivatives to increase return potential by expanding market exposure. While leverage can help enhance returns, it can also increase risk by magnifying potential losses.

Fees: Typically include a management fee and a performance-based incentive fee designed to compensate managers for their skill.

Common Hedge Fund Strategies

To achieve their investment objectives, hedge funds can pursue a wide range of strategies, each using different tools, markets and sources of return potential.



Equity Long/Short

Invests in securities expected to outperform while shorting those expected to underperform



Credit

Focuses on corporate debt and other credit opportunities



Event-Driven

Seeks to capitalize on corporate events such as mergers, acquisitions, spin-offs, recapitalizations or restructurings



Global Macro

Invests based on economic, geopolitical and market trends



Multi-Strategy

Combines multiple hedge fund approaches within a single portfolio



Relative Value/Market Neutral

Seeks to profit from pricing differences between related securities while reducing broad market exposure



Opportunistic Credit

Focuses on stressed or distressed companies and other credit-related opportunities where complexity, dislocation or catalysts may create mispricings



Quantitative

Relies heavily on statistical analysis, mathematical models, and algorithms to make investment and trading decisions

Why Investors Choose Hedge Funds

Today, there are thousands of hedge fund managers globally overseeing trillions of dollars in assets. The main driver of this growth has been increased demand for—and recognition of—the benefits of hedge funds. Those include:



Return Potential

Hedge funds seek to generate alpha versus market beta.



Active Management

Hedge fund managers can adjust and hedge exposures as market conditions change, helping to reduce reliance on broad market movements while pursuing alpha opportunities across evolving market environments.



Diversification

Hedge funds have historically low correlation to traditional equity and fixed-income markets.



Downside Mitigation

Certain strategies—e.g., hedging and shorting—may help reduce sensitivity to broad market movements.



Access to Specialized Strategies

May invest in opportunities not typically available through traditional funds.

Disclosures

An investment in an interval fund is not suitable for all investors. Unlike typical closed-end funds, an interval fund's shares are not typically listed on a stock exchange. Although interval funds provide limited liquidity to investors by offering to repurchase a limited amount of shares on a periodic basis, investors should consider shares of interval funds to be an illiquid investment.

Investments in interval funds are therefore subject to liquidity risk, as an investor may not be able to sell the shares at an advantageous time or price. There is also no secondary market for the interval fund shares, and none is expected to develop. There is no guarantee that an investor will be able to sell all or any of their requested fund shares in a quarterly repurchase offer.

Interval funds tend to use leverage, which may cause a portfolio to liquidate positions when it may not be advantageous to do so, to satisfy its obligations or to meet segregation requirements. Leverage, including borrowing, may cause a portfolio to be more volatile than if the portfolio had not been leveraged.

Interval funds can invest in both traditional and speculative securities, which may contain significant uncertainties. All investments contain risk and may lose value.

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