

Performance of Hedge Funds in 2006. How did the Big Name Hedge Funds do?

2004 and 2005 were terrible years for hedge funds. If the HFRI Index is anything to go by, the average hedge fund returned 9.05% in 2004 and 9.27% in 2005. Performance in years 2001 and 2002 were worse but those years saw equity markets in free fall. 2003 was a recovery year in equities and 2004 and 2005 while wobbly, were good years on the whole where markets both equity and fixed income found their feet. 2006, however, was a pretty good year. The HFRI Index rose 12.85% for the year.

Despite the good performance on average, in 2006, many investors continue to be disappointed with hedge funds. There are several reasons for this. One is of course the high profile demise of Amaranth, a 10 billion USD hedge fund that quickly became a 3 billion USD hedge fund by way of losses in leveraged bets on natural gas (and hence indirectly, the weather!) The robust performance of equity markets and to a lesser extent bond markets around the world. A third and less obvious reason is that many of the big names, with whom the bulk of the money in hedge funds is invested with, did poorly. Among the large multi strategy macro managers, Moore Global and Moore Fixed Income returned 9.53% and 2.57% respectively for year to November 2006. Tudor managed 10.70% in the same period. Blue Crest Capital returned a mere 6.40% and Bridgewater Pure Alpha only 3.19%. Even when returns were higher and into the low to mid teens, performance lagged previous track record. 11.75% is poor for Perry Partners, as is 11.32% for Brevan Howard.

So who did well? Quite a few. Tewksbury continued to prove that a systematic mathematical approach can work consistently. 27.93% for year to November 2006. CQS in the mid teens was

consistent with previous track record and steady as she goes. GLG Market Neutral was another good performer. Where Lansdowne stuck to stocks they performed well. Some of the big winners of 2006 were behaving out of character and should have triggered alarm bells instead of blissful acceptance.

All the above performance numbers are year to November 2006.

All in all, the winners of 2006 were not the usual suspects. They were the smaller, younger managers. Conversations with managers, prime brokers and industry specialists seem to indicate a certain sense of disarray among the big macro and multi strategy fund managers. Perhaps the world has become a more complex place, perhaps we are at another one of those inflexion points we only recognize three years hence. For now, the safer strategy would be to be specific, to be technical and to focus on managers operating in particular areas. For example, dedicated stock pickers be it in Asia, Europe or the US, or sector specific equity managers but where macro factors don't complicate matters. Event driven and distressed securities managers for example are sufficiently specialized away from the vagaries of macro policy and geo politics.

Some argue that the big names have had their day and are never coming back. Some say that the last year was a temporary lull and that the experience and resources of the big name hedge fund will return them to glory. It's a difficult call and certainly not one I can make.