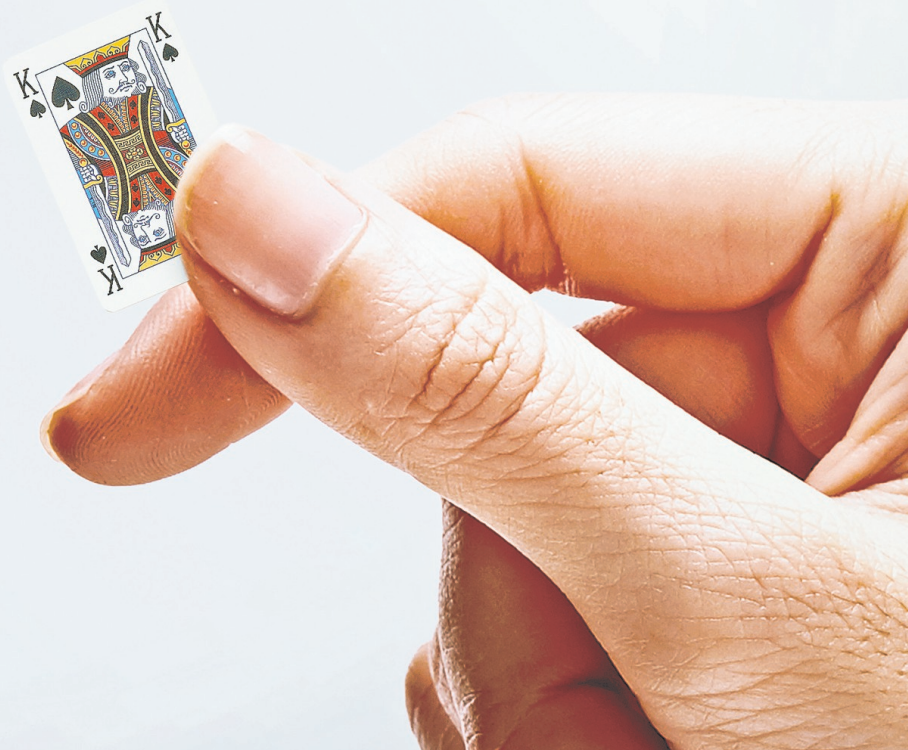


JOURNAL REPORT | INVESTING IN FUNDS & ETFS

ALTERNATIVE INVESTING

# As Hedge Funds Struggle, These Are Standing Out

A review of top performers suggests that smaller funds often do better than giants



By ERIC UHLFELDER

**T**he hedge-fund industry continued its losing streak last year. The industry once again trailed the market in 2018, marking 10 straight years it has underperformed the S&P 500, according to data from BarclayHedge. But the general decline has masked a more complicated truth.

My recent review identified hedge funds—private investment partnerships designed for wealthy individuals and institutional investors—that have managed to outpace the market not only last year but over much longer periods. One of the findings was a link between fund size and long-term performance.

But not the way many may think. *Smaller* funds often do better.

Some large, venerable managers certainly are still doing well, including Renaissance Technologies' \$27.1 billion equity fund (up 15.34% based on trailing five-year net annualized returns); the \$18 billion global macro fund Element Capital (up 13.28%); and Citadel's \$19.3 billion Wellington multistrategy fund (up 11.86%). All topped the market's returns of 8.49% over the same period.

Of the 60 established diversified funds in the review with the best five-year returns, more than half are managing less than \$1 billion. (See accompanying table with 25 of the reviewed funds. The full list of 60 is with the online version of this article at [WSJ.com/FundsETFs](http://WSJ.com/FundsETFs).)

The three top-performing funds over the five years through 2018 had an average asset size of \$600 million.

MMCAP out of Toronto, for example, has generated returns of nearly 28% a year since the beginning of 2014. The fund's "event driven" strategy typically seeks out opportunities related to events like mergers and corporate structure, and also engages in private investments.

**Some smaller hedge funds are dealing expertly—in several cases beating the big players during the past five years.**

Hong Kong-based KS Asia Absolute Return, a multistrategy fund, delivered annualized returns of more than 20%. And New York-domiciled MAK One, which targets distressed credit and equity opportunities, has realized returns of nearly 19.5% over the past five years.

The managers of these three funds declined to be interviewed for this article. But a co-manager of another of the smaller funds, Amin Nathoo at the \$354 million hedged-equity Anson Investments Master Fund, says, "We're able to more quickly respond

met four criteria: broad investment strategies only (i.e., no country, sector or industry funds or leveraged versions of core funds), a minimum of \$300 million in assets, performance history of at least five years and gains of at least 5% in 2018. Why this hurdle? 2018 was the first year in a decade that the S&P 500 lost money, and hedge funds faced criticism that they aren't truly hedges.

**'Structured' stands tall**

The review's top-performing strategy is structured credit. Representing one-quarter of the 60 funds, structured credit involves pools of debt obligations that generate cash flows supporting various slices, or tranches, that vary from investment-grade to non-investment-grade and equity. They each come with distinct risks and yields.

Though the strategy dates back well before 2008, the vast majority of extant structured-credit funds came into being after the financial crisis, in large part due to regulations that now prevent banks and insurance companies from holding non-investment-grade and unrated tranches of structured credits. Most managers target mispricing in these tranches.

Hudson Cove Credit Opportunity Chief Investment Officer David Wu argues the strategy's rally since the end of the financial crisis will likely continue. Unlike what happened to mortgage securities a decade ago, Mr. Wu sees much better underwriting, less-leveraged consumers and corporations, and lower default rates. But he believes managers must

proceed with caution as the rally moves into a second decade.

There is concern that an increasing number of fund managers piling into and expanding their presence in this area could drive questionable securitizations to meet their demand. But it's possible to see where underwriting standards may be slipping, says Clay Degiacinto, CIO of Axonic Credit Opportunities, by looking at the loans that make up a securitization,

**Multistrategy success**

Multistrategy funds, which have perennially underperformed in the hedge-fund industry, had eight funds on the list—the third most of any strategy, tied with equity funds.

Segantii Asia-Pacific Equity Multi-Strategy focuses on relative value and opportunistic trades that have helped the fund deliver annualized returns of 17.6% over the past five years. Chief Executive Kurt Ersoy says the fund excelled last year by having low market exposure and with further downside protection provided by shorting indexes toward the end of the year when investors were dumping positions. For the rest of 2019, Mr. Ersoy sees renewed investor interest in China driven by continued capital-market overhauls; the country's "A" shares joining the MSCI Emerging Market Index; and renewed government stimulus.

"All the things that worried the market in the fourth quarter last year are still with us," says Hanif Mamdani, manager of the PH&N Absolute Return fund, which was up 10.4% over the past five years. While he thinks the Fed's U-turn on raising interest rates has bought the bull market a few more quarters, he says investors need to cautiously diversify beyond securities that have been doing well.

The fourth-largest strategy on the list, global macro, is market agnostic. Managers make long and short bets on economic gauges, including interest rates and currencies, stock and bond indexes, and commodities.

What many macro managers see from their high vantage point is giving them pause. Said Haidar, whose fund Haidar Jupiter gained nearly 11% since January 2014, sees "weak data coming in globally, involving auto sales, shipping numbers, machine orders and factory output, and the bond market is recognizing this risk more than equities." Mr. Haidar's three largest fears: escalating trade wars, a hard Brexit and Italy deciding to leave the euro.

Characteristics many of the managers share, says Oliver Newton, head of portfolios at the \$85 billion alternative-asset adviser Aksia, include being "experienced, astute observers of markets and investor behavior, willingness to challenge convention and think outside the box, commitment to their convictions, and having operations and investor base that support their style of investment."

*Mr. Uhlfelder writes about global capital markets from New York. He can be reached at [reports@wsj.com](mailto:reports@wsj.com).*



**▲ PH&N's Hanif Mamdani says the Fed's U-turn has bought the bull market more time, but investors should be cautious.**

and profit from opportunities across all segments of the market than much larger funds that can't establish sufficient exposure in smaller-cap shares."

Anson returned more than 19% last year and has racked up net annualized gains of 11.8% since its launch in 2007, compared with the S&P's 6.8%.

The 60 funds reviewed were filtered from thousands that report to three databases of hedge funds that

**Hedge-Fund Review**

Hedge funds employing a broad investment strategy and listed by five-year annualized returns through Dec. 31, 2018. Includes those with at least \$300 million and 2018 returns of at least 5%. Shown: 25 funds out of a review of 60.

FIRM   CITY	STRATEGY	FUND ASSETS (IN MILLIONS) Dec. 31, 2018	FIRM ASSETS (IN MILLIONS) Dec. 31, 2018	2018 NET RETURNS	3-YR. ANNUALIZED NET RETURNS	5-YR ANNUALIZED NET RETURNS	WORST DRAWDOWN SINCE JAN. 2014	5-YEAR ANNUALIZED STANDARD DEVIATION SINCE JAN. 2014
MMCAP   Toronto	Event-Driven	\$621	\$621	9.12%	37.72%	27.89%	-9.47%	13.49
KS Asia Absolute Return   Hong Kong	Multistrategy	720	946	20.17	26.72	20.64	-3.14	8.61
MAK One   New York	Opportunistic Distressed & Equity	458	665	51.70	24.50	19.45	-17.93	18.83
Segantii Asia-Pac. Eq'ty Multi-Strat.   Hong Kong	Multistrategy	2,897	2,897	11.34	8.85	17.64	-6.20	10.09
Renaissance Inst Equities BB   New York	Equity Long/Short	27,100 <sup>1</sup>	60,600 <sup>1</sup>	8.52	14.94	15.34	-5.00	9.87
STS Master Ltd I   Steamboat Springs, Colo.	Asset-Backed Securities	2,270	3,020	10.29	12.96	14.83	-4.50	5.18
Woodson Capital Partners B   New York	Equity Long/Short	354 <sup>2</sup>	354	20.76	17.00	14.80	-11.52	11.28
John Street Vantage Strategy   London	Systematic Macro	1,298	1,616	13.28	10.23	14.43	-10.80	14.60
Astra Structured Credit Investments   London	Structured Credit Relative Value	370 <sup>3</sup>	398	14.59	10.77	13.82	-7.70	5.32
Element Capital   New York	Global Macro	18,000	18,000	17.30	13.88	13.28	-7.46	10.10
Waha MENA Equity   Abu Dhabi, UAE	Mideast & N. Africa Eq'ty Long Bias	357	684	6.62	10.72	13.24	-6.37	7.69
Hildene Opp Master   Stamford	Distressed Credit	1,956	9,345	11.94	14.27	13.14	-8.56	6.36
Serone Key Opportunities USD   London	Structured Credit	332 <sup>4</sup>	409	9.34	15.10	12.92	-4.31	4.06
Vector Capital Credit Opp. Master   San Francisco	Credit Long/Short	361	4,200	11.62	17.58	12.61	-3.90	4.07
Citadel Wellington   Chicago	Multistrategy	19,345 <sup>5</sup>	27,938	9.03	9.00	11.86	NA	5.40
Millstreet Credit   Boston	Credit Long/Short	425 <sup>6</sup>	425	15.80	32.20	11.50	-23.88	10.60
Blue Diamond Non-Directional   Pfäffikon, Switz.	Relative Value Volatility	659	659	17.27	9.54	11.41	-9.52	9.92
Black Diamond Credit Strategies Master   New York	Distressed Credit	755	8,000	12.20	11.51	11.37	-5.84	7.28 <sup>7</sup>
Citadel Global Equities   Chicago	Equity Long/Short	3,005 <sup>5</sup>	27,938	5.87	5.81	11.37	NA	5.20
Autonomy Global Macro   New York	Global Macro	4,900	5,200	16.70	15.68	10.98	-8.10	8.79
Haidar Jupiter   New York	Global Macro	391	391	8.09	17.56	10.97	-31.98	19.75
LibreMax Value Offshore   New York	Structured Credit	666	5,661	5.26	9.00	10.91	-2.30	3.98
Alcentra Structured Credit Opp II   London	Structured Credit	422	37,700 <sup>8</sup>	5.66	13.57	10.72	-3.52	4.67
Chatham Asset High Yield   Chatham, N.J.	High-Yield Credit Long/Short	602	4,241	5.07	14.26	10.69	NA	3.81
Hildene Opportunities Master II   Stamford	Opportunistic Credit	814	9,345	9.16	10.87	10.46	-5.40	3.61
<b>Review Averages</b>				10.68	11.94	10.81	-7.68	6.39
<b>S&amp;P 500 Total Returns</b>				-4.38	9.26	8.49	-13.52	10.85
<b>BarclayHedge Average Hedge Fund Returns</b>				-5.23	3.53	2.69	-7.43	4.27
<b>J.P. Morgan Global Government Bond Index (USD)</b>				1.02	1.76	2.97	-4.51	3.03

<sup>1</sup> Renaissance assets are as of Jan. 1, 2019. <sup>2</sup> Woodson's commingled fund assets are \$253 million and has two Separately Managed Accounts valued at \$101 million that invest in the same securities as the fund. <sup>3</sup> Astra's commingled fund assets are \$64 million and runs three SMAs valued at \$306 million that invest in the same securities as the fund. <sup>4</sup> Serone has \$270 million in its commingled fund and \$62 million in an SMA that invest in the same securities as the fund. <sup>5</sup> Citadel Wellington includes Citadel Kensington Global Equities Fund; fund and firm assets are as of Jan. 1, 2019. <sup>6</sup> Millstreet has \$50 million in its commingled fund and \$375 million in several SMAs that invest in the same securities as the fund. <sup>7</sup> Black Diamond Credit Strategies historic annualized returns and five-year annualized standard deviation are from launch date (August 2009) through February 2019. <sup>8</sup> Alcentra Group had \$37.7 billion in assets as of July 2018. NA: not available. Source: Eric Uhlfelder for The Wall Street Journal, with initial data from BarclayHedge, Preqin and Morningstar

**GLOBAL INVESTMENT REPORT 2019 HEDGE FUND SURVEY for The Wall Street Journal**  
**RANKED ON LEADING 5-YEAR ANNUALIZED RETURNS WITH MINIMUM 2018 RETURNS OF 5%**

Rank	Fund (City)	Launch Date	Strategy	Fund Assets (\$M) 31 Dec. 2018	Firm Assets (\$M) 31 Dec. 2018	2018 Net Returns	3-Year Annualized Net Returns	5-Year Annualized Net Returns	Annualized Net Returns Since Inception	Worst Draw Down Since Jan. 2014	5-Year Annualized Standard Deviation since Jan. 2014	Annualized Sharpe Ratio Since Jan. 2014
1	MMCAP (Toronto)	Jul-02	Event Driven	621	621	9.12	37.72	27.89	24.32	-9.47	13.49	2.02
2	KS Asia Absolute Return (Hong Kong)	Jan-10	Multi-Strategy	720	946	20.17	26.72	20.64	16.07	-3.14	8.61	2.33
3	MAK One (New York)	Mar-04	Opportunistic Distressed and Equity	458	665	51.70	24.50	19.45	15.70	-17.93	18.83	0.93
4	Segantii Asia-Pacific Equity Multi-Strategy (Hong Kong)	Dec-07	Multi-Strategy	2,897	2,897	11.34	8.85	17.64	15.36	-6.20	10.09	1.65
5	Renaissance Inst Equities BB (New York)	Aug-05	Equity Long/Short	27,100 *	60,600 *	8.52	14.94	15.34	11.32	-5.00	9.87	1.50
6	STS Master Ltd I (Steamboat Springs, Colo.)	May-08	Asset-Backed Securities	2,270	3,020	10.29	12.96	14.83	22.47	-4.50	5.18	2.31
7	Woodson Capital Partners B (New York)	Jan-10	Equity Long/Short	354 **	354	20.76	17.00	14.80	11.75	-11.52	11.28	1.25
8	John Street Vantage Strategy (London)	Jul-13	Systematic Macro	1,298	1,616	13.28	10.23	14.43	11.3	-10.80	14.60	0.93
9	Astra Structured Credit Investments (London)	Nov-12	Structured Credit Relative Value	370 ***	398	14.59	10.77	13.82	17.00	-7.70	5.32	NA
10	Element Capital (New York)	Apr-05	Global Macro	18,000	18,000	17.30	13.88	13.28	19.96	-7.46	10.10	1.23
11	Waha MENA Equity (Abu Dhabi, UAE)	Jan-14	Mid-East & North Africa Equity Long Bias	357	684	6.62	10.72	13.24	13.24	-6.37	7.69	1.72
12	Hildene Opp Master (Stamford)	May-08	Distressed Credit	1,956	9,345	11.94	14.27	13.14	21.81	-8.56	6.36	1.96
13	Serone Key Opportunities USD (London)	Sep-13	Structured Credit	332 ****	409	9.34	15.10	12.92	13.57	-4.31	4.06	3.03
14	Vector Capital Credit Opportunity Master (San Francisco)	Oct-08	Credit Long/Short	361	4,200	11.62	17.58	12.61	16.20	-3.90	4.07	2.61
15	Citadel Wellington (Chicago)	Nov-90	Multi-Strategy	19,345 *****	27,938	9.03	9.00	11.86	18.76	NA	5.40	1.91
16	Millstreet Credit (Boston)	Jun-10	Credit Long/Short	425 ^	425	15.80	32.20	11.50	10.2	-23.88	10.60	1.00
17	Blue Diamond Non-Directional (Pfäffikon, Switz.)	Oct-11	Relative Value Volatility	659	659	17.27	9.54	11.41	16.73	-9.52	9.92	1.15
18	Black Diamond Credit Strategies Master (New York)	Aug-09	Distressed Credit	755	8,000	12.20	11.51	11.37	17.43 ^^	-5.84	7.28 ^^	NA
19	Citadel Global Equities (Chicago)	Jul-09	Equity Long/Short	3005 *****	27,938	5.87	5.81	11.37	12.67	NA	5.20	1.92
20	Autonomy Global Macro (New York)	Nov-03	Global Macro	4,900	5,200	16.70	15.68	10.98	13.00	-8.10	8.79	1.18
21	Haidar Jupiter (New York)	Sep-00	Global Macro	391	391	8.09	17.56	10.97	17.02	-31.98	19.75	0.60
22	LibreMax Value Offshore (New York)	Jul-13	Structured Credit	666	5,661	5.26	9.00	10.91	12.38	-2.30	3.98	2.63
23	Alcentra Structured Credit Opp II (London)	Feb-11	Structured Credit	422	37,700^^^	5.66	13.57	10.72	20.79	-3.52	4.67	2.15
24	Chatham Asset High Yield (Chatham, NJ)	Jul-03	High-Yield Credit Long/Short	602	4,241	5.07	14.26	10.69	NA	NA	3.81	2.28
25	Hildene Opportunities Master II (Stamford)	Aug-11	Opportunistic Credit	814	9,345	9.16	10.87	10.46	14.46	-5.40	3.61	2.88
26	PH&N Absolute Return (Vancouver)	Sep-02	Multi-Strategy	1,263	74,722	6.50	15.54	10.42	13.33	-15.68	7.98	1.21
27	Anson Investments Master (Toronto)	Jul-07	Equity Long/Short	354	484	19.35	3.70	10.23	11.85	-17.40	11.03	0.87
28	Twin Tree Capital Master (Dallas)	Jan-13	Volatility Trading	413	413	11.46	8.55	10.11	11.61	-6.59	6.06	1.56
29	AG Mortgage Value Partners (New York)	May-09	Structured Credit	1,700	32,000	9.05	11.06	9.84	14.6	-3.32	2.75	3.34
30	Hudson Cove Credit Opportunity (Jersey City, NJ)	Sep-09	Structured Credit	325	325	9.69	10.34	9.78	13.28	-1.08	1.22	6.67
31	Omni Event (London)	Sep-13	Event Driven	991	1,502	14.64	12.09	9.64	10.27	-8.29	7.02	1.28
32	OWS Credit Opportunity Master (New York)	Jan-11	Asset-Backed Securities	926	3,574	8.38	10.98	9.53	10.11	-6.21	3.55	2.42
33	Barnegat (B) (Hoboken, NJ)	Jan-01	Fixed Income Relative Value	656	656	5.26	9.20	8.99	15.62	-8.70	5.59	1.48
34	Tiger Global (New York)	Mar-01	Equity Long/Short	8,500	26,000	13.60	7.25	8.94	18.50	NA	NA	NA
35	One William Street Capital Master (New York)	Apr-08	Credit Long/Short	1,441	3,574	5.55	10.58	8.85	9.81	-5.63	3.21	2.48
36	Mudrick Distressed Opp. B (New York)	Jul-09	Distressed Credit	2,100	2,400	16.45	19.92	8.64	10.11	-31.31	13.33	0.60
37	Millennium USA (New York)	Jan-90	Multi-Strategy	34,481	34,481	5.84	5.85	8.57	13.80	-3.75	3.90	1.99
38	Serengeti Lycaon Strategy (New York)	Feb-10	Credit Long/Short	1,040	1,300	8.90	9.20	8.50	11.42	-2.02	3.20	2.50
39	Crawford Lake Master (New York)	Jan-08	Equity Long/Short	427	914	9.81	7.88	8.30	11.31	-1.68	3.54	2.16
40	TT Int. Mid-Cap Europe Long/Short USD (London)	May-05	European Equity Long/Short	953.4	7,369	7.64	7.99	8.19	10.89	-4.19	5.31	1.42
41	Kite Lake Special Opportunities Master USD (London)	Feb-11	Event Driven	820	1,320	6.72	9.93	7.97	8.32	-5.40	5.14	1.16
42	PIMCO Tactical Opportunities (Newport Beach, CA)	Feb-13	Multi-Sector Credit	2,863	1,719,523	5.57	8.55	7.83	9.09	-1.41	1.88	3.19
43	Guggenheim Partners Oppor. Invmt Grd Secs (Chicago)	Oct-08	Asset-Backed Securities	2,376 ^^^^	203,040	6.23	8.40	7.81	NA	-1.44	1.88	3.59
44	Black Diamond Arbitrage Partners (Dallas)	Feb-98	Merger Arbitrage	680	8,060	6.77	8.13	7.73	8.24	-2.48	3.45	2.07
45	Tilden Park Offshore Investment (New York)	Jan-11	Multi-Strategy	4,289	4,539	7.14	8.18	7.70	13.02	-5.1	5.82	1.23
46	Och-Ziff Credit Opp. Master (New York)	Nov-11	Credit Strategies	1,700	31,800	6.5	11.73	7.56	11.87	-9.07	3.89	1.73
47	SPF Securitized Products Master (New York) >	Dec-11	Securitized Credit	2,155	2,301	6.62	6.88	7.48	10.18	-2.24	1.71	3.74
48	Brookdale Intl Partners (Boston)	Sep-91	Multi-Strategy	1,083	2,161	9.69	7.50	7.38	14.40	-1.16	1.86	3.15
49	Varadero International - Tranche 1 (New York)	Mar-10	Structured Credit/Specialized Finance	1,148	2,000	5.51	6.84	7.27	10.86	-1.11	1.25	5.09
50	Kawa Offshore (Aventura, FL)	Sep-07	Opportunistic Credit	335	1,045	7.46	6.40	7.27	11.92	-2.50	3.43	1.54
51	Citadel Global Fixed Income (Chicago)	Aug-12	Global Macro/Fixed-Income Relative Value	2,229 *****	27,938	6.62	10.66	6.97	9.47	NA	6.90	0.87
52	Episteme Systematic Quest Strategy (London)	Sep-09	Systematic Commodity Trading Advisor	677	760	13.82	5.40	6.82	4.45	-9.95	8.41	0.74
53	Medalist Partners Harvest Ltd (New York)	Aug-12	Structured Credit	685	1,002	7.94	6.77	6.72	9.12	-9.41	3.13	1.93
54	Waterfall Eden (New York)	Sep-05	Asset Backed Securities	3,157	7,788	5.04	10.10	6.62	11.36	-7.99	2.86	1.67
55	400 Capital Credit Opportunities (New York)	Feb-11	Structured Credit	1,235	2,331	7.07	6.79	6.38	9.75	-11.54	3.86	0.98
56	Prophet Opportunity Partners (New York)	Aug-09	Structured Credit	986	2,500	6.58	10.18	6.30	11.64	-18.3	6.27	0.99
57	True Partner (Hong Kong)	Jul-11	Volatility Trading	426 >>	664	25.82	6.04	5.97	7.15	-9.61	11.64	0.46
58	Owl Creek Credit Opportunities (New York)	Jul-12	Global Opportunistic; Event-Driven Value	484	2,363	6.55	10.47	5.78	7.55	-8.29	4.23	1.97
59	Axonix Credit Opportunities Master (New York)	Apr-09	Structured Credit	1,052	2,375	8.80	5.76	5.68	14.80	-6.84	2.58	1.94
60	Wolverine Flagship (Chicago)	Sep-01	Multi-Strategy Relative Value	1,960	2,043	5.13	10.08	5.57	7.61	-8.45	4.17	1.16
Survey Averages				2,381	40,487	10.68	11.94	10.81	13.04	-7.68	6.39	2.00
S&P 500 Total Returns		Jan-80				-4.38	9.26	8.49	11.30	-13.52	10.85	0.72
BarclayHedge Average Hedge Fund Returns		Jan-97				-5.23	3.53	2.69	7.97	-7.43	4.27	0.47
J.P. Morgan Global Government Bond Index (USD)		Jan-85				1.02	1.76	2.97	7.06	-4.51	3.03	0.76

\* Renaissance assets are all as of 1 January 2019.

\*\* Woodson comingled fund is \$253M and has two Separately Managed Accounts valued at \$101M that are run *pari passu*.

\*\*\* Astra comingled fund has \$64M and there's three SMAs valued at \$306M that's run *pari passu*.

\*\*\*\* Serone has \$270M in its comingled fund + \$62M in an SMA that's run *pari passu*.

\*\*\*\*\* Citadel Wellington includes Citadel Kensington Global Equities Fund; fund and firm assets are as of 1 Jan. 2019.

^ Millstreet has \$50M in its comingled fund and \$375M in several SMAs run *pari passu*.

^^ Black Diamond Credit Strategies historic annualized returns and annualized standard deviation are from launch date (August 2009) through February 2019.

^^^ Alcentra Group had \$37.7 billion in assets as of July 2018.

^^^^ Guggenheim fund assets are as of Dec. 2016.

> SPF was spun off from Credit Suisse Asset Management in January 2019. PM Albert Sohn maintained his team. The new fund's investment objectives, policies, and strategy have remained the same in all material respects. Assets are as of 1 Jan. 2019.

>> True Partner has \$266M in comingled assets and \$160M in a SMA that's run *pari passu*.

Date: As of 31 December 2018.

Source: BarclayHedge, Preqin, and Morningstar