

Barron's 2018 Top 100 Hedge Funds features lots of big quants and fundamental investors, but the winner is a small, eclectic Canadian firm. What's best for this market?

Bull's-Eye! Smaller Funds Hit the Mark

by Eric Uhfelder

BOLDFACE MONEY-MANAGEMENT GIANTS LIKE AQR, BlackRock, Citadel, D.E. Shaw, and Renaissance Technologies catch the eye on *Barron's* 2018 Top 100 Hedge Fund survey. But a small foreign fund pushed its way past bigger, better-known rivals to grab the No. 1 spot.

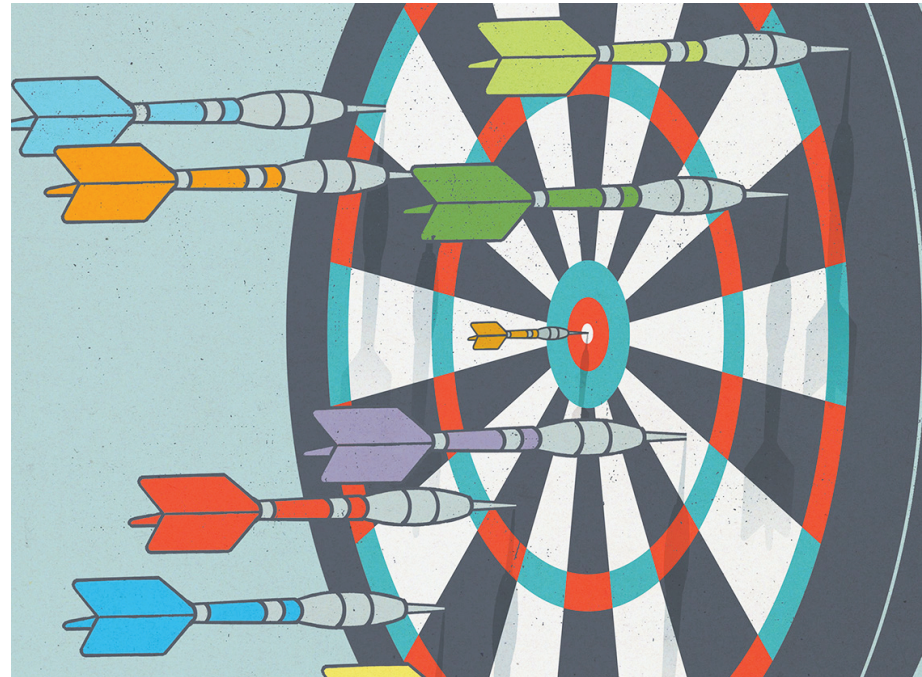
Toronto-based MMCAP, a \$552 million global event-driven fund, racked up three-year net annualized returns of more than 38%, boosted by a 63% gain amid other hedge funds' relatively tepid performances in last year's hot market. *Barron's* ranking measures the annualized returns of funds net of expenses from 2015 through 2017. (Our full methodology for selecting *Barron's* Top 100 Hedge Funds is at Barrons.com.)

MMCAP was launched more than a decade ago by Hillel Meltz and Matthew MacIsaac, and targets merger, capital structure, and index arbitrage and also engages in pairs trading, special situations, and private investments. These days, the fund's managers, who declined to speak with us, are focusing on arbitrage and other opportunities in technology, energy, and pharmaceuticals.

MMCAP's victory shouldn't be a big surprise. In recent years, high-performing small hedge funds have driven the rankings. MMCAP follows the \$390 million EQMC, a Madrid-based fund that led the pack in 2017. The small- and mid-cap European activist fund, now with \$763 million, thrived again this year, rising more than 23% and securing the No. 3 spot on our latest list. In 2016, Hong Kong-based statistical-arbitrage vehicle Parametrica, then with \$476 million in assets, landed on top.

These performances haven't gone unnoticed. The hedge fund team at the \$30 billion Employees Retirement System of Texas "believes in the merit of proven, smaller, institutional-caliber managers to help potentially achieve long-term investment goals," says Panayiotis Lambropoulos, a portfolio manager in the group. The retirement system is considering adding smaller managers to its hedge fund program.

Are smaller hedge funds just plain better? They do have advantages. Typically, half the funds on *Barron's* Top 100 Hedge Funds, which is based on trailing three-year annualized returns, run less than \$1 billion. "Because of their size," explains Tom Wil-



liams, chief investment officer of fund-of-funds manager Man Group's Pine Grove Funds, "smaller managers have the ability to invest meaningfully across a wider universe, compared with larger peers, and move in and out of positions more nimbly," without hurting prices.

And with more streamlined decision-making, small funds don't have to wait for senior management sign-offs to assemble a portfolio of concentrated, high-conviction bets. Focus worked particularly well in last year's tech-driven stock market. Of course, entrepreneurial managers of smaller funds may simply be hungrier to make a name for themselves. Managing fewer assets means less fee income, a strong motivation to grow.

And what about the foreign aspect? That could be a greater willingness to look more broadly for opportunities, says Jacobo Llanza, co-manager of last year's winner EQMC. "Not just what kind of asset to look for," he explains, "but where to find it." With U.S. securities markets so huge, U.S. portfolio managers may be content to stay at home, avoiding the regulatory, cultural, and currency uncertainties of venturing abroad. One possible result: performance that tends to track that of domestic peers.

Whether small or large, domestic or for-

eign, leading performers are helping hedge funds regain some appeal after several tough years, says Amy Bensted, head of hedge fund products at the United Kingdom-based hedge fund database Preqin. Previous net-asset outflows from hedge funds turned into a modest net inflow of \$45 billion in 2017. This helped boost assets to \$3.55 trillion from \$3.22 trillion over the past year. (For a graphic look at 10 years of hedge fund trends, see Barrons.com.)

Industry underperformance will keep the heat on hedge funds, even those on our list. While hedge funds had their best year since 2013, "they still didn't come close to keeping up with risk assets, delivering only half the gains of the market in 2017," observes Jeffrey Willardson, partner and head of portfolio solutions at Paamco Prism, a \$30 billion alternative investment manager. Overall, the average hedge fund gained 10.36%, according to BarclayHedge, far behind the 21.82% of the Standard & Poor's 500 index. *Barron's* Top 100 funds generated nearly an 18% average return last year.

That has made life challenging for some big, well-regarded funds. Blue Ridge Capital, Hutchin Hill Capital, and Eton Park Capital all shut down recently. Missing from *Barron's* list this year: Appaloosa Manage-

ment and Two Sigma Investments.

It's no surprise that funds that excelled were long stock, notes Willardson. Hedged equity funds that did particularly well include Quantitative Tactical Aggressive (No. 5), Renaissance Institutional Equities (No. 12), and Impala Master (No. 18).

Despite recent volatility, U.S. stocks aren't cheap. So what can investors expect from hedge funds this year?

A number of managers are looking for less-risky ways to play stocks or are approaching them in ways that don't depend wholly on broad market gains. For instance, Chris Hohn's TCI Fund (No. 11 on our list) is a \$17.5 billion vehicle that focuses on a dozen high-quality, undervalued western European and U.S. companies with wide competitive moats. He says, "High valuations have driven us into special situations." TCI has utilized merger arbitrage, owning targets **21st Century Fox** (ticker: FOXA) and **Time Warner** (TWX); accelerating liquidation of **Altaba** (AABA); and pursuing European infrastructure plays like Italy's **Atlantia** (ATL.Italy) and France's **Getlink** (GET.France). "These kinds of investments," Hohn says, "make more sense because their outcomes are less market sensitive with hedgeable risks."

Foreign markets still offer better valuations than the U.S. EQMC, which typically holds less than 15 positions, is invested in the U.K., Germany, and Spain in the industrial and consumer sectors. The firm expects a lift from the European Commission's new brokerage-research rules, which probably will reduce research of small- and mid-cap companies. EQMC is ramping up its staff.

As much as they might be hedging their bets on another big U.S. rally, most managers think a strong and synchronized global economic recovery with relatively low interest rates will provide opportunities. Bob Bishop, CIO and portfolio manager of the Impala Master fund, is expecting annualized industrial growth of 4% to 5%, which he believes will fuel the recovery of undervalued commodity-related shares.

Shrewd strategies like these will continue to win new assets. And that's how small money managers become bigger money managers. ■

Barron's Top 100 Hedge Funds

MMCAP, an event-driven fund based in Toronto, grabbed the No. 1 spot with more than a 38% annualized gain over three years as overall industry performance improved but still lagged behind benchmarks like the S&P 500. Finishing second this year is Knight Vinke Institutional Partners, an equity long-only activist fund.

RANK		Fund	Fund Assets (mil)	Strategy	3 Year-Compound Ann. Return	2017 Return	Firm Name / Location	Firm Assets (mil)
2017	2016							
1.	N.R.	MMCAP	\$552	Event Driven	38.23%	62.78%	MMCAP Asset Management / Toronto	\$552
2.	7.	Knight Vinke Institutional Partners International	1,000 ¹	Equity Long-Only Activist	37.24	46.00	Knight Vinke Asset Management / Monaco	N/A
3.	1.	EQMC Development Capital—Class A	763	European Small- / Mid-Cap Activist	28.51	23.19	Alantra Asset Management / Madrid	4,969
4.	N.R.	Pelham Long/Short Small Cap Ltd Class A USD	750	Small-Cap Equity Long / Short	26.86	39.45	Pelham Capital / London	6,000
5.	N.R.	Quantitative Tactical Aggressive LLC	1,055	Systematic Equity Long / Short	24.74	60.48	Quantitative Investment Mgmt. / Charlottesville, Va.	3,820
6.	N.R.	Paradigm Capital Value	395	European Equity Long / Short	23.73	19.13	Paradigm Capital / Munich	600
7.	N.R.	Kairos Pegasus	349	Event Driven	22.72	54.49	Kairos Investment Management / London	13,382
7.	N.R.	Shelter Growth Opportunities Master	1,721	Mortgage and Structured Credit	22.72	8.72	Shelter Growth Capital Partners / Stamford, Conn.	2,009
9.	4.	Sherborne Investors LP	1,446	Event Driven	20.89	15.65	Sherborne Investors Management / New York	1,446
10.	42.	Contrarian Emerging Markets	1,700	Emerging Market Distressed	19.14	20.36	Contrarian Capital Management / Greenwich, Conn.	4,800
11.	35.	The Children's Investment Fund	17,506	Equity Long / Short	18.34	28.20	TCI Fund Management / London	25,480
12.	6.	Renaissance Institutional Equities Series B	23,000	Equity Long / Short	18.03	15.21	Renaissance Technologies / New York	57,000
13.	63.	VR Global Offshore	3,556	Distressed	18.50	24.01	VR Advisory Services / London	4,406
14.	N.R.	Cheyne Total Return Credit 2020	1,400	Corporate Credit	17.75	18.60	Cheyne Capital Management / London	23,100
15.	N.R.	KG Investments—Class A-8	300	Event Driven	17.66	30.76	KG Funds Management / New York	328
16.	2.	Mangrove Partners LP	903	Special Situations	17.19	8.91	Mangrove Partners / New York	903
17.	N.R.	Voloridge Trading Aggressive	849	Quantitative Multistrategy	16.41	-0.80	Voloridge Investment Management / Jupiter, Fla.	1,102
18.	N.R.	Impala Master	1,534	Equity Long / Short	16.28	29.65	Impala Asset Management / New Canaan, Conn.	2,700
19.	23.	Pharo Gaia	4,259	Emerging Market Macro	16.20	27.30	Pharo Management / London	9,539
20.	9.	Verde FIC FIM	406	Multistrategy	15.96	5.25	Verde Asset Management / Sao Paulo	10,060
21.	N.R.	Covalis Capital Master Class A	411	Equity Market Neutral	15.67	13.27	Covalis Capital / London	860
22.	N.R.	AQR Long/Short Equity Strategy	7,070	Equity Long / Short	15.66	16.38	AQR Capital Management / Greenwich, Conn.	224,000
23.	17.	Element Capital	12,500	Macro	15.61	5.46	Element Capital Management / New York	12,500
24.	N.R.	Millstreet Credit	425 ²	Small- and Mid-Cap High Yield	14.92	30.51	Millstreet Capital Management / Boston	425
25.	48.	Clareant Structured Credit Opportunity II	338	Structured Credit	14.84	17.40	Alcentra / London	35,700
26.	N.R.	Quantitative Global Program	2,560	Managed Futures	14.82	7.36	Quantitative Investment Mgmt. / Charlottesville, Va.	3,820
27.	N.R.	Sagil Latin American Opportunities Class B	450	Latin American Equity Long / Short	14.54	17.43	Sagil Capital / London	450
28.	3.	Segantii Asia-Pacific Equity	2,338	Asian Multistrategy	14.47	8.56	Segantii Capital Management / Hong Kong	2,338
29.	41.	Chatham Asset High Yield Master	600	Credit Long / Short	14.26	13.72	Chatham Asset Management / Chatham, N.J.	3,589
30.	18.	D.E. Shaw Valence	3,001	Equity and Equity-Linked Strategies	14.23	13.68	D.E. Shaw Group / New York	47,000
31.	8.	Credence Global	347	Relative Value Arbitrage	14.19	4.17	Splendor Capital Management / Shenzhen, China	347
32.	44.	BlackRock European Hedge	3,070	European Equity Long / Short	13.75	21.91	BlackRock / New York	6,288,195
33.	54.	HMI Capital Partners LP	1,244	Global Equity Long Bias	13.65	24.83	HMI Capital / San Francisco	1,405
34.	58.	Camden Equity Overlay	541	Convertible Arbitrage	13.50	23.72	Camden Asset Management / Los Angeles	4,836
35.	37.	Whitebox Relative Value	712	Relative Value Arbitrage	13.39	11.01	Whitebox Advisors / Minneapolis	5,700
36.	N.R.	Twin Tree Capital	429	Volatility Trading	13.21	2.41	Twin Tree Capital Management / Dallas	429
37.	N.R.	Praesidium Strategic Opportunities Strategy	1472 ³	Equity Long-Only, Activist	13.18	18.85	Praesidium Investment Management / New York	1,472
38.	N.R.	Lansdowne European Equity Ltd - B Class USD	589	European Equity Long / Short	13.16	22.10	Lansdowne Partners / London	21,305
39.	15.	MW Market Neutral TOPS--Class A USD	2,226	Equity Market Neutral	13.03	7.97	Marshall Wace / London	37,348
40.	29.	Asgard Fixed Income I (Euro)	734	Fixed-Income Relative Value	12.91	11.72	Moma Advisors / Copenhagen	1,036
41.	55.	Quantedge Global	1,681	Macro	12.78	38.36	Quantedge Capital / Singapore	1,681
42.	N.R.	Orsay Merger Arbitrage - USD Share Class 3	388	Merger Arbitrage	12.77	2.62	Oddo BHF Asset Management / Paris	71,400
43.	N.R.	Omni Event - Class B	556 ⁴	Event Driven	12.71	9.19	Omni Partners / London	1,300
44.	N.R.	Maverick Fundamental Quant Neutral Ltd	370	Systematic	12.70	30.68	Maverick Capital / New York	11,500
45.	19.	STS Master - Class I	1,710	Asset-Backed Securities	12.64	19.79	Deer Park Road Mgmt / Steamboat Springs, Colo.	2,170
46.	89.	Pinpoint Multi-Strategy	479	Multistrategy	12.35	20.05	Pinpoint Asset Management / Hong Kong	2,711
47.	N.R.	AQR Global Risk Premium Tactical Strategy	1,021	Risk Parity	12.27	43.12	AQR Capital Management / Greenwich, Conn.	224,000
48.	31.	PH&N Absolute Return	1,331	Multistrategy	12.25	8.52	Royal Bank of Canada / Vancouver	512,500
49.	5.	Parametrica Global Master	337	Quantitative Equity Market Neutral	12.21	-2.78	Parametrica Asset Management / Hong Kong	571
50.	40.	Teton Capital Partners	1,188	Global Long / Short Equity	11.91	9.35	Ancient Art / Austin, Texas	1,188
51.	N.R.	PM Capital Global Companies	323	Equity Long / Short	11.82	20.37	PM Capital / Sydney	1,404
52.	N.R.	P2 Capital Master I	1,000	US Small-Cap Activist	11.52	19.80	P2 Capital Partners / New York	1,006

RANK		Fund	Fund Assets (mil)	Strategy	3 Year-Compound Ann. Return	2017 Return	Firm Name / Location	Firm Assets (mil)
2017	2016							
53.	24.	Renaissance Inst. Diversified Alpha Series A	\$14,400	Managed Futures & Equities Long / Short	11.51%	11.55%	Renaissance Technologies / New York	\$57,000
54.	N.R.	Doric Asia Pacific Small Cap	365	Asian Emerging Markets	11.48	29.80	Doric Capital / Hong Kong	365
55.	N.R.	Value Partners Classic Class A	1,574	Asian Emerging Market Equities	11.39	44.94	Value Partners Group / Hong Kong	16,600
56.	N.R.	Viking Long	6,700	Equity Long Only	11.29	26.86	Viking Global Investors / Greenwich, Conn.	25,100
57.	N.R.	RQSI Global Asset Allocation	448	Managed Futures	11.24	16.19	Ramsey Quantitative Systems / Louisville	548
58.	N.R.	Corre Opportunities Qualified Onshore LP	370 ⁵	Event Driven	11.10	14.58	Corre Partners Management / New York	370
58.	34.	Hawk Ridge Partners	509	Equity Long-Bias	11.10	8.02	Hawk Ridge Capital Management / Los Angeles	509
60.	N.R.	Suvretta Offshore	2,700	Equity Long / Short	11.04	24.32	Suvretta Capital Management / New York	3,780
60.	N.R.	Altum Credit Master	756	Asset-Backed Securities	11.04	15.03	Altum Capital Management / New York	848
60.	36.	CC&L Q Global Equity Market Neutral	1,761	Equity Market Neutral	11.04	5.82	Connor, Clark & Lunn Capital Markets / Vancouver	40,438
63.	75.	Adage Capital Partners	30,000	Equity Long / Short	10.97	23.60	Adage Capital Management / Boston	30,000
64.	N.R.	Ivalo ⁶	767	Mortgage-Backed Strategies	10.96	15.85	Bayview Asset Management / Coral Gables, Fla.	12,800
65.	49.	Autonomy Global Macro	4,500	Global Macro	10.95	6.13	Autonomy Capital / New York	5,000
66.	95.	Greylock Global Opportunity Master	388	Emerging Markets Distressed High Yield	10.91	5.61	Greylock Capital Management / New York	1,001
67.	N.R.	Lizard International	400	Equity Long Bias	10.90	26.60	Lizard Investors / Chicago	475
68.	64.	Verition Multi-Strategy PMI	437	Multistrategy	10.83	12.70	Verition Fund Management / Greenwich, Conn.	461
69.	N.R.	KL Special Opportunities Master—USD Class A	609	Event Driven	10.70	10.28	Kite Lake Capital Management / London	804
70.	N.R.	Arqaam Value Fund - Class A	331	Middle East / North Africa Value-Oriented	10.68	14.74	Arqaam Capital / Dubai	534
70.	N.R.	Angelo Gordon Mortgage Value Partners Master	1,319	Structured Credit	10.68	15.64	Angelo Gordon / New York	28,000
72.	N.R.	Owl Creek Overseas	1,001	Global Opportunistic / Event Driven	10.59	21.63	Owl Creek Asset Management / New York	2,532
73.	N.R.	HG Vora Special Opportunities	3,500	Event Driven	10.50	13.20	HG Vora Capital Management / New York	3,700
74.	32.	D.E. Shaw Composite	11,916	Multistrategy	10.34	10.61	D.E. Shaw Group / New York	47,000
75.	N.R.	AQR Equity Market Neutral Strategy	2,237	Equity Market Neutral	10.31	6.01	AQR Capital Management / Greenwich, Conn.	224,000
76.	N.R.	TT Mid-Cap Europe Long/Short - Class B USD	913	European Equity Long / Short	10.30	13.39	TT International / London	6,900
77.	N.R.	Hildene Opportunities Master	1,444	Distressed Credit	10.25	26.01	Hildene Capital Management / Stamford, Conn.	5,510
78.	N.R.	John Street Capital Vantage—Class HV Series A	803	Quantitative Macro	10.22	5.80	John Street Capital / London	803
79.	N.R.	Lansdowne Developed Markets Long Only	2,976	Equity Long Only	10.21	28.80	Lansdowne Partners / London	21,305
80.	30.	Citadel Kensington Global Strategies	18,459	Multistrategy	10.15	12.39	Citadel / Chicago	27,138
81.	N.R.	Old Orchard Credit Master	441	Credit Long / Short	10.12	8.28	Old Orchard Capital Management / New York	441
82.	N.R.	Spinnaker Global Emerging Markets Class K	971	Emerging Markets	9.96	12.37	Spinnaker Capital / London	1,385
83.	N.R.	Danske Invest Hedge Fixed Income Strat—DKK	1,403	Fixed-Income Arbitrage	9.77	11.40	Danske Invest / Copenhagen	115,000
84.	71.	AllianzGI Structured Alpha 1000	1,228	Absolute Return	9.75	9.84	Allianz Global Investors U.S. / New York	10,307
85.	N.R.	Freshford Partners	370	Equity Long / Short	9.72	16.06	Freshford Capital Management / Rye Brook, N.Y.	645
86.	N.R.	Friedberg Global Macro	566	Global Macro	9.71	36.48	Friedberg Commodity Management / Toronto	879
87.	N.R.	Citadel Global Fixed-Income	1,976	Global Macro	9.69	13.22	Citadel / Chicago	27,138
88.	12.	Blue Diamond Non-Directional Strategy	441	Relative Value Volatility	9.66	-7.96	Blue Diamond Asset Mgmt / Pfäffikon, Switzerland	467
89.	80.	Linden International	2,343	Multistrategy	9.60	14.10	Linden Advisors / New York	2,559
90.	81.	Hildene Opportunities Onshore II	686	Opportunistic Credit	9.53	17.61	Hildene Capital Management / Stamford, Conn.	5,510
91.	N.R.	One William Street Capital Master	1,180	Credit Long / Short	9.30	16.08	One William Street Capital Management / New York	3,368
92.	33.	Marlin	496	US Equity Opportunistic	9.29	12.27	Masters Capital Management / Atlanta	921
93.	N.R.	Lyrical U.S. Value Equity	3,385	Equity Long Only	9.27	21.27	Lyrical Partners, L.P. / New York	8,256
94.	93.	Polar Multi-Strategy (USD)	2,100	Multistrategy	9.26	7.05	Polar Asset Management Partners / Toronto	3,300
95.	N.R.	RPIA Select Opportunities Strategy	401	Relative Value Credit	9.24	10.40	RP Investment Advisors / Toronto	3,897
96.	N.R.	LFIS VISION Premia Opportunities—Class IS EUR	680	Alternative Risk Premia	9.23	3.21	La Française Investment Solutions / Paris	10,574
97.	37.	Citadel Global Equities	2,912	Global Equity Market Neutral	9.05	12.26	Citadel / Chicago	27,138
98.	N.R.	York European Focus	490	European Event Driven	9.00	17.60	York Capital Management / New York	18,200
99.	N.R.	Man GLG Credit Multistrategy	376	Credit Multistrategy	8.91	13.40	Man Group / London	109,100
100.	N.R.	Man AHL Evolution	6,500	Managed Futures	8.89	17.86	Man Group / London	109,100
Barron's Top 100 Hedge Fund Avg					13.60%	17.78%		
BarclayHedge HF Avg					5.42	10.36		
S&P 500 Total Return					11.41	21.82		
Bloomberg Barclays Global-Agg Bond					2.07	7.39		

¹Knight Vincke fund assets are an estimate. ²Millstreet has \$40M in the comingled fund and 3 SMAs worth \$385M run *pari passu*. ³Prasidium has \$127M in the comingled fund and \$1,345M in SMAs run *pari passu*. ⁴Omni has \$186M in the comingled fund plus 5 SMAs run *pari passu* amounting to \$370M. ⁵Corre has \$260M in the comingled fund and \$112M in one SMA run *pari passu*. ⁶Ivalo is a fund-of-one client who pays fees; closed to new investors; the manager's Bayview Liquid Credit Strategies is a \$433M comingled fund run similarly but with only 2.5 years of history. Sources: BarclayHedge; Morningstar; and Prequin