



Top 100 Performing Hedge Funds: October 2013 - September 2014

What does it take to be among the top performing hedge funds over the past 12 months? David McKenna examines the list of the top 100 performing funds over the period October 2013 to September 2014 and looks at what we can learn from their traits and characteristics.

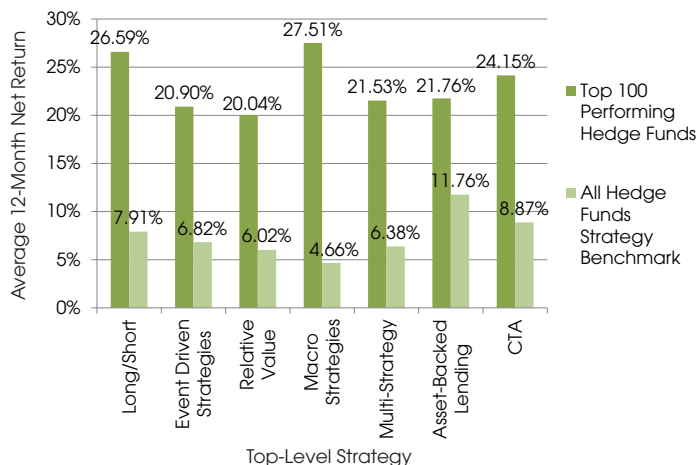
The year thus far has proved challenging for hedge fund managers, with Preqin's All Funds benchmark recording 3.38% for the year-to-date through to September 2014. Global political tensions, a slowdown in Europe and the Ebola crisis have all impacted global markets in 2014, which in turn has had a negative effect on hedge fund performance. With an end to the Fed's quantitative easing program now confirmed, many are predicting further turbulent times ahead for financial markets across the globe. Perhaps now more than ever, the ability to deliver absolute returns regardless of market conditions is an in-demand skill among fund managers. Using data from Preqin's [Hedge Fund Analyst](#), we look at the top 100 funds that have outperformed their peers over the last 12 months, and how their characteristics and attributes set them apart from the rest.

In order to qualify for the list, funds must have reported net monthly returns for the period October 2013 to September 2014, and be at least \$100mn in size. Where the performance of multiple share classes of a fund features on the database, only the longest running share class has been included. Similarly, only one fund per master-feeder structure features.

Fund Types and Strategies

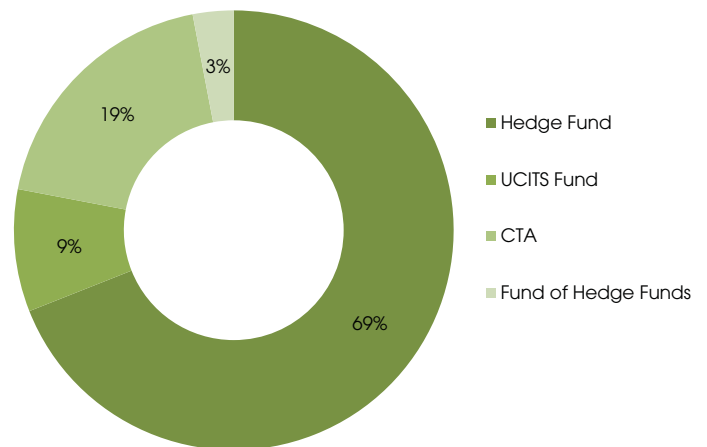
As shown in Fig. 1, single-manager hedge funds make up 69% of the top 100 performing hedge funds, closely reflecting their representation in the overall hedge fund universe (67%). Fund of hedge funds vehicles were the most under-represented in comparison to all funds tracked by Preqin (3% in the top 100 vs. 17% of all funds); however, with the different returns and volatility objectives of multi-manager vehicles over single-manager funds,

Fig. 2: Average 12-Month Return of Top 100 Performing Hedge Funds vs. All Funds Strategy Benchmark, October 2013 - September 2014



Source: Preqin Hedge Fund Analyst

Fig. 1: Breakdown of Top 100 Performing Hedge Funds by Fund Type

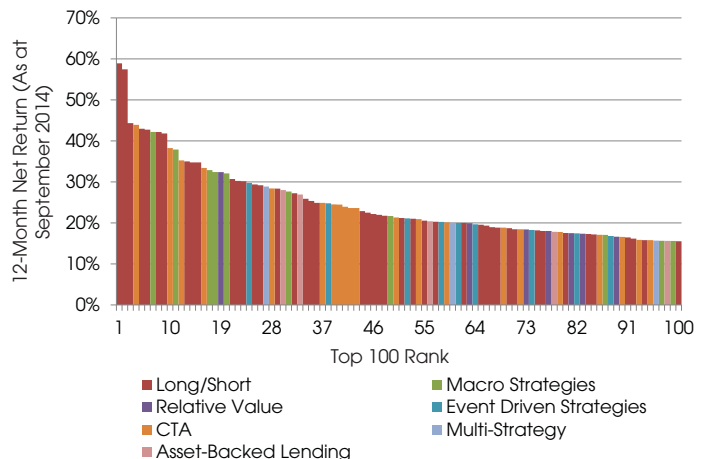


Source: Preqin Hedge Fund Analyst

this is in line with expectations. Ayaltis' \$440mn Areca Value Discovery Fund is a multi-manager fund ranked at number 96; the fund has a three-year annualized volatility of 3.53%, versus 12.71% on average for the top 100 list as a whole.

Preqin's CTA benchmark has returned 6.41% over the last six months, compared to a loss of 2.81% delivered for the same period last year. The recent change of fortunes and improvement in performance seen this year has contributed to the frequency of managed futures/CTA funds appearing in the top 100 list. These

Fig. 3: Top 100 Performing Hedge Funds by Top-Level Strategy, October 2013 - September 2014



Source: Preqin Hedge Fund Analyst



vehicles make up only 8% of the wider hedge fund universe compared to 19% of our top 100. Brummer & Partners' \$366mn Lynx 1.5 (Bermuda) is the highest ranked of these funds, at number four, and has returned 43.91% over the last 12 months.

Fig. 2 shows the mean 12-month return of the top 100 performing funds by top-level strategy compared to Preqin's main strategy benchmarks over the same period. Despite underperforming all other strategies over the last year (+4.66%), macro strategy funds were, by mean 12-month return, the most successful of the top 100 (+27.51%). This shows that within the macro strategies space there is wide dispersion among the best and worst performing fund managers.

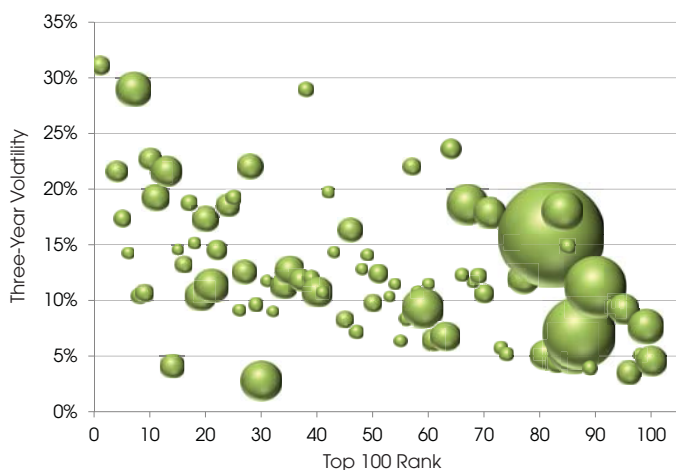
Funds employing a top-level long/short strategy dominate in the top 100 (45 of the top 100), as shown in Fig. 3, and also constitute seven of the top 10. The funds ranked first and second significantly outperform the rest of the field; both employ a long/short equity core strategy, returning 58.91% and 57.46% respectively.

Fund Managers

Firms based in North America feature most prominently in the list of top performing funds. As shown in Fig. 4, 45% of funds are based in the region, with the majority of those located in the US. Funds offered by Canada-based firms Front Street Capital and RIMA Senvest Management form the remainder of this total.

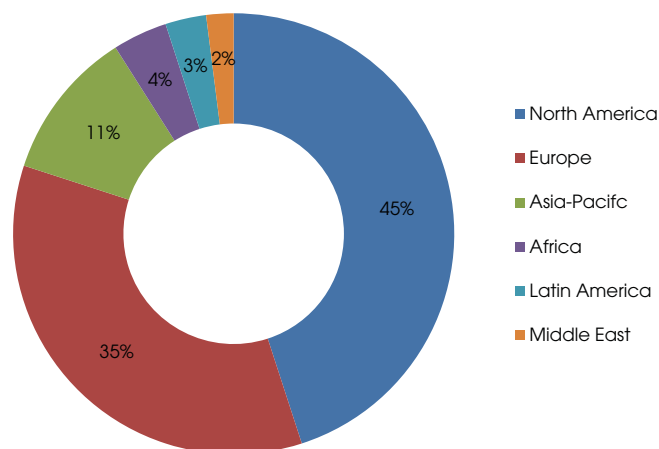
Europe-based hedge funds represent 21% of all funds worldwide, with 35% of hedge funds based in Europe making up the top 100. Therefore, proportionally, Europe is over-represented in the top 100 ranking. Funds from UK-based managers are the most numerous of the European offerings (12). Fund managers in the top 100 hail from other parts of the globe too; as seen in last month's [Hedge Fund Spotlight](#), Asia-Pacific-based investors are allocating more to the region as the hedge fund industry opens up amid regulatory change. Singapore and Hong Kong are home to all nine of the Asia-based funds making the cut. Fig. 4 shows that there are top performing fund managers from Africa, Latin America and the Middle East, demonstrating that top performing fund managers with exceptional talents and abilities can be found worldwide.

Fig. 5: Three-Year Volatility and Size of Top 100 Performing Hedge Funds, October 2013 - September 2014



Source: Preqin Hedge Fund Analyst

Fig. 4: Breakdown of Top 100 Performing Hedge Funds by Fund Manager Headquarters



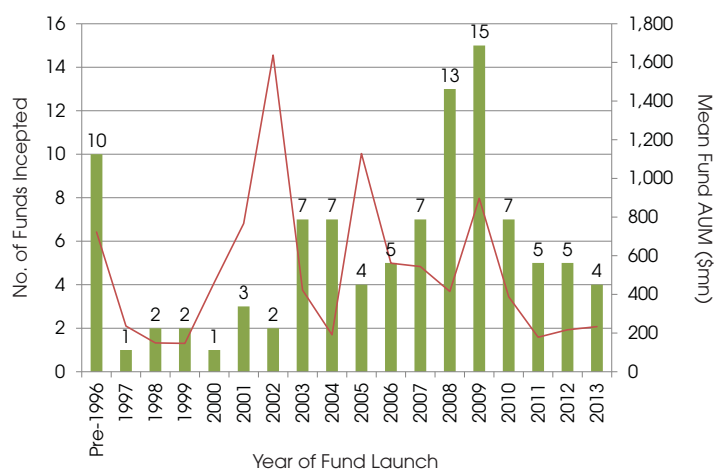
Source: Preqin Hedge Fund Analyst

Fund Volatility, Size and Age

Fig. 5 shows the three-year volatility of each of the funds included in the top 100, with bubble-size denoting the relative size of assets under management (NOTE: funds appearing in the top 100 with less than a three-year track record are not included). A general trend of decreasing volatility towards the lower-ranked funds can be seen, though there are a number of outliers that buck this trend, including Deer Park Road's STS Partners Fund. The fund invests in asset-backed fixed-income securities and delivered 28.01% over the last 12 months. The fund's annualized three-year volatility figure of 2.78% compares favourably with both Preqin's All Hedge Fund benchmark figure (+4.29%) and the mean figure for the top 100 funds as a whole (+12.71%).

Another general trend is that the very largest funds by asset size tend to be clustered towards the lower rankings; 52% of the aggregate assets under management of the top 100 funds is contributed by funds ranked in the fourth quartile of the list. Smaller funds have proven themselves more nimble and have outperformed their larger counterparts.

Fig. 6: Launches by Year of Top 100 Performing Hedge Funds by Average Fund Size



Source: Preqin Hedge Fund Analyst



Fig. 6 shows the year of inception of those funds appearing in the top 100 alongside the average size of funds incepted in each year. The most enduring of the top 100 funds, Millburn Ridgefield Corporation's Millburn Diversified Program, was incepted in February 1977, and the youngest is the one-year-old Blue Jay Health Sciences Master Fund, the maiden offering from Blue Jay Capital Management.

Summary

There are a variety of fund types, strategies, sizes, ages and regions that make up this elite group of hedge funds. Single-manager hedge funds were the most prominent among the top performing list so far this year, although as a result of the improvements in the CTA sector in 2014, these vehicles also represent a significant proportion of the top 100 funds. Long/short strategies made up the largest proportion of funds in the group, while macro strategies generated the highest average 12-month return among all strategies. Funds based in North America were featured heavily in terms of regional headquarters, with Europe-based funds also making up

a substantial proportion, compared to their representation in the wider hedge fund industry. Although these top performing funds have shown their ability to generate superior gains over the past 12 months, there have been only a few funds which have consistently made the top performing group over recent years. Looking more closely at the data, just three funds from the top performing 100 list in September 2013 appeared in this year's rankings. However, the year to September 2012 and year to September 2014 lists have 10 funds in common. This reemphasizes the way that outsized returns are often coupled with higher volatility, and that investors need to consider this when looking at past performance. Despite this, there are some fund managers that are able to produce consistently high returns over several years. Preqin's [Hedge Fund Analyst](#) database provides in-depth coverage of over 10,700 performance records for hedge funds tracked globally. With 2014 proving to be a challenging and volatile year for the industry, it will be up to fund managers to deliver uncorrelated returns amid market uncertainty. Industry observers will be keen to see how the top performing funds will fare during this time, and for how long these funds will be able to stay in the top 100 list.

Fig. 7: Top 10 Performing Hedge Funds (\$100mn+), October 2013 - September 2014

Fund Name	Inception Date	Core Strategy	12-Month Return (Sep-14)
India Capital Fund - A Shares	01-Aug-1994	Long/Short	58.91%
Ajeej MENA Fund - Class A Shares	01-Oct-2007	Long/Short	57.46%
Okumus Opportunistic Value Fund - Class C	01-Jan-2013	Long/Short	44.34%
Lynx 1.5 (Bermuda) Ltd. (USD)	01-Jul-2008	CTA	43.91%
Camox Fund	07-Feb-2008	Long/Short	42.97%
Whetstone Capital	01-Oct-2010	Long/Short	42.75%
Quantedge Global Fund	02-Oct-2006	Macro Strategies	42.20%
Voloridge Trading Fund	01-Jun-2009	Long/Short	42.16%
The Cushing MLP Opportunity Fund	01-Nov-2006	Long/Short	41.82%
Tulip Trend Fund - A EUR	01-Mar-2003	CTA	38.36%

Source: Preqin Hedge Fund Analyst

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