



Roundup of Hedge Fund Performance in Q1 2013

Which hedge fund strategy posted the best returns in Q1 2013? Which region had the top performing hedge funds? Joe Childs provides a roundup of hedge fund performance in Q1 2013.

The hedge fund industry saw a broad base of positive returns posted during the first quarter of 2013. Many funds picked up from the strong close to 2012 as several strategies generated returns exceeding 2% in January, before neutral-to-positive performance in February and March continued the encouraging start to 2013. Robust equity markets contributed to the standout performance of Asia-Pacific funds and to the superior returns of the long/short sector over other strategies.

Funds of Funds Rally, UCITS Stall

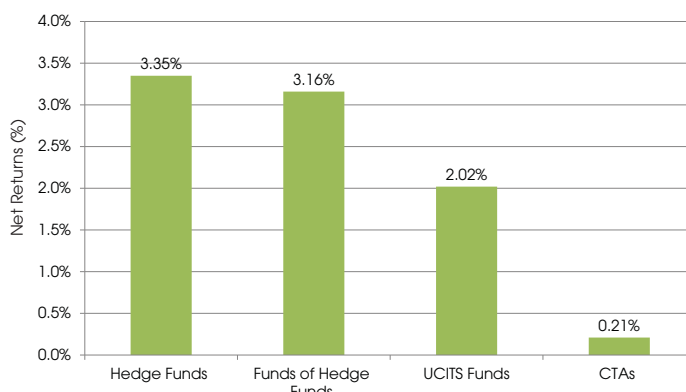
Preqin's preliminary benchmarks for March show that funds of hedge funds experienced a particularly promising start to the year. The 3.16% posted by multi-manager funds in the first three months of 2013 represents the best quarterly return for these vehicles since Q1 2012 and was only slightly short of the returns of single-manager funds (see Fig. 1). Long/short (+3.84%) and multi-strategy (+3.18%) funds of funds were key contributors during the quarter, while funds of macro funds detracted slightly from average performance.

Hedge funds complying with Europe's UCITS directive did not fare as well, with the sector experiencing its poorest performing quarter since the low experienced in Q2 2012. A return of 2.02% in the year to date is largely due to January returns of 1.85% as near-neutral performance was posted in February (+0.18%) and March (-0.01%). Long/short (+3.87%) and relative value (+2.01%) UCITS funds were the key drivers of performance, with vehicles pursuing macro strategies suffering two consecutive months of decline to end Q1 down (-0.96%).

Long/Short Funds Top Other Strategies

The average hedge fund closed the first quarter of the year up 3.35% after long/short and event driven strategies enjoyed particularly promising periods. Buoyant stocks contributed to long trade gains for equity focused funds operating in key markets. The S&P 500 reached

Fig. 1: Net Returns of Hedge Funds by Structure, Q1 2013



Source: Preqin Hedge Fund Analyst

record levels, rising by 10% during the quarter, as the US Federal Reserve reported that it would maintain its low interest rate policy and asset purchase program in its continued aim to stabilize prices and stimulate employment. Long bias hedge funds capitalized on bull markets to post first quarter returns of 7.99% and make a significant contribution to the 4.43% return of the long/short sector. Long/short credit funds posted 3.52% for the quarter and equity-only vehicles overcame marginally negative returns in February to gain 3.52% year to date.

Event driven hedge funds were among the top performers in March (+1.36%), second only to long/short funds in the first quarter (see Fig. 2). A strong start to the year by activist funds also contributed to event driven funds posting a Q1 net increase of 3.81%, which means the strategy leads all others over the last 12 months, with returns exceeding 9%.

Fig. 2: Net Returns of Single-Manager Hedge Funds by Strategy

January 2013	February 2013	March 2013	Q1 2013	Last 12 Months
Long/Short 3.12%	Relative Value 0.51%	Event Driven 1.36%	Long/Short 4.43%	Event Driven 9.44%
Multi-Strategy 2.37%	Event Driven 0.12%	Long/Short 1.19%	Event Driven 3.81%	Long/Short 7.53%
Event Driven 2.30%	Long/Short 0.08%	Relative Value 0.74%	Multi-Strategy 2.58%	Relative Value 6.69%
CTAs 1.40%	Multi-Strategy 0.07%	Macro Strategies 0.47%	Relative Value 2.56%	Multi-Strategy 5.94%
Relative Value 1.28%	Macro Strategies -0.06%	Multi-Strategy 0.14%	Macro Strategies 1.17%	Macro Strategies 4.05%
Macro Strategies 0.75%	CTAs -1.38%	CTAs 0.22%	CTAs 0.21%	CTAs 0.39%

Source: Preqin Hedge Fund Analyst



Relative value hedge funds gained 2.56% to post their best quarter since the same period last year. Equity market neutral vehicles performed particularly well, building on a 1.41% return in January with solid gains in February (+0.71%) and March (+0.97%) to post 3.12% in the year to date. Fixed income arbitrage funds did not fare as well, generating 2.18% during the quarter, but have reinforced a strong period in which the last loss-making month was November 2011.

Multi-strategy and emerging markets hedge funds also started 2013 well, posting January returns of 2.37% and 2.76%, respectively. Multi-strategy vehicles went on to add marginal gains in the following two months to gain 2.58% so far this year. Funds targeting emerging markets declined on the back of a strong first month and ultimately gained 2.33% in the first quarter.

Macro Funds and CTAs Continue Poor Run

The underperformance of macro hedge funds and CTAs in 2012 compared to other strategies continued in the first quarter of 2013. Macro represented the only strategy to post a gain of less than 1% in January. This was followed by a marginal decline the following month (-0.06%) before slightly positive performance in March (+0.47%) to deliver 1.17% overall for the quarter.

Opportunities for outsized returns in the macro sector offered by the continued depreciation of the yen against the dollar and the sustained rise of Japanese stocks (known as the "Abe trade" after Japan's prime minister, Shinzo Abe) have been countered by policy uncertainty in other developed markets. A series of destabilizing issues hit Europe in the first quarter, including a delayed bailout of banks in Cyprus, an Italian election resulting in an unclear outcome and significant gains for anti-austerity parties, allegations of political corruption in Spain, and a downgrade of the UK's credit rating. In the US, the Federal Reserve committed to continuing its monthly \$85bn stimulus program but questions were raised about how much longer this would continue after some officials indicated a preference for slowing or ceasing the asset purchase scheme.

The performance of CTAs and managed futures managers was marginally positive in the first quarter. An array of commodities' prices, notably in the metals sector, declined during the first three months of 2013 and major currencies weakened against the US dollar. A gain of 1.40%, the highest for six months, in January was all but given away the following month and CTAs ended Q1 up 0.21%.

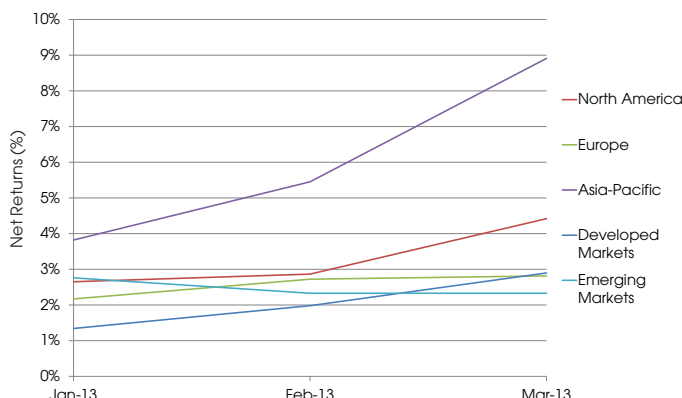
Asia-Pacific Leads the Way

Hedge funds with a focus on the Asia-Pacific region were the leading performers in Q1 2013, posting larger returns than vehicles targeting other regions in each of the three months. The year to date return of 8.90% was influenced by the robust performance of equity funds, with stock markets in Japan, Australia and Singapore rising. The Nikkei 225, in particular, experienced an upswing of more than 19% as Japan's government embarked on a bold monetary stimulus plan.

Funds with a primary focus on North America did not hit the heights of Asia-Pacific funds in the first quarter but succeeded in outperforming other regions during the period, gaining 4.42% (see Fig. 3). A promising start to 2013 saw these hedge funds post their best month since January 2012 before consolidating to extend the current run of consecutive positive returns to 10 months.

First quarter benchmarks for hedge funds focusing on Europe, emerging markets and developed markets all indicate a solid period

Fig. 3: Cumulative Net Returns of Hedge Funds by Geographic Focus, Q1 2013



Source: Preqin Hedge Fund Analyst

of performance for these vehicles. In each case, the bulk of the gains were achieved in January to be followed by near-neutral returns in February and March. Europe-focused funds posted 2.82% for the quarter and developed markets vehicles rose by 2.90%. Emerging markets funds are up 2.33% for the year to date having given away part of the January gain (+2.76%) in February (-0.42%) and remaining static in March.

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