



# Hedge Fund Performance: Round-Up of H1 2013

The first quarter of 2013 was promising for hedge funds, with all strategies posting positive returns. However, June was a disappointing month, bringing the overall performance of the asset class down in Q2. Graeme Terry takes a closer look at hedge fund performance in the first half of the year.

Hedge funds enjoyed an encouraging start to 2013, with positive returns in the first five months of the year making it 12 consecutive positive months for the industry. However, it proved to be unlucky 13 as negative returns for all strategies in June brought managers back down to earth. Overall, it has still been a relatively positive start to the year, but there is still work to do in order for managers to convince investors that they can deliver consistent risk-adjusted returns.

## Returns Down in June as CTAs Continue to Struggle

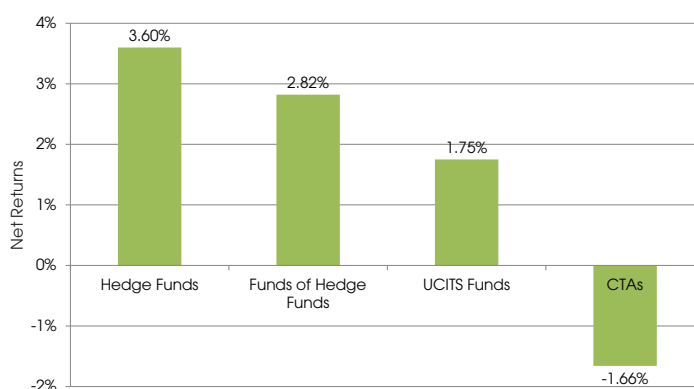
CTAs have continued to struggle for strong returns in the first half of 2013, posting returns of -1.66%, as displayed in Fig. 1. CTAs have posted negative performance numbers in February, May and June and many have failed to generate returns in the current market environment. A lack of trends, compressed volatility and low interest rates have all contributed to low returns in the CTA space. Returns for the other hedge fund categories were positive in H1, although negative returns for June dampened an encouraging start to the year. Funds of hedge funds posted returns of 2.82% over the first half of 2013, with long/short funds of hedge funds the main contributor (+4.06%). UCITS hedge funds continue to show dampened performance compared to the overall hedge fund universe, with returns of 1.75%, although they are slightly up on performance from H1 2012. UCITS employing macro strategies were the main contributor to the poor performance of UCITS hedge funds with negative returns of 2.57%, while long/short funds were the best performing in the UCITS category (+3.91%).

## Event Driven Funds Remain on Top

The average single-manager hedge fund ended the first half of 2013 with returns of 3.60%, with strong performance in Q1 (+3.33%) followed by muted returns in Q2 (+0.26%). Event driven funds have been the best performing so far in 2013 with returns of 6.92%, as shown in Fig. 2, taking the strategy to impressive 12-month returns of 16.23%. Distressed hedge funds have been the best performing within this category, positing year-to-date returns of 8.18%. Event driven hedge funds have tended to perform well in spells of positive performance for hedge funds overall, with these funds recording the highest returns of all hedge fund strategies in 2009, 2010 and 2012.

Long/short hedge funds had a strong start to the year as a result of buoyant equity markets, posting returns of 4.19% in Q1, but performance has slowed in Q2 with returns of 0.34%. Value-orientated and long bias funds have been the biggest contributors to this strategy in H1, with returns of 7.01% and 6.43% respectively. Long/short equity (+4.19%) and long/short credit (+3.47%) also achieved positive returns for H1.

Fig. 1: Net Returns of Hedge Funds by Structure, H1 2013



Source: Preqin Hedge Fund Analyst

Relative value funds have had a steady first half of the year with moderate gains recorded in each of the first five months followed by a 0.45% loss in June. Relative value arbitrage was one of the few benchmarks to deliver positive returns for June and has achieved 13 consecutive positive months, taking year-to-date returns to 4.00%. Convertible arbitrage, statistical arbitrage and equity market neutral funds have also delivered positive returns in H1, although fixed income arbitrage funds suffered a loss of 2.79% in June to take 2013 returns to 0.21%.

Multi-strategy funds have had a disappointing start to 2013, faring worse than the overall hedge fund benchmark in H1 2013, with returns of 1.86%.

## Macro Strategies Continue to Underperform

Macro strategies have continued to underperform, posting negative returns in H1 2013 (-0.07%) and recording their worst performance since H2 2008. Macro funds posted positive returns in Q1 (1.15%) largely due to a strong January, but were still the worst performing out of the six hedge fund strategy categories during this quarter. Q2 was disappointing for macro funds with marginal gains in April and May (+0.09% and +0.11% respectively) followed by negative returns in June (-1.41%). Macro managers have struggled for a variety of reasons, including a lack of differentiation in global economies, making it difficult for them to capture trends and mispricing in markets.

## Asia-Pacific on Top Despite June Decline, as Emerging Markets Suffer

Asia-Pacific-focused funds fared best in the first half of 2013, despite muted returns in Q2, with cumulative year-to-date returns

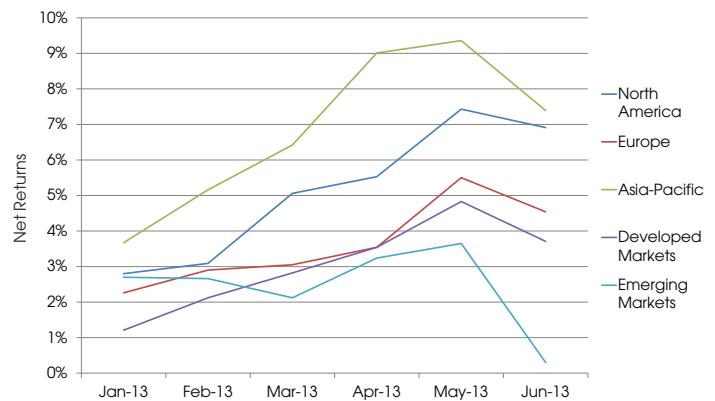


Fig. 2: Net Returns of Single-Manager Hedge Funds by Strategy

Q1 2013	Q2 2013	H1 2013	Last 12 Months	3-Year Annualized
Event Driven 4.20%	Event Driven 2.61%	Event Driven 6.92%	Event Driven 16.23%	Event Driven 9.71%
Long/Short 4.19%	Relative Value 0.93%	Long/Short 4.55%	Long/Short 11.81%	Long/Short 7.97%
Relative Value 2.61%	Long/Short 0.34%	Relative Value 3.56%	Multi-Strategy 7.47%	Relative Value 7.36%
Multi-Strategy 2.13%	Multi-Strategy -0.27%	Multi-Strategy 1.86%	Relative Value 6.88%	Multi-Strategy 7.05%
CTAs 1.23%	Macro Strategies -1.21%	Macro Strategies -0.07%	Macro Strategies 3.79%	Macro Strategies 6.36%
Macro Strategies 1.15%	CTAs -2.86%	CTAs -1.66%	CTAs -1.91%	CTAs 3.38%

Source: Preqin Hedge Fund Analyst

Fig. 3: Cumulative Net Returns of Hedge Funds by Geographic Focus, H1 2013



Source: Preqin Hedge Fund Analyst

of 7.39%, as Fig. 3 illustrates. Asia-Pacific funds posted strong returns in Q1 2013, boosted by the strong performance of equity funds as a result of rising stock markets, but failed to match this performance in Q2. North America-focused funds were best performing in Q2, with returns of +1.75%, taking H1 returns to 6.91% and representing the best start to a year for these funds since 2009.

Emerging markets-focused funds have suffered most in the first half of the year, with year-to-date returns only just remaining in the black (+0.30%). These funds suffered from a major decline in June, with the average emerging markets fund down more than three percentage points. This represents the worst half-yearly performance of emerging markets funds since the losses suffered in 2011. Funds focused on Europe fared worse than those focused on Asia and North America, but still posted positive half yearly returns (+4.54%).

#### Outlook

After 12 months of positive returns, losses across almost all benchmarks in June mean that there will once again be uncertainty about the performance prospects of hedge funds. The negative returns suffered in June again show that hedge funds are struggling

to produce positive returns in all market conditions, and they have consistently underperformed when compared to benchmarks such as the S&P 500 Index in recent years. Despite this, managers have been able to produce positive returns for most of the past 12 months and they will be aiming to ensure that this latest setback is just a blip rather than a major concern. The last time the industry suffered a similarly poor month was in May 2012, which preceded a run of positive performance, and managers will be hoping for a similar outcome this time around.

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Fig. 4: Net Returns of Top 10 Performing Hedge Funds in H1 2013

Fund	Manager	Core Strategy	Net Return in H1 2013 (%)
Northwest Warrant Fund - USD	Northwest Investment Management	Long Bias	178.80
Brightline Capital Partners LP	Brightline Capital Management	Long/Short Equity	102.19
Wave Hill USA Fund - Class B	Wave Hill Capital Management	Long/Short Equity	46.04
Wall Street Capital Partners	Wall Street Resource	Special Situations	41.92
Ginga Service Sector Fund - JPY Class	Stats Investment Management	Long/Short Equity	41.69
Smith Street Capital I	Smith Street Capital	Long Bias	40.48
Senvest Partners LP	RIMA Senvest Management	Long/Short Equity	38.88
Elevated Value Focus	Elevated Capital	Long/Short Equity	38.83
Quam China Focus Fund - Class A	Quam Asset Management	Multi Strategy	38.76
Loyola Capital Offshore Ltd	Loyola Capital Management	Long Bias	38.57

Source: Preqin Hedge Fund Analyst

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