

INSTITUTIONAL RESEARCH REPORT · 31 AUGUST 2026

Quant Trading, AI & the New Sources of Alpha

RESEARCH CUT-OFF

31 August 2026

COVERAGE

Global hedge funds
Systematic strategies

CLASSIFICATION

Institutional research

DOCUMENT

BR-QT-2026-08

Has AI reduced fund returns, how are operating models changing, and what now constitutes genuine, defensible alpha?

BLACKRIDGE RESEARCH
QUANTITATIVE STRATEGIES
2026 / AUGUST

CONTENTS

Research map

The report separates observed performance, competitive mechanisms, and practical implications for fund design.

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The central distinction: fund performance and the durability of any individual signal are not the same.

Strong aggregate quantitative-strategy returns can coexist with faster decay in public factors. Funds offset that decay through research renewal, diversification, execution, and dynamic risk allocation across multiple books.

AI did not kill quantitative investing. It is likely making replicable alpha more perishable.

11.20% Quant Equity, 2025 BNP PARIBAS [01]	12.76% Quant Multi-Strategy, 5Y annualized BNP PARIBAS [01]	\$2.8B Alternative-data spend, 2025 NEUDATA [05]	94% Surveyed fundamental PMs/analysts using AI/ML in alt-data research (n=100) EXABEL SURVEY [06]
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Access to a capable foundation model is no longer a standalone advantage. Code generation, document processing, and standard NLP are becoming cheaper across the industry at the same time. This shortens the path from idea to prototype, while increasing the number of competitors able to discover and replicate the same public signal.

The competitive frontier is therefore shifting from the quality of an individual model to the fund’s production system: unique data, point-in-time histories, portfolio construction, crowding control, execution, financing, and the speed at which deteriorating signals are replaced.

BOTTOM LINE

Generic prediction is becoming cheaper. Being right after fees, market impact, crowding, and regime change is not.

EVIDENCE SUPPORTS

Compression of replicable signals

Historically, anomaly returns declined after disclosure. AI plausibly accelerates idea discovery, testing, and diffusion, but direct evidence of AI-driven decay is still model-based, and AI is not the sole cause of signal decay.

EVIDENCE DOES NOT ESTABLISH

A broad decline in quantitative returns

Double-digit quantitative equity and multi-strategy returns in 2025, together with rising allocator interest, are inconsistent with the simple claim that AI has destroyed quantitative investing.

02

PERFORMANCE EVIDENCE

Returns have not disappeared. They have become more heterogeneous.

Equity statistical arbitrage, systematic macro, trend, HFT, and quantitative multi-strategy cannot be collapsed into a single "AI funds" category.

1 **Quant Equity:** 11.20% in 2025 and 11.31% annualized over five years. More than one-third of surveyed allocators added capital in 2025, while a further 30% planned to increase exposure in 2026. ^[10]

2 **Quant Multi-Strategy:** 11.49% in 2025 and 12.76% annualized over five years. Twenty-four percent of allocators planned to increase exposure in 2026. ^[10]

3 **Alternative Risk Premia:** 12.11% in 2025 and 9.13% annualized over five years, yet only 3% of allocators intended to add capital. A strong return is not the same as scarce alpha. ^[10]

4 **Broad hedge-fund market:** the HFRI Fund Weighted Composite gained 12.4% in 2025, its best calendar-year result since 2009 according to HFR, and 7.5% in the first half of 2026. This is counterevidence to a broad decline, but not a clean quantitative-strategy test. ^{[15] [12]}

INTERPRETATION

AI is changing the production function

A fund can sustain strong performance if it creates new signals faster than old ones deteriorate, and if its portfolio architecture reduces dependence on any single crowded exposure.

CAVEAT

Categories are not directly comparable

Indices, allocator surveys, and self-reported databases differ in universe, survivorship, leverage, fees, and the definition of "quant." They indicate direction, not a single causal test.

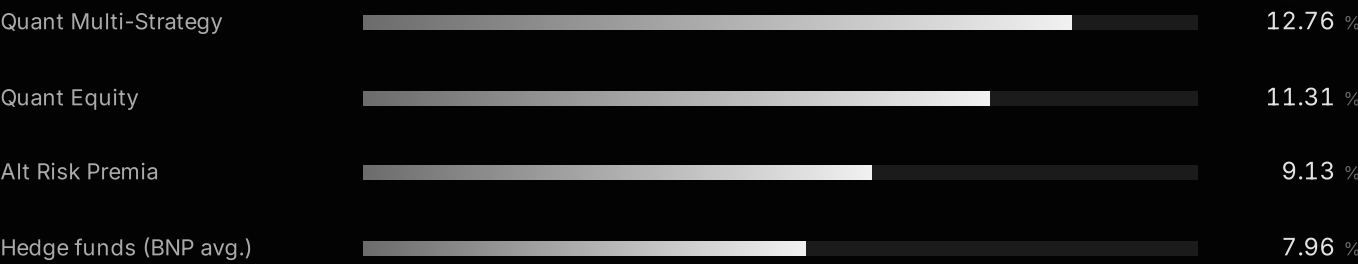
03

RETURNS & REGIMES

A strong period does not eliminate regime and capacity risk.

Five-year annualized return

BNP PARIBAS 2026 HEDGE FUND OUTLOOK [01]



2026 regime observations

HFRX [02] [03] [04]

PERIOD	HFRX GLOBAL	EQUITY HEDGE	MARKET NEUTRAL / MACRO	INTERPRETATION
June	+0.63%	+1.70%	Macro -0.88% (Systematic/CTA -1.36%); Market Neutral +1.81%	Divergent outcomes within the systematic universe.
July	-1.13%	-2.11%	Macro -1.52%	HFRI Technology fell 7.0%, its worst month since January 2008. Any link to AI exposures is context, not established causality. [16]
1-17 August	+1.21%	+2.29%	Macro +1.48%	The partial rebound does not support a thesis of irreversible structural deterioration, but 17 days of broad indices are too short a window to test it.

Index note: HFR/HFRX figures are presented solely as institutional research context. The indices are not investable.

04

CAUSALITY

AI accelerates competition.
It does not explain everything.

AUM, fees, data availability, electronic execution, factor concentration, and the macro regime were changing at the same time.

01	02	03	04	05
Discovery	Prototype	Convergence	Crowding	Renewal
LLMs accelerate hypothesis generation and document review.	Code and feature engineering become cheaper.	More funds converge on similar exposures; [10] AI traders can also coordinate tacitly. [11]	Capacity and exit liquidity deteriorate faster.	The fund must replace expiring alpha more quickly.

What the research shows

NOT A UNIVERSAL INDUSTRY ESTIMATE

Out of sample

-26%

After publication

-58%

McLean & Pontiff studied 97 predictors: returns were 26% lower out of sample and 58% lower after publication, and they attribute the roughly 32-point difference to publication-informed trading. This is historical evidence of decay after an idea diffuses, and it predates generative AI. [99]

MODEL IMPLICATION

18 months is a scenario

Meng & Chen (2026) derive an 18-month signal half-life under current AI adoption, versus five to seven years in their pre-AI benchmark. This is a useful model of the mechanism, not an observed universal signal life. [10]

DEFENSIBLE CONCLUSION

Cheaper prediction, costlier renewal

AI increases research throughput across the industry. The moat therefore lies not in the model, but in unique context, execution telemetry, and the speed of replacing deteriorating research inventory.

05

FUND STRUCTURE

The fund becomes a research factory, not a collection of models.

Advantage is created at the interfaces among data, research, portfolio construction, execution, and independent control.

01 Data foundry Point-in-time histories, entity resolution, licensing, lineage, and proprietary labeling.	02 Research loop Human hypotheses, AI-assisted code, causal tests, leakage control, and reproducibility.	03 Portfolio layer Conditional covariance, crowding, liquidity, capacity, and nonlinear constraints.	04 Execution Market impact, venue selection, borrow, financing, latency, and alignment of forecast horizon with order type.	05 Risk & renewal Drift monitoring, kill criteria, red teams, a model registry, and the pace of retirement.
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ORGANIZATIONAL PRINCIPLE

Infrastructure is centralized. Ownership of the hypothesis, causal interpretation, and risk budget remains with the people closest to the strategy.

The platform model combines shared data and execution with independent strategy books. A focused specialist fund can compete differently, through constrained capacity, a local market, or a proprietary data channel.

06

ECONOMICS

Scale strengthens platforms.
Specialization protects the niche.

\$5.6tn Hedge-fund industry capital, Q2 2026 HFR, broad industry [12]	\$38.1bn of \$45.2bn in net inflows went to firms with >\$5bn AUM Concentration of flows [12]	+61% Growth in SMA capital among BNP respondents, 2023–2025 \$26bn → \$42bn [01]
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- A

Alternative data: spending reached approximately \$2.8bn in 2025, up 17% year on year. Neudata tracked 2,805 datasets, and 57% of firms expected budgets to rise further. It also estimates the average dataset is used by about 20 clients, down from 25 in 2024, which cuts against a simple crowding story. [05]
- B

AI adoption: AIMA reported that 95% of managers used generative AI and 58% expected its role to expand. [08] In the 2024 BoE/FCA survey of UK financial firms, only 2% of AI use cases were fully autonomous. [13]
- C

Talent density: With Intelligence estimated that multi-manager platforms controlled up to 10% of industry assets but as much as 25% of its personnel (2024 data). [14]
- D

Investor control: SMAs, portable alpha, and active extension increase demand for transparency, treasury efficiency, and bespoke risk overlays.

IMPLICATION

In our view, a mid-sized generalist fund without platform scale or a focused proprietary edge faces the greatest pressure. HFR flow data point the same way: firms with \$1–5bn AUM received \$6.3bn of Q2 net inflows, against \$38.1bn for firms above \$5bn. [12]

07

STRATEGY MAP

Which strategies
are gaining traction.

Demand is shifting not toward an “AI strategy” label, but toward processes with low broad-market beta and strong production economics.

01	Quant Equity / Market Neutral Broad cross-section, text and transaction data, with controlled beta.	AI increases research throughput, but advantage depends on data joins, execution, and crowding control.	High interest 30% PLAN TO ADD [01]
02	Quant Multi-Strategy Risk allocation across equity, macro, relative value, volatility, and execution books.	Value is created by the portfolio allocator and shared infrastructure, not by a single model.	12.76% 5Y ANNUALIZED [01]
03	Global Macro / Managed Futures Rates, FX, commodities, and policy divergence.	Liquidity and diversification sustain demand, but outcomes remain highly regime-dependent.	Liquid REGIME-SENSITIVE
04	Active Extension / Portable Alpha Separation of the beta budget from the alpha engine.	Capital-efficient overlays and investor-specific implementation broaden the use case.	34% ALREADY ALLOCATED [01]
05	Less-crowded Alternative Data Employment, supply-chain, local, and proprietary datasets.	The edge comes from point-in-time integration and combining sources, not from purchasing a single feed.	2,805 DATASETS TRACKED [05]
06	Volatility / Complex Relative Value Surface dynamics, path dependency, and microstructure.	Higher barriers, constrained capacity, and a critical role for execution.	Defensible CAPACITY CONSTRAINED

08

DURABLE EDGE

Durable alpha is
an integrated system.

Any individual component can be purchased. What is difficult to reproduce is their integration, history, and feedback speed.

Proprietary data creation	Exclusive rights, proprietary labeling, a unique archive, and an entity graph.	INFORMATION MOAT
Execution & financing	Impact, slippage, borrow, queue position, and treasury convert a forecast into net alpha.	REALIZATION
Portfolio architecture	A blend of modest independent edges, conditional covariance, liquidity, and convexity.	RESILIENCE
Capacity discipline	Closing a strategy to capital before AUM destroys its economics.	SCARCITY
Regime adaptation	Drift detection, abstention, and kill criteria instead of endless refitting.	SURVIVAL
Research renewal speed	The pace of replacing expiring signals and the institutional memory of experiments.	COMPOUNDING

THE NEW MOAT

Not intelligence, but integration: the fund’s data, experimental results, execution telemetry, model errors, and position context that competitors do not possess.

09

FUND PRIORITIES

The priority is not the best backtest.
It is a reliable learning loop.

PRIORITY 01 Controlled research velocity Automate ingestion, code generation, and experiment tracking without weakening point-in-time, leakage, or multiple-testing controls.	PRIORITY 02 Data provenance & rights Know when information actually became available, who has the right to use it, and how revisions alter the historical record.
PRIORITY 03 Crowding intelligence Monitor factor overlap, dealer positioning, liquidity concentration, and forced-deleveraging scenarios.	PRIORITY 04 Execution ownership Link forecast horizon to venue, order type, impact model, financing, and realized capacity.
PRIORITY 05 Model risk & cyber Red-team AI-generated code, isolate secrets, validate vendors, maintain lineage, and ensure reproducible rollback.	PRIORITY 06 Investor-aligned structures SMAs, portable alpha, and active extension require transparent budgets, capacity accounting, and bespoke limits.

Human + AI. AI supports search, coding, critique, and scaled processing. Humans retain hypothesis ownership, causal interpretation, the risk budget, and production sign-off.

Talent bottleneck. KPMG reports that 60% of financial-services technology leaders lack the talent they need to deliver their technology plans.
[07] In our view, platform automation is becoming a necessity, not an option.

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OUTLOOK

The market is becoming bipolar: platforms and specialists.

	ADVANTAGE	PRIMARY RISK	TRAJECTORY
Large quantitative platform	Shared data, compute, and execution; high talent density; capital allocation across books.	Bureaucracy, technological monoculture, and capacity dilution.	AUM growth with an expanding role for portfolio architecture.
Specialist fund	A distinctive market, proprietary data, rapid decisions, and limited capacity.	Key-person, vendor, and fundraising concentration.	High potential alpha with capacity discipline.
Mid-sized generalist fund	Flexibility and established investor relationships.	Insufficient scale and weak differentiation.	Partnership, consolidation, or deep specialization.
Transparent risk premia	Low cost, liquidity, and transparent exposure.	Commoditization and lack of scarcity.	A beta component, not a premium alpha product.
Discretionary + quant + AI	Structural judgment and machine productivity.	Diffuse accountability and complex governance.	Growth in macro, credit, event-driven, and fundamental equity.

BLACKRIDGE VIEW · 2026-2029 BASE CASE

The winner has either a shared platform capable of allocating capital and amortizing infrastructure, or a focused edge that cannot be purchased from the same vendor used by competitors.

11

DUE DILIGENCE

How to distinguish genuine alpha from AI marketing.

QUESTIONS FOR THE MANAGER

01	What proportion of gross alpha remains after impact, financing, borrow, and data costs?
02	How is capacity measured, and when is a strategy closed to new capital?
03	What percentage of signals was retired over the past 24 months, and why?
04	What proportion of the data is exclusive or created in-house?
05	How does the fund detect crowding and hidden factor overlap?
06	What does AI do autonomously, and where is human sign-off required?

RED FLAGS

×	A strong backtest without a point-in-time audit or transaction-cost stress test.
×	"Proprietary AI" built on the same public models and datasets.
×	Capacity described as a function of Sharpe rather than liquidity and impact.
×	No independent model validation or production rollback.
×	One universal model claimed to work across all regimes and markets.
×	No separation of alpha, alternative beta, and leverage contribution.

12

MANAGER SELECTION

An allocator's scorecard.

A disciplined underwriting framework should test whether reported alpha can survive costs, competition, growth, and organizational change.

CRITERION 01 Net alpha evidence Require live, net-of-fee and net-of-cost attribution across regimes. Reconcile gross forecasts with realized impact, financing, borrow, data expense, and factor exposure.	CRITERION 02 Research renewal Measure idea throughput, out-of-sample conversion, signal retirement, and time to replacement. A credible manager can show how the research inventory has evolved.	CRITERION 03 Proprietary information Identify what is exclusive, created in-house, or improved through unique labeling and entity resolution. Vendor access alone is not an information moat.
CRITERION 04 Capacity discipline Test capacity by liquidity, participation, crowding, and exit cost, not Sharpe alone. Incentives should support closing or resizing a book before returns are diluted.	CRITERION 05 Execution ownership Confirm that researchers and traders connect forecast horizon to venue, order type, borrow, financing, and post-trade telemetry. Paper alpha must reconcile to fills.	CRITERION 06 Governance Look for independent validation, lineage, model inventories, kill criteria, cyber controls, and clear human accountability for AI-assisted decisions and production changes.

ALLOCATION STANDARD

Prefer managers who can evidence repeatable renewal and disciplined realization, not merely sophisticated models. The scorecard is strongest when each claim maps to portfolio data, operating records, and accountable owners.

SELECTED SOURCES

Primary evidence
and institutional surveys.

Priority was given to official releases, academic papers, and studies with disclosed samples.

01 · BNP PARIBAS

2026 Hedge Fund Outlook

Allocator tables: Quant Equity, Quant Multi-Strategy, ARP, SMA and active extension · 246 allocators

02 · HFR

HFRX June 2026 Performance Notes

June index-return table · internal index context

03 · HFR

HFRX July 2026 Performance Notes

July index-return table · internal index context

04 · HFR

HFRX Mid-August 2026 Performance Notes

Returns as of 17 August 2026 · internal index context

05 · NEUDATA

State of the Alternative Data Market 2026

2025 spend, budget outlook and 2,805-dataset universe

06 · EXABEL / PUREPROFILE

Alternative Data Buy-side Insights 2026

AI/ML adoption in alternative-data research · vendor-sponsored · n=100

07 · KPMG

Global Tech Report 2026: Financial Services

Financial-services talent and technology section · 760 leaders

08 · AIMA

Front-office GenAI Adoption

Manager adoption and expansion intentions · 16 September 2025

09 · MCLEAN & PONTIFF

Does Academic Research Destroy Stock Return
Predictability?

97 predictors; out-of-sample and post-publication decay · Journal of Finance
2016

11 · DOU, GOLDSTEIN & JI

AI-Powered Trading, Algorithmic Collusion, and Price
Efficiency

Simulated RL traders sustain tacit collusion, reducing price efficiency · NBER
2025

13 · BANK OF ENGLAND / FCA

AI in UK Financial Services 2024
Autonomy and adoption survey findings

15 · HFR

HFRI 2025 Review and January 2026
2025 HFRI FWC calendar return and January context

10 · MENG & CHEN

AI-Driven Alpha Decay
Signal half-life model scenario · arXiv 2026

12 · HFR

Hedge Fund Industry Asset Growth Shatters Records
Q2 capital, flow concentration and 1H26 HFRI FWC · 23 July 2026

14 · WITH INTELLIGENCE

Hedge Fund Outlook 2025
Multi-manager asset and personnel concentration

16 · HFR

HFRI July 2026 Review
Technology hedge-fund reversal, July 2026

“Generic AI lowers the cost of prediction. It does not
lower the cost of being right after fees, impact,
crowding and regime change.”

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