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Hedge funds strut their stuff: A five-year perspective

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PH&N Absolute Return, which posted a 20.6-per-cent annualized return over five years, was helped recently by corporate bond trades

What are we looking for?

Hedge funds that have hedged nicely over five years.

Given recent market volatility and memories of the 2008-09 carnage, let's check the top performers in the alternative strategies category. Unlike their mutual fund peers, hedge funds don't have limits on shorting stocks and can borrow money to try to outperform.

The screen

We looked at the 15 best performers for the five years ended July 31. Most of these funds only report monthly. U.S. dollar, leveraged bull and bear exchanged-traded funds and duplicate versions of funds were excluded. We also left out those closed to new investors.

What did we find?

Two multi-strategy hedge funds with 20-per-cent plus annualized gains over five years.

King & Victoria Fund LP topped the list with a 23.5-per-cent average annual return even though it lost 24.5 per cent in 2008. There is, however, little information about this fund run by Toronto-based Equilibrium Capital Management Inc.

Phillips, Hager & North Absolute Return, meanwhile, posted a 20.6-per-cent annualized return. It eked out a 1.5-per-cent gain during the market meltdown of 2008 with the help of various hedging strategies. "They included buying put options on the S&P 500 and being short exchange-traded funds [like those focused on the U.S. real estate sector and U.S. small cap stocks]," said its lead manager, Hanif Mamdani, who is head of alternative investments at RBC Global Asset Management.

"We can't say we anticipated what we saw in 2008 and 2009, but we knew the risks were running high," he said. As the market bottomed in early 2009, the fund borrowed up to 1.7 times its equity, and the money was plowed mainly into corporate bonds. That move paid off with the fund gaining 50 per cent that year.

More recently, the fund has profited from "some reasonably good corporate bond trades," Mr. Mamdani said. "We anticipated a number of redemptions or early calls at advantageous prices in the corporate bond arena. Teck Resources tendered a lot of their high-coupon debt in the last year at very good prices. Likewise, Bombardier did the same thing."

With renewed market volatility recently on concerns about U.S. and euro-zone debt problems and a slowing global economy, he is becoming more defensive. "We are going to see more volatility," he suggested. "There is usually a retest of the lows."

The 15 Best-Performing Alternative Strategies Funds over Five Years to July 31								
Fund	Assets (\$-Mil.)	5-Yr. % Rtn. (to July 31)	YTD % Rtn. (to July 31)	2010 % Rtn.	2009 % Rtn.	2008 % Rtn.	2007 % Rtn.	2006 % Rtn.
King & Victoria Fund LP	n/a	23.50%	14.10%	59.70%	95.30%	-24.50%	0.70%	9.30%
PH&N Absolute Return	696.2	20.60%	3.40%	19.20%	50.00%	1.50%	18.20%	21.20%
Creststreet Energy Opportunities	n/a	19.30%	18.90%	51.60%	81.10%	-42.80%	41.20%	-27.50%
CI Trident Global Opportunities	115.9	19.10%	0.10%	-4.90%	-3.70%	43.60%	89.00%	0.10%
Primevestfund	n/a	16.80%	-9.50%	32.50%	61.20%	-35.90%	49.70%	35.80%
Salida Strategic Growth	n/a	16.50%	-3.60%	44.90%	181.60%	-66.50%	35.80%	87.40%
Dynamic Power Hedge Fund-FC	756.6	13.90%	-15.20%	44.00%	189.10%	-71.80%	38.60%	71.50%
Sprott Bull/Bear RSP A	184	12.60%	-4.70%	36.90%	0.30%	8.20%	23.20%	24.00%
Sprott Hedge LP - CI A	637	11.00%	-5.50%	41.20%	2.40%	-4.30%	23.80%	25.50%
Spartan Multi Strategy Fund Class A	33	10.70%	-4.10%	10.80%	26.20%	2.70%	8.70%	n/a
Enso Global	8.2	10.50%	-27.00%	95.10%	76.80%	-44.10%	12.50%	13.30%
Picton Mahoney Long Short Equity A	134.3	10.30%	-2.80%	16.00%	31.90%	-19.20%	20.40%	39.60%
Vertex Fund-A	1,086.00	10.20%	1.10%	19.50%	84.20%	-40.30%	10.00%	14.70%
Front Street Canadian Energy	44.9	9.80%	-11.70%	48.10%	166.00%	-67.70%	18.20%	56.80%
Polar Altairis Long/Short Class A	248	9.70%	3.30%	0.90%	19.50%	5.80%	10.60%	15.40%
S&P 500 Comp. Total Return Idx (\$Cdn)		-1.00%	-0.40%	9.40%	8.10%	-21.90%	-10.50%	15.70%
S&P/TSX Total Return		4.70%	-2.30%	17.60%	35.10%	-33.00%	9.80%	17.30%

Source: Globe Investor