SALT

The 2020 hedge fund survey published in June, which ranked the 50 top-performing funds over the trailing five years through 2019, found as a group they outperformed their peers and the market by a wide margin during the sharp sell-off of 2020's first quarter. And as markets rebounded over the next two quarters, their average returns ended September far ahead of those generated by the hedge fund industry and the S&P 500.

by Eric Uhlfelder

THRIVING DURING COVID-19

A look at how the 2020 Hedge Fund Survey's Top 50 Funds have managed through the Third Quarter of 2020

The Top 50 Funds comprising the 2020 Hedge Fund Survey have shown resilience through the first three quarters of the pandemic

After SALT commissioned my 17th annual hedge fund survey, there were serious concerns Covid-19 would shock economies, markets and managers in 2020, rendering the report's historical findings pretty much moot—since they were based on long-term performance through 2019.[1]

But that has not been the case.

At the end of the first, second, and third quarters of 2020, the average returns of the survey's Fifty funds have outpaced the performance of the hedge fund industry and the S&P 500 over each period.

The Fifty were those selected out of a global universe of thousands of broad strategy funds with at least $300 million in assets that had the top trailing five-year net returns. (See pages 1, 6, and 7 in the original report that follows for the methodology used in objectively identifying the Top 50 funds. See pages 5-14 for historical data of each of these funds, including net returns through the first three quarters of 2020.)

As of the end of September, with year-to-date returns of 9.2%, the Fifty enjoyed a wide margin of outperformance over the rest of the industry and the market. The hedge fund industry average return, as reported by Backstop Barclay Hedge (BBH), was less than 2%. The S&P 500 Total Return Index was 5.6%--paradoxically the same return registered by the JP Morgan Global Government Bond Index. (Echoing the strangeness of this year, these stock and bond indices historically have been negatively correlated.)

BBH reports the average return of the 540 Funds of Hedge Funds it tracks was up 2.43%. Their median performance was slightly higher at 2.63%.

The market's steady rebound since hitting its March lows has surprised Päivi Riutta-Nykvist, a veteran alternative investment allocator at the €11 billion Helsinki-based FIM Asset Management. But she now believes the rise in equities, which she had initially attributed to a Bear Market Rally, is likely "markets looking forward to a time when Covid has been contained and economies have broken out of recession."

All would agree massive government stimulus has helped, but so has the market's decoupling from the real economy, explains Riutta-Nykvist. But she cautions volatility will remain as investors increasingly recognize the growing damage inflicted by Covid-19 and the uncertainty surrounding the rollout and delivery of effective vaccines.

> "Despite the limited increase in bankruptcies (so far)...it may be just a matter of time, given the (scale of the) shock, before bankruptcies and unemployment increase."
>
> **- Bank of International Settlements**

STRATEGIES

There are two main explanations behind why the Survey's Fifty funds have outpaced the hedge fund industry and the market. One, uncertainty and volatility, which has so far characterized 2020, has created wide performance dispersion within each major strategy as managers have approached risk and opportunities in different ways.

Two, active fund management--by managers who have generated consistently sound returns with only moderate to low risk over the long term—has seemingly been better at preserving capital when

HISTORICAL HEDGE FUND STRATEGY PERFORMANCE THROUGH SEPTEMBER 2020
Ranked Based on 2019 Returns

Strategy	1Q 2020 Returns	1H 2020 Returns	YTD Net Returns Thru 3Q 2020	2019 Net Returns	2017-2019 (3 Year) Net Annualized Returns	2015-2019 (5 Year) Net Annualized Returns	2010-2019 (10 Year) Net Annualized Returns
Equity Long Bias	-16.63	-4.51	1.60	15.28	6.21	4.50	5.88
Emerging Markets	-16.33	-4.30	1.71	12.66	6.01	4.93	3.22
Credit Long-Only	-7.58	-1.47	0.87	9.10	3.68	2.93	4.62
Fixed Income Relative Value *	-10.30	-4.63	-2.16	9.09	4.81	4.75	4.55
Convertible Arbitrage	-5.30	1.30	7.08	8.36	3.57	3.21	4.57
Global Macro	-3.68	1.41	5.39	7.76	1.98	1.98	2.40
Event Driven	-14.53	-4.61	0.12	7.59	4.21	4.10	4.58
Fixed Income Diversified	-5.04	1.08	2.59	7.26	3.76	3.25	4.60
Asset-Backed Loans	-2.52	0.69	4.40	6.65	6.50	6.76	7.92
Equity Long/Short	-8.54	-2.05	0.97	6.59	3.85	3.17	4.07
Asset-Backed Securities	-21.71	-13.97	-10.23	6.57	7.60	6.98	13.61
Merger Arbitrage	-8.04	-1.26	0.62	6.39	3.86	5.19	4.41
Credit Long/Short	-6.80	-1.63	1.19	6.23	3.14	2.82	4.58
Multistrategy	-8.89	-3.59	-0.77	5.23	1.93	2.29	4.00
Commodity Trading Advisers	1.31	0.84	1.83	5.17	0.84	-0.05	0.77
Mortgage-Backed Securities	-11.48	-3.66	-1.20	4.67	4.69	3.87	8.84
Collateralized Debt Obligations	-26.58	-21.58	-16.03	3.36	7.19	6.05	18.00
Fixed-Income Arbitrage	0.32	5.70	8.49	2.42	2.27	3.02	5.42
Distressed Securities	-6.95	2.42	5.03	2.28	2.23	1.90	4.59
Volatility Trading	7.77	10.04	12.88	-0.29	-2.40	-0.48	1.29
Equity Market Neutral	-2.40	-1.91	-0.54	-0.56	0.20	1.26	2.49
Backstop BarclayHedge Index	-11.74	-2.63	1.69	10.64	4.98	4.20	4.77
S&P 500 Total Return Index	-19.60	-3.08	5.58	31.51	15.28	11.70	13.56
JPMorgan Global Gov't Bond Idx	4.40	5.03	5.56	6.05	2.77	2.51	3.50

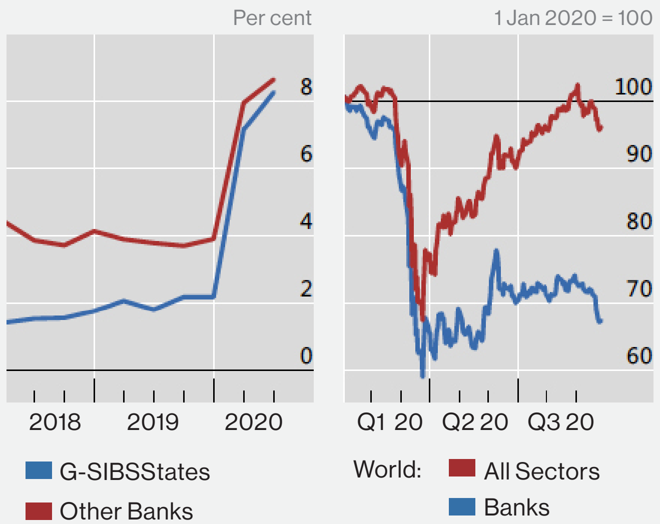
Data as 29 October 2020
Source: Backstop BarclayHedge
* Source of Fixed Income Relative Value is HFR

[1] My previous 16 annual reviews of the global hedge fund industry had been produced for The Financial Times, Barron's, and The Wall Street Journal.

Risk to Global Banks

Loan impairment charges of Systemically Important Bank stock values versus and other bank stock values.

Bank shares struggle to regain value versus global markets.



Source: BIS Bulletin, 9 October 2020

assets sold off. And then many were able to exploit opportunities created by the collapse in pricing to enhance returns going into the second and third quarters. They didn't fear a second major drawdown was in the offing, regardless of the spread and intensity of the virus.

The eight Equity Long-Short funds that made the survey were collectively up 30% year-to-date through September. The Backstop BarclayHedge average returns for such hedged equity managers was 1%. (See table on the previous page.)

The survey's five Global Macro managers—who invest in broad benchmarks like equity and bond indices, commodities and currencies—were up nearly 22%, easily outpacing the BBH strategy average gains of 5.4%.

And where the BBH average returns for Multistrategy funds—whose managers can invest in a variety of asset classes—were down fractionally, the survey's 7 Multistrategy funds were up 8.8%.

On the down side, Structured Credits funds—financially engineered vehicles that seek to capture interest flows across various types of debt–remain the industry laggards. This broad strategy was hit the hardest during the first quarter because of concerns about interest payments and likely impairment of underlying asset values. While they have substantially pared back losses, Collateralized Debt Obligations and Asset-Backed Securities were still down in the low-to-mid teens as of the end of September. Mortgage-Backed Securities have rallied back to nearly even. Reflecting these average losses, the survey's seven Structured Credit Funds were down by more than -9%.

President Trump decried the relentless focus on the pandemic when he told a crowd of supporters in October that all he hears is "Covid, Covid, Covid." But Panayiotis Lambropoulos, a hedge fund portfolio manager at the $28 billion Employee Retirement System of Texas, thinks that's still pretty much the priority of issues facing recovery.

"We need to see the return of overall confidence before growth can resume at normal levels," says Lambropoulos. "That won't happen until consumer spending, which makes up 68% of GDP, gets back on track. And consumer spending won't return in earnest until citizens (here and abroad) feel that Covid-19 is no longer a threat to their livelihood, wealth, and health.

He also thinks strong 3rd quarter growth—up 7.4% over the 2nd quarter—was underpinned by massive government transfers, which have largely been exhausted. "With a new relief bill not likely being enacted before late January, regardless of who is occupying the Oval Office, that leaves a still highly impaired economy pretty much on its own," explains Lambropoulos. He fears this means growth may not only sputter in the fourth quarter and the first quarter of next year, but the economy could then contract.

OUTLOOK

Lambropoulos expects to see attractive investments in the longer-term distressed debt cycle, which government intervention will not be able to rectify. He anticipates "fundamental changes to operations in a weaker macro environment will lead to credit downgrades and a material increase in bankruptcies and takeovers."

The Bank of International Settlements also shares Lambropoulos's concerns. In it's October monthly report, it says, "Despite the limited increase in bankruptcies in a number of economies, it may be just a matter of time, given the (size of the pandemic's) shock, before bankruptcies and, where it has not done so already, unemployment increase."

Moreover, BIS is concerned pressure on "banks to scale down lending and tighten funding conditions, particularly for the more risky borrowers, has thus increased and could impinge on firms' ability to access bank credit." And when government assistance, including loan guarantees, is phased out, more restrictive bank lending policies could make it more difficult for struggling firms to refinance debt. This raises the prospect, according to BIS, that "further deterioration in credit quality amid weak prospects for revenues could keep banks from writing off troubled loans and cleaning up their balance sheet, hampering the reallocation of funds to new borrowers."

> At the end of the first, second, and third quarters of 2020, the average returns of the survey's Fifty funds have outpaced the hedge fund industry and the S&P 500 over each period.

The Economist Intelligence Unit expresses more systemic concerns that major developed economies may eventually suffer the same fate as Japan where there has been protracted slow growth, low inflation and high debt. Given such unprecedented conditions, the EIU fears "the *zombification* of the global economy," even after a vaccine has begun to vanquish the pandemic.

Wharton School economist Jeremy Siegel disagrees, believing the US has shown it can accommodate its growing debt burden without dislocating credit markets and growth prospects. One key reason he points to: innovation is a key difference between Western economies and Japan.

Siegel is also sanguine because he thinks "the fortunes of major market indices aren't directly linked to GDP; economic growth is dependent on many small and mid-size companies that don't trade publicly." He believes renewed government spending will boost many traditional businesses while the tech sector is thriving from the many new ways it helps businesses operate in a Covid and post-Covid world.

Further, he says the likelihood that ultra-low interest rates will prevail for the next several years will also fuel the demand for stocks, especially Value shares, says Siegel, which will remain the most attractive source of liquid dividend-yielding investments.

While FIM's Riutta-Nykvist is currently optimistic, believing markets will rise in the 4th quarter as governments have no choice but to continue to massively infuse economies with liquidity, she fears several years from now there could be an eventual reckoning of the massive build up in government debt and the rise of inflation.

With that in mind, she plans to add substantial exposure to discretionary Global Macro managers to hedge her current exposure to Equity Long/Short, Systematic CTAs, and Volatility Arbitrage. "Discretionary Global Macro managers will have the ability to quickly respond to negative changes across economies and markets," she explains.

How does all this translate to the near-term outlook for hedge funds?

In a recent survey of 54 hedge fund managers and 43 investors from the US, Europe, and Asia Pacific, the hedge fund industry publication HFM Insights found 60% of investors are looking more favorably toward hedge funds than they did before the pandemic struck. And 75% of investors believe hedge funds have delivered material value in 2020. The bottom line: two-thirds of allocators surveyed anticipate increasing their hedge fund exposure.

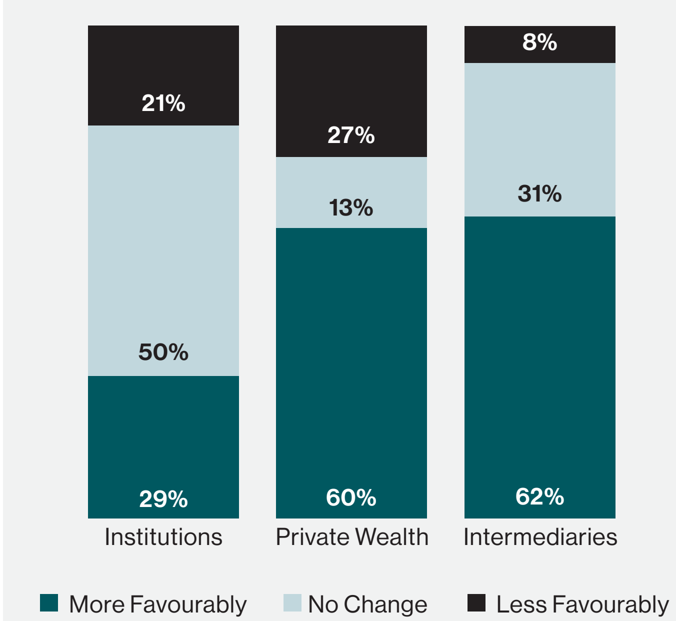
Digging deeper into the numbers, HFM's found investors viewing Equity Long/Short, Global Macro, and Multistrategy significantly more favorably than they did prior to the crisis. As mentioned at the start of this review, these were the top-performing strategies in my 2020 Hedge Fund Survey year-to-date through the 3rd quarter.

Regardless of how forward-looking allocators, consultants, and managers try to be, sentiment is largely driven by what they see in the rear-view mirror.

The idea that global markets could be stung by a worldwide pandemic—that has sporadically caused lockdowns, sent unemployment soaring, and made a mess of private and public finances—and then could largely shake off the effects in just a month feels somewhat like President Trump having believed he could get re-elected as daily Covid-19 cases in the US soared past 100,000. ■

Investor Sentiment

Change in investor views of hedge funds due to Covid-19*



**The Survey Excludes Funds Of Hedge Funds*

Source: HFM Insights, September 2020

SALT

2020 SURVEY OF THE TOP 50 HEDGE FUNDS : FIRST HALF 2020 UPDATE

The 2020 hedge fund survey published in June, which ranked the 50 top-performing funds over the trailing five years through 2019, found as a group they outperformed their peers and the market by a wide margin during the sharp selloff of 2020's first quarter. And as markets rebounded in the second quarter, these funds continued to outpace the hedge fund industry and the S&P 500.[1]

SURVIVING COVID-19

A look at how the 2020 Hedge Fund Survey's Top 50 Funds managed through the First Half of 2020

Commissioned by SALT, my 17th annual hedge fund survey did something different from my previous 16 studies—it tracked performance of the funds that qualified for inclusion through 2019 into the first quarter of 2020. Assessing the impact of the Covid-19 crisis had across all assets through March revealed these funds' resilience during extreme stress.

Their returns through the first half of the year reiterated their edge, achieving something the hedge industry and the broad market could not deliver—positive net returns.

The 50 funds were up an average of 1.33% year-to-date through June, adding more than 9% from where they ended the first quarter.

Backstop BarclayHedge, a leading global industry database, found hedge funds in general also enjoyed substantial improvement, reducing first quarter losses of -11.7% to -2.6%.

The S&P 500 showed the most dramatic upswing, rallying from losses of nearly -20% to just -3%.

"This has been the most orderly crisis I've ever seen in terms of how it has behaved across the period," according to Aswath Damodaran, the venerable NYU Stern School Business professor and finance, known as the Dean of Valuation. "It's a crisis that actually mirrors the virus: it has punished older, more mature companies that used to pay healthy dividends, and it has rewarded younger, more flexible companies that don't pay dividends. That's almost never the case during a crisis."

Damodaran trusts what the market is doing in spite of his concerns that stocks likely have overreached.

Panayiotis Lambropoulos, hedge fund portfolio manager at the $29 billion Employee Retirement System of Texas, is more confounded. He believes we are living in a time where facts don't matter, where markets have disconnected from the real economy. He sees daily pandemic cases still running high. While in decline, he's concerned that significant unemployment still could soar if regions again are forced to shut down. He feels we'll be lucky if full-year GDP doesn't fall by double digits. He sees the $2,000 price of Gold reflecting inflation fears, despite long rates remaining remarkably low. All the while markets had recently set new highs.

Lambropoulos believes "the key to getting the economy on a more stable footing is directly linked to mitigating the pandemic risk nationwide."

More than a half year into the pandemic, the country still lacks a nationwide policy for managing the crisis. Further, the politicization of data and policy management is interfering with the ultimate resolution of the pandemic. And this is causing more uncertainty across all markets.

Nevertheless, investors have remained in the market, and the fear that sent prices across asset classes plummeting in March, dissipated through summer. "It's as if we've talked ourselves into financial health," quips Lambropoulos," while we're still suffering across much of the country."

Investor commitment continues to be borne out by the SS&C GlobeOp Forward Redemption Indicator (see next page). This measures the degree in which investors are pulling their money out of funds. Just as it revealed at the end of March, redemption requests by mid-year still hasn't registered any sort of investor nervousness. As the world's largest hedge fund administrator, this metric tells us institutional, high-net wealth and family office money is largely staying put.

STRATEGIES

Backstop BarclayHedge's data shows virtually all major strategies have significantly rallied back close to flat for the first half of the year, with a few having pushed into positive territory (see table below).

No surprise that the largest turnarounds were enjoyed by minimally hedged equity strategies. Equity Long-Bias, Emerging Markets, and Event Driven funds saw mid-teen first quarter losses par back to less than -5%. Sosin Partners, (No. 1 in the survey), turned its -44% first quarter loss into a 9% gain. Legion Partners Comingled (No. 27),

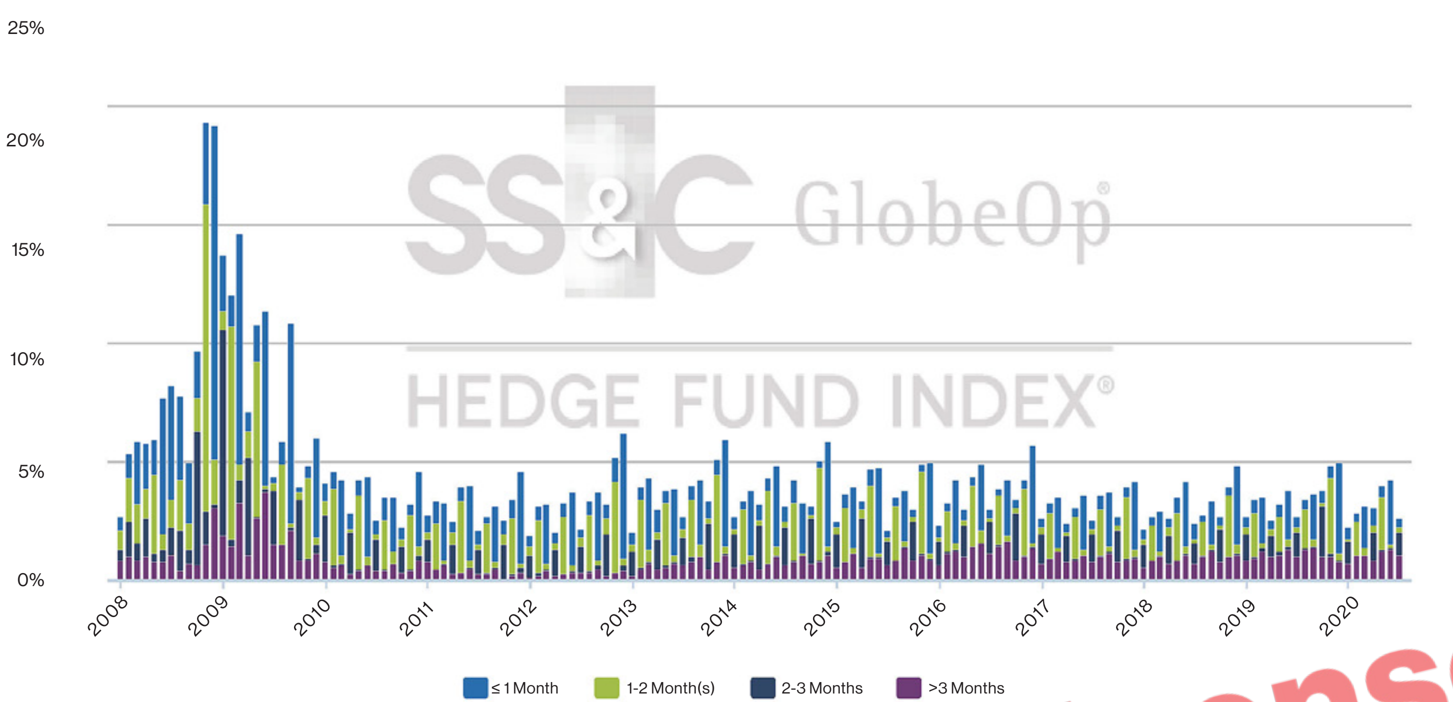
HEDGE FUND STRATEGY PERFORMANCE: FIRST HALF 2020
Ranked Based on 2019 Returns

Strategy	YTD Return thru March 2020	YTD Returns thru June 2020	2019 Net Returns	2017-2019 (3 Year) Net Annualized Returns	2015-2019 (5 Year) Net Annualized Returns	2010-2019 (10 Year) Net Annualized Returns
Equity Long Bias	-16.63	-4.51	15.28	6.21	4.50	5.88
Emerging Markets	-16.33	-4.30	12.66	6.01	4.93	3.22
Credit Long-Only	-7.58	-1.47	9.10	3.68	2.93	4.62
Fixed Income Relative Value *	-10.30	-4.63	9.09	4.81	4.75	4.55
Convertible Arbitrage	-5.30	1.30	8.36	3.57	3.21	4.57
Global Macro	-3.68	1.41	7.76	1.98	1.98	2.40
Event Driven	-14.53	-4.61	7.59	4.21	4.10	4.58
Fixed Income Diversified	-5.04	1.08	7.26	3.76	3.25	4.60
Asset-Backed Loans	-2.52	0.69	6.65	6.50	6.76	7.92
Equity Long/Short	-8.54	-2.05	6.59	3.85	3.17	4.07
Asset-Backed Securities	-21.71	-13.97	6.57	7.60	6.98	13.61
Merger Arbitrage	-8.04	-1.26	6.39	3.86	5.19	4.41
Credit Long/Short	-6.80	-1.63	6.23	3.14	2.82	4.58
Multistrategy	-8.89	-3.59	5.23	1.93	2.29	4.00
Commodity Trading Advisers	1.31	0.84	5.17	0.84	-0.05	0.77
Mortgage-Backed Securities	-11.48	-3.66	4.67	4.69	3.87	8.84
Collateralized Debt Obligations	-26.58	-21.58	3.36	7.19	6.05	18.00
Fixed-Income Arbitrage	0.32	5.70	2.42	2.27	3.02	5.42
Distressed Securities	-6.95	2.42	2.28	2.23	1.90	4.59
Volatility Trading	7.77	10.04	-0.29	-2.40	-0.48	1.29
Equity Market Neutral	-2.40	-1.91	-0.56	0.20	1.26	2.49
Backstop BarclayHedge Index	-11.74	-2.63	10.64	4.98	4.20	4.77
S&P 500 Total Return Index	-19.60	-3.08	31.51	15.28	11.70	13.56
JPMorgan Global Gov't Bond Index	4.40	5.03	6.05	2.77	2.51	3.50

Source: Backstop BarclayHedge
* Source of Fixed Income Relative Value is HFR

[1] See pages 1, 6, and 7 in the original report that follows for the methodology used in objectively identifying the Top 50 funds. See pages 5-14 for historical data of each of these funds, including net returns for the first half of 2020.

SS&C GLOBEOP FORWARD FUND REDEMPTION INDICATOR THROUGH JUNE 2020



a small-cap activist fund, which had lost one-third of its value during the first quarter, clawed its way back to just a -3.8% loss.

The one Equity Long Bias fund that struggled during the first quarter (-14.4%) then declined a bit further (to -15.1%) through the second quarter was the venerable $30 billion Renaissance Institutional Equities (No. 7). The fund would not comment on its performance. But in being quantitatively-driven, which likely trades with great frequency, suggests the fund may have significantly rotated into new holdings that failed to rally with the market.

Structured Credit strategies, which were the hardest hit in the first quarter, with all fund losses virtually exceeding 20%, saw more limited recovery by the end of the second quarter. Collateralized Debt Obligations cut its losses by 4.5% to -22%. Asset-Backed Securities reduced its losses by one-third, ending the first six months of the year down -14%. Most surprising was losses in Mortgage-Backed Securities were cut from -11.5% to just -3.6%. Initial fears about debt repayment seem, so far, to have been assuaged with the economy now flushed with liquidity.

Alcentra Structured Credit Opportunities II (No. 17), which had declined by nearly -40% during the first quarter, reduced its losses to less than -23%. Astra Structured Credit (no. 33), which had one of the strongest showings of any structured credit shop during the first quarter, having limited losses to under 11%, ended the first half of the year down less than 2%.

The consensus of what's driving this broad rally is the commitment by governments and central banks to massively flood markets with unprecedented levels of liquidity to contain the fallout.

Professor Damodaran points to March 23--the day the Fed announced it was backstopping the private lending market. "At the time," observed Damodaran, "the price of risk in the equity market (equity risk premium) had peaked. Almost to the day, we saw risk capital pivot back into the markets. By August, risk premium had virtually returned to pre-crisis levels."

This is what worried Päivi Riutta-Nykvist, a veteran alternative investment allocator at the €6.6 billion Helsinki-based FIM, back in May when she said "managers who are currently seeing their portfolios rebound will take it as proof central banks will protect their investments."

OUTLOOK

Noted Professor of Finance at the University of Pennsylvania's Wharton School Jeremy Siegel is more sanguine, believing the market is accurately gauging risk and future economic activity, and he sees little chance that markets will return to the dark days of late winter 2020. He does warn, however, that commercial real estate and related securities may have the hardest time coming back. Siegel thinks "we may be seeing a permanent change in the value of central city office and retail space."

Damodaran, despite anticipating full GDP contraction that could be between -10% and -15%, thinks we could see the market end the year up several percentage points. But he cautions if the virus turns out to be nastier than expected, that if treatment and vaccines prove elusive, and if there are second and third waves of infection that forces the economy to again shut down, we could see the market drop by 25% for the year. But he thinks this is unlikely.

"Markets are acting irrationally, and it's unclear to me why they are ignoring the obvious signs of risk," exclaims Tilo Wendorff, managing director of absolute returns at the €16 billion German alternative investment manager Prime Capital. He still believes we're in a protracted Bear Market rally. While he is not liquidating, Wendorff's maintaining his defensive posture until he sees the roll out of effective Covid-19 therapies and vaccines.

So what are investors and asset managers to make of all of this? Stay in the market, move into defensive strategies, begin liquidating, especially with markets starting to give back their recent gains?

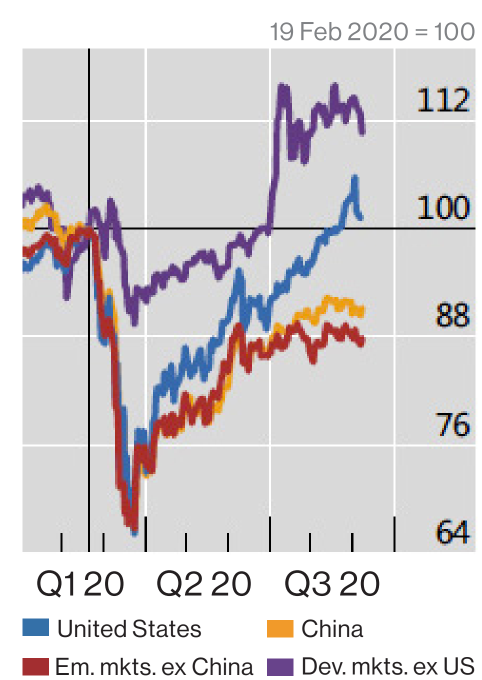
Hedge funds remain the most flexible of all asset classes, whose managers, especially those running smaller books of less than $1 billion, can quickly adjust to changing realities.

While Professor Damodaran agrees hedge funds can act more nimbly than other more constrained asset managers, he cites well-established evidence that the more a manager can do, the more damage he or she can do. "More freedom," he claims, "has often worked against hedge fund managers."

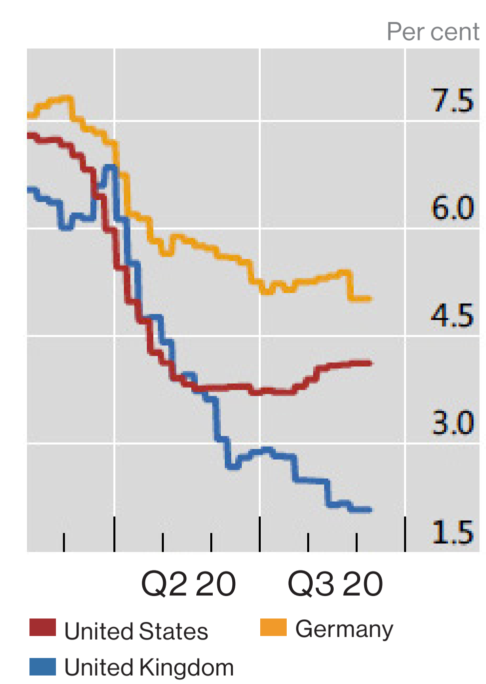
It's too early to know whose second-quarter performance was driven by shrewd asset management or simply benefitting from soaring liquidity. When we report third quarter returns in early November (which turned especially volatile toward the end of the quarter), we may be able to better distinguish which of these factors have been driving fund performance.

One standard throughout my 17 surveys is the longer a fund has been staying true to its fundamental approach to generating stable long-term returns, the more predictable their forward performance tends to be. And this is an especially critical quality since most of us can agree that the crisis is far from over. ■

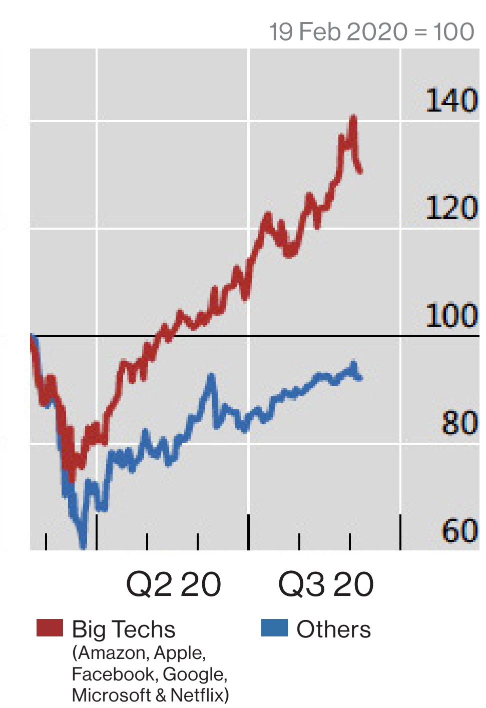
Stocks make up March losses...



despite lower expectations of forward average EPS growth rate through 2023



Most S&P 500 companies' equity prices have yet to recover



Sources: Bloomberg; Datastream; Refinitiv; BIS calculations.

The value of this year's annual hedge fund performance survey through December 2019 was ostensibly turned on its head when a pandemic virtually shut down the global economy and sent securities plummeting

in 2020. But a deeper look at these consistently performing funds revealed managers that as a group have largely been able to weather the storm better than the market and their peers.

by Eric Uhlfelder

Hedge Fund Investing During the Time of Covid-19

The pandemic is testing how well proven managers were prepared for an extreme shock after a decade-long bull market.

> "Managers who stay faithful to a proven, disciplined, risk-centric investment strategy to generate consistent returns often have the ability to respond to a sudden drastic shock."
>
> - Eric Costa, Cambridge Associates

Sometime in late February, the world changed, leaving most market observers to believe more than ever that past fund performance should be considered just that.

While the Coronavirus stopped much of the global economy in its tracks, it hasn't infected the skill set of many proven hedge fund managers. That's one of the key findings of this year's annual hedge fund survey.[1]

Example.

The venerable $30 billion hedge fund shop Citadel has a record of generating impressive returns especially when markets make sharp turns by consistently concentrating on risk and recalibrating exposure in step with anticipated changes in underlying conditions.

It did so when the markets suddenly turned south in the fourth quarter of 2018. It quickly pivoted to profit during the strong rally in 2019. And the firm was mindful of a potential major market shift going into 2020 before the pandemic struck. This enabled three of Citadel's funds to qualify for inclusion in this year's survey.

Eric Costa, global head of hedge funds at the consultancy Cambridge Associates, believes there are discernable qualities that will give fundamental equity and credit managers a performance edge, especially in extraordinary times. These traits, reflected in past performance, include:

- Consistent long-term performance and volatility that reflects a repeatable investment process, a clear commitment to a particular style, and a long-term investment horizon;
- Alignment of manager and investors interests, including managerial and portfolio transparency; and
- Stability of client base.

This study identifies 50 of the top long-term performing hedge funds, running broad strategies with at least $300 million, ranked according to their trailing five-year net returns through 2019. Also included are these funds' net returns for the first quarter of 2020 to capture the initial response caused by the Covid-19 shutdown.

The main takeaway: Managers' ability to have delivered consistent substantial performance while having effectively managed risk over the past five years through 2019 has not only enabled them to collectively track the S&P 500's returns, but has done so with less risk. And during the first quarter of 2020, this same group of well-established managers—some industry leaders, others little known--outperformed the stock market and the hedge fund industry by a wide margin.

This doesn't surprise Panayiotis Lambropoulos, a hedge fund portfolio manager at the $28 billion Employee Retirement System of Texas. He sees a clear link between managers who don't jump on hot trends and those who don't get crushed during a crisis. Echoing Eric Costa's sentiment, Mr. Lambropoulos believes,

"Managers who stay faithful to a proven, disciplined, risk-centric investment strategy to generate consistent returns often have the ability to respond to a sudden drastic shock."

Rather than giving managers a mulligan for the first quarter during this unprecedented crisis, Lambropoulos thinks allocators should hold managers accountable for their performance, seeing merit in Mike Tyson's quip: "Everyone has a plan until they get punched in the mouth."

The survey's key findings:

- The average 5-year annualized net return through December 2019 of these 50 funds was 11.26% -- more than 7 percentage points a year greater than the hedge fund industry average return;
- The S&P 500 Total Return Index (without any expenses) generated 11.70% a year over the same period. And this included the market's extraordinary 2019 performance when the Index soared 31.5%, far outpacing virtually all active managers mindful that 2019 was the tenth year of a bull market;
- Not only did the survey's 50 funds' returns virtually match the market over the past 5 years, they did so with an average annual standard deviation of 7.80% versus the market's 11.88%;
- Their average worst drawdown over the same was -9.1% versus -13.5% for the market; and,
- And the group's average 5-year annual Sharpe Ratio was 1.84 versus the market's 0.89.

During the first three months of 2020 as global economic activity collapsed, the S&P 500 lost nearly -20%. The average return of the hedge fund industry declined by more than -11%, according to data provider Backstop BarclayHedge (BBH). The average return of the funds that made this year's list lost -7.75%.

While markets have made a substantial recovery from their March lows, it's still too early into the crisis to have certainty about what equities and hedge funds will do for the rest of 2020 and into 2021, says veteran economist and former senior partner at Solomon Brothers Henry Kaufman. He believes there will be a widespread destruction of capital across many sectors, and the appetite for risk, which was healthy entering 2020, will be broadly ratcheted back as businesses and consumers cautiously weigh back into markets.

"Despite the current market

[1] My previous 16 annual hedge fund surveys were commissioned by The Financial Times, Barron's, and The Wall Street Journal.

SALT

euphoria," posits Kaufman, "until much of the US and major global markets have been inoculated with a proven vaccine to Covid-19, economies will be operating in an evolving new normal that broadly cannot support the market valuations at which we entered the crisis and which the market is attempting to revisit in May." Kaufman believes successfully navigating this unexplored financial territory is the challenge facing fund managers and investors for the next several years.

But what's evident so far, according to Päivi Riutta-Nykvist, a veteran alternative investment allocator at the €6.6 billion Helsinki-based FIM Asset Management, which serves institutional investors, family offices, and high-net worth investors, "is that proven, well-experienced hedge fund managers will have a much greater ability to respond to the current turbulence than most other asset-class managers. These include those running mutual, exchange-traded, real estate, and private equity funds whose portfolios and market positioning are largely locked in place.

FIM Asset Management's, Päivi Riutta-Nykvist

BACKSTORY

As the bull market charged into its 10th year, the $3 trillion hedge fund industry was thrashed for repeatedly trailing equities while collecting hefty fees in the process.

This performance gap was hard to argue with and has begun to affect industry asset count.

Over the past 12 months through March 2020, BBH reported net outflows of $159 billion from hedge funds. Coupled with trading-related losses of $143 billion, global hedge fund assets have fallen from over $3.01 trillion to $2.86 trillion at the end of March. This was the first time the industry lost net assets since 2008.

Adding in assets of Commodity Trading Advisors pushes the current industry count above $3 trillion. But this flow reversal indicates a paradoxical break in sentiment.

Hedge fund assets had been steadily climbing over the past two decades due to an increasing institutionalized client base. This shift, away from an industry dominated by more aggressively minded high-net worth and family office investors, took off after funds profited during the 2001 to 2002 Tech Wreck and accelerated when hedged equity managers contained losses to less than one-third of the market's -37% collapse in 2008.

This shift in investor base to more conservative pension, endowment, foundation, and insurance company investors, whose focus is more on capital preservation and absolute returns rather than beating the S&P 500, has generally turned hedge fund managers more defensive. This has brought criticism to the industry as the fortunes of low-cost indices have soared.

While it's too early to tell how hedge fund managers will fare by the time Coronavirus fears recedes, their first quarter returns, on average, have shown an industry that has mitigated losses when the global economy shut down. The market collapsed by -20%; the average hedge fund lost less than -12%.

That said, Russell Barlow, Global Head of Alternative Investment Strategies at $670 billion UK-based asset manager Aberdeen Standard, whose hedge fund exposure declined by just 3% in the first quarter, still believes there's a world of difference between managers who are being judiciously defensive and those that are weak.

Herein lies a fundamental problem with the hedge fund industry: there are too many mediocre to poor managers as evidenced in a recent historical performance survey of 20 leading strategies.

STRATEGIES

Hedge funds across all strategies provided by BBH have generated annualized returns of only 4.2% between 2015 and 2019 while the S&P 500 Total Return Index has increased by 11.70% annually. And over the past decade, hedge funds have done little better, up 4.77%, while stocks have increased by more than 13.5%.

> "There will be a widespread destruction of capital across many sectors, and the appetite for risk, which was healthy entering 2020, will be broadly ratcheted back as businesses and consumers cautiously weigh back into markets."
>
> - Henry Kaufman, Economist

As the table below indicates, dispersion of annualized strategy returns over the past 5 years was narrow. Commodity Trading Advisors, which bet on broad market trends, and Volatility Traders, who try to profit by anticipating pronounced market shifts, performed the worst, having lost an average of -0.05% and -0.48%, respectively.

Where traditional debt and equity indices did fairly well over this period, hedge fund managers who focused on credit and stocks generated only modest returns. Credit Long/Short managers returned only 2.82% a year, Credit Long-Only funds were up 2.93%, Equity Long/Short funds gained 3.17%, and even Equity Long-Bias managers were only able to gain an average of 4.50%.

The most compelling strategy measured by positive consistency before and after the Coronavirus struck has been Asset-Backed Loans—managers who initiate and hold debt-like investments collateralized by various assets.

Between 2015 and 2019, ABL was the top-performing strategy, returning annualized gains of 6.76%. And during the first three months of 2020, the 50+ ABL managers that reported to BBH did a good job preserving capital, having lost on average just -2.5%.

However, Jonathan Kanterman, a managing director at the former $1 billion ABL shop Stillwater Capital, cautions that while the strategy has held up so far during the crisis through March, he's concerned what this performance data may not be showing. "Some of these numbers," explains Mr. Kanterman, "may be based on prepaid or accrued interest—not cash currently being received."

In addition to uncertainty about future payment flows, he says fund performance may be hurt by declining valuation of underlying collateral and the negative impact leverage might have on funds who use it to enhance returns. "If current market conditions worsen or fail to revive," says Mr. Kanterman, "then these risks could produce significant fund losses across the space."

"What these and all other strategy performance numbers tell us," adds Mr. Kanterman, "is that effective, long-term investing in hedge funds is not just in selecting a balance of strategies that correlate well together, but in identifying managers who have shown a consistent ability to deliver significant material returns across full market cycles, including periods of unexpected shocks, which reveals a robust focus on risk management."

Structured Credit may be one strategy that proves to be an exception to this approach.

HEDGE FUND STRATEGY PERFORMANCE: JAN 2015 - MAR 2020

Ranked by 2019 Returns

Strategy	YTD Return (%) thru March 2020	2019 Net Return (%)	3-Year Net Annualized Returns (%) thru 2019	5-Year Net Annualized Returns (%) thru 2019	10-Year Net Annualized Returns (%) thru 2019
Equity Long Bias	-16.63	15.28	6.21	4.50	5.88
Emerging Markets	-16.33	12.66	6.01	4.93	3.22
Credit Long-Only	-7.58	9.10	3.68	2.93	4.62
Fixed Income Relative Value *	-7.52 *	9.09	4.81	4.75	4.55
Convertible Arbitrage	-5.30	8.36	3.57	3.21	4.57
Global Macro	-3.68	7.76	1.98	1.98	2.40
Event Driven	-14.53	7.59	4.21	4.10	4.58
Fixed Income Diversified	-5.04	7.26	3.76	3.25	4.60
Asset-Backed Loans	-2.52	6.65	6.50	6.76	7.92
Equity Long/Short	-8.54	6.59	3.85	3.17	4.07
Asset-Backed Securities	-21.71	6.57	7.60	6.98	13.61
Merger Arbitrage	-8.04	6.39	3.86	5.19	4.41
Credit Long/Short	-6.80	6.23	3.14	2.82	4.58
Multistrategy	-8.89	5.23	1.93	2.29	4.00
Commodity Trading Advisers	1.31	5.17	0.84	-0.05	0.77
Mortgage-Backed Securities	-11.48	4.67	4.69	3.87	8.84
Collateralized Debt Obligations	-26.58	3.36	7.19	6.05	18.00
Fixed-Income Arbitrage	0.32	2.42	2.27	3.02	5.42
Distressed Securities	-6.95	2.28	2.23	1.90	4.59
Volatility Trading	7.77	-0.29	-2.40	-0.48	1.29
Equity Market Neutral	-2.40	-0.56	0.20	1.26	2.49
Backstop BarclayHedge Index	-11.74	10.64	4.98	4.20	4.77
S&P 500 Total Return Index	-19.60	31.51	15.28	11.70	13.56
JPMorgan Global Gov't Bond Index	4.40	6.05	2.77	2.51	3.50

Source: Backstop BarclayHedge
* Source of Fixed Income Relative Value is HFR Data as 20 MAY 2020

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2020 SURVEY OF THE MOST CONSISTENT PERFORMING HEDGE FUNDS

RANKINGS 2019 WSJ°/ 2020 SALT°°	Fund Name (Location)	Fund Launch Date	Strategy	Fund Assets Dec 2019 ($M)	Firm Assets Dec. 2019 ($M)	2018 Net Returns (%)	2019 Net Returns (%)	2020 1st Qtr Net Returns (%)	2020 YTD Net Returns Thru 3rd Qtr	3-Year Annualized Net Returns (%) Thru 2019	5-Year Annualized Net Returns (%) Thru 2019	Annualized Net Returns (%) Since Inception Thru 2019	Worst Draw Down (%) 5 Years Thru 2019	Worst Draw Down (%) Since Inception Thru 2019	5-Year Annualized Standard Deviation Thru 2019	Annualized Standard Deviation Since Inception Thru 2019	5-Year Sharpe Ratio Thru 2019	Sharpe Ratio Since Inception Thru 2019	5-Year Fund Correlation vs S&P 500 T.R. Thru 2019
-- / 1	Sosin Partners LP (New York)	Oct-12	Equity Long Bias	510	686	29.79	64.48	-44.36	56.10	40.98	31.38	33.10	-24.57	-24.57	17.13	23.11	1.16	1.39	0.61
2 / 2	KS Asia Absolute Return IC (Hong Kong)	Jan-10	Multistrategy	836	1,303	20.17	30.42	2.62	N/A	34.59	22.74	17.43	-3.14	-4.39	8.11	7.21	2.67	2.34	0.25
7 / 3	Woodson Capital Partners (New York)	Jan-10	Equity Long Short	693	693	20.80	21.10	25.80	108.80	24.31	18.43	12.70	-9.95	-11.50	12.33	9.90	1.40	1.22	N/A
3 / 4	MAK One LP (New York)	Mar-04	Opportunistic Distressed & Equity	515	580	51.40	5.00	-9.40	-2.23	20.70	18.20	15.12	-14.30	N/A	18.09	N/A	1.01	0.91	0.01
-- / 5	Kerrisdale Partners Offshore (New York)	Nov-11	Equity Long Short	435	435	35.81	21.20	1.20	17.42	25.38	17.61	20.19	-17.30	-17.30	14.67	13.65	1.09	1.45	0.58
16 / 6	Millstreet Credit (Boston)	Jun-10	Credit Long/Short	492 *	500	15.79	15.85	-4.38	15.35	20.52	15.28	10.78	-23.88	-33.26	10.00	8.87	1.42	1.15	0.04
5 / 7	Renaissance Inst Equities BB (New York)	Aug-05	Equity Long Bias	34,806	72,700	8.52	14.16	-14.40	-16.81	12.59	15.26	11.38	-5.00	-34.40	10.59	9.87	1.24	1.04	0.25
10 / 8	Element Capital (New York)	Apr-05	Global Macro	15,000	15,000	17.30	12.12	1.13	11.46	11.52	15.24	19.41	-7.46	N/A	10.21	N/A	1.37	N/A	N/A
13 / 9	Serone Key Opportunities Ltd USD (London)	Sep-13	Structured Credit	344	489	9.35	9.07	-35.05	9.81	12.14	13.04	12.85	-4.31	-4.31	4.29	4.07	3.04	3.16	0.34
31 / 10	Omni Event (London)	Sep-13	Event Driven	1,211	1,509	14.64	11.15	-13.12	-6.48	12.00	12.78	10.41	-3.84	-8.29	5.59	6.37	2.10	1.50	0.07
	Backstop BarclayHedge Hedge Fund Index Returns					-5.23	10.64	-11.52	1.69	4.98	4.20	7.42	-7.43	-24.09	4.60	7.05	0.68	0.76	0.90
	S&P 500 Total Returns					-4.38	31.51	-19.60	5.58	15.28	11.70	11.09	-13.52	-50.95	11.88	14.96	0.89	0.46	1.00

° Uhlfelder, Eric. "As Hedge Funds Struggle, These Are Standing Out," The Wall Street Journal, 6 May 2019. This survey of 60 funds was based on the same methodology as the current survey. When the fund doesn't show a ranking in that survey, it means either fund data was not available or that it did not qualify for inclusion.

°° Ranking is based on 5-Year Trailing Net Returns Thru 2019. * Millstreet has $143M in its comingled fund and $349M in 3 Separately Managed Accounts.
N/A = data not available.

Opportunistic Distressed/Equity Investing: Mak One Capital

"We have entered a new period of enhanced volatility that may be with us for many years," says Michael Kaufman, head of New York-based opportunistic and distressed fund MAK Capital One (No. 4)—which generated net returns of close to 15% annually since its launch almost 18 years ago through the end of 2019.

The market panic, which disproportionally hurt some of Mr. Kaufman's smaller cap holdings in hospitality technology and manufactured home building, has been the main driver of the fund's -9.4% first quarter decline--in line with the hedge fund industry's returns. By the end of May, Mr. Kaufman had reduced fund losses to -7.39%.

He's assessing existing and future investments based on soaring public debt, which he thinks will act like an accelerant to future volatility, intensifying both the frequency and severity of future economic crises as governments struggle between solvency and constituent demands.

He will also closely monitor the impact major changes in business operations will have on valuations. Increasing "work from home" and Internet purchasing trends together could reduce the value of retail and central business district office property around the world along with all businesses that rely on that work traffic.

Kaufman is sticking with most of his companies, doubling down on some, while limiting net exposure to offset market volatility. And he's looking to short companies he thinks will have serious problems responding to the new macro realities.

Managers focused on Mortgage-Backed Securities, Asset-Backed Securities, and Collateralized Debt Obligations--financially engineered vehicles that seek to capture interest flows across various types of debt--have enjoyed solid long-term performance history through 2019. But their returns have turned sharply south during the first quarter of 2020. And at this point it's difficult to know if their underlying assets have been materially impaired and how long they may need to recover.

Structured Credit aside, most funds that qualified for inclusion in this year's survey, especially those launched more than a decade ago, have demonstrated a history of generating consistent returns, which may help explain why as a group they not only tracked the performance of the broad market over the last five years with less risk, but have done a superior job preserving capital during the first quarter of the Covid-19 era.

FIFTY

The 50 funds that made this survey are not reflective of the hedge fund industry. They are outliers, revealing the industry's promise.

They have defied the averages. Their mean age is nearly 12 years—more than twice as long as the life expectancy of the average fund. Their returns have collectively kept up with a raging bull market while exposing investors to less risk.

Use of performance hurdles raised the threshold for making and enhancing the quality of funds on this list.

This was initiated in last year's survey I prepared for The Wall Street Journal, which tracked performance over a trailing five-year period through 2018.[2] Because 2018 was the first year in nearly a decade when the market had

[2] Uhlfelder, Eric. "As Hedge Funds Struggle, These Are Standing Out," The Wall Street Journal, 6 May 2019. This survey of 60 funds was based on the same methodology as the current survey.

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RANKINGS 2019 WSJ°/ 2020 SALT°°	Fund Name (Location)	Fund Launch Date	Strategy	Fund Assets Dec 2019 ($M)	Firm Assets Dec. 2019 ($M)	2018 Net Returns (%)	2019 Net Returns (%)	2020 1st Qtr Net Returns (%)	2020 YTD Net Returns Thru 3rd Qtr	3-Year Annualized Net Returns (%) Thru 2019	5-Year Annualized Net Returns (%) Thru 2019	Annualized Net Returns (%) Since Inception Thru 2019	Worst Draw Down (%) 5 Years Thru 2019	Worst Draw Down (%) Since Inception Thru 2019	5-Year Annualized Standard Deviation Thru 2019	Annualized Standard Deviation Since Inception Thru 2019	5-Year Sharpe Ratio Thru 2019	Sharpe Ratio Since Inception Thru 2019	5-Year Fund Correlation vs S&P 500 T.R. Thru 2019
- - / 11	Covalis Capital Master Class A (Georgetown, Cayman Islands)	Oct-12	Equity Long Short	1,100	1,500	7.30	8.24	-4.54	8.56	9.57	12.44	13.76	-5.56	-5.56	6.95	7.59	1.64	1.71	-0.04
15 / 12	Citadel Wellington (Chicago)	Nov-90	Multistrategy	19,809 **	29,725	9.03	19.32	5.65	18.81	13.71	12.05	18.77	-6.98	N/A	5.25	N/A	1.93	N/A	-0.08
4 / 13	Segantii Asia-Pacific Equity Multistrategy (Hong Kong)	Nov-07	Multistrategy	3,700	3,700	11.34	5.52	0.30	3.85	8.45	12.02	14.51	-6.10	N/A	7.02	N/A	1.51	N/A	-0.02
34 / 14	Tiger Global Investments (New York)	Mar-01	Equity Long Short	11,305	36,200	13.60	32.70	-6.29	34.70	24.56	11.93	19.20	N/A	N/A	N/A	N/A	N/A	N/A	N/A
11 / 15	Waha MENA Equity (Abu Dhabi, UAE)	Jan-14	Equity Long Bias	449	888	6.62	19.74	-13.07	4.09	12.56	11.88	14.30	-6.37	N/A	6.78	N/A	1.63	1.69	N/A
8 / 16	John Street Vantage Strategy (London)	Jul-13	Systematic Macro	1,780	2,103	13.28	13.14	9.85	11.82	10.68	11.40	11.58	-10.80	-19.54	13.90	15.48	0.73	0.69	0.07
23 / 17	Alcentra Structured Credit Opp. II (London)	Feb-11	Structured Credit	415	415	5.66	8.37	-38.64	-12.03	10.30	11.32	19.33	-3.52	-8.17	4.51	9.77	2.27	1.92	0.25
28 / 18	Twin Tree Capital Master (Dallas)	Jan-13	Volatility Trading	615	615	11.45	5.49	0.30	14.81	6.38	11.26	10.72	-3.24	N/A	5.83	N/A	1.75	N/A	-0.27
21 / 19	Haidar Jupiter Intl. Ltd (New York)	Jan-02	Global Macro	389	646	8.15	31.21	53.45	58.73	23.16	10.84	15.48	-32.03	-32.03	22.04	16.28	0.44	0.87	-0.06
- - / 20	Global Sigma Group (AGSF) (Boca Raton, FL)	Apr-13	Option Strategies	371 ***	532	15.84	10.11	2.48	8.19	12.58	10.57	13.29	-13.42	-13.42	6.63	5.96	1.43	2.10	-0.11
	Backstop BarclayHedge Hedge Fund Index Returns					-5.23	10.64	-11.52	1.69	4.98	4.20	7.42	-7.43	-24.09	4.60	7.05	0.68	0.76	0.90
	S&P 500 Total Returns					-4.38	31.51	-19.60	5.58	15.28	11.70	11.09	-13.52	-50.95	11.88	14.96	0.89	0.46	1.00

° Uhlfelder, Eric. "As Hedge Funds Struggle, These Are Standing Out," The Wall Street Journal, 6 May 2019. This survey of 60 funds was based on the same methodology as the current survey. When the fund doesn't show a ranking in that survey, it means either fund data was not available or that it did not qualify for inclusion. °° Ranking is based on 5-Year Trailing Net Returns Thru 2019.

** Returns for Black Diamond Credit Strategies is through August 2020. *** Global Sigma Group (AGSF) has $248.6M in its comingled funds and $122M in SMAs. Sources: Backstop BarclayHedge, Preqin, and various online periodicals.
N/A = data not available.

lost money, setting a performance hurdle of 5% for that year was a basic way to see which funds delivered some form of alpha—swimming on their own without support of a buoyant market. Paraphrasing Warren Buffett, the hurdle helped reveal which swimmers had shorts on when the tide went out in 2018.

That hurdle was maintained in this survey for 2018 as well as for 2019. The latter was imposed for several reasons. One, regardless of past performance, it eliminated funds that ducked for cover after the 4th quarter 2018 stock selloff and failed to pivot back into the historic 2019 rally.

Two, and even more basic, requiring only several hundred basis points of returns above the risk-free interest rate seemed modest for any manager collecting management and performance fees.

Three, requiring funds to have back-to-back years of positive gains in 2018 and 2019 while generating the best trailing five-year returns helps this survey to highlight managers ability to generate consistent absolute returns while containing downside risk.

And four, while not appearing to be a demanding performance threshold, it recognizes the fortunes of many strategies are not tied to a roaring stock market.

This is an essential point that many industry pundits fail to understand.

Strategies such as Credit, Equity Market Neutral, and Global Macro funds are designed to generate returns independent of what stocks are doing. Expecting them to do otherwise would contradict the diversification they seek to provide investors.

This point is borne out by the collectively low correlation of the survey's 50 funds to the S&P 500: 0.20.

In his search for consistent absolute returns, Tilo Wendorff, managing director of absolute returns at the €16 billion German alternative investment manager Prime Capital, targets managers that:

- Focus on Alpha (returns independent of the market) rather than Beta (market risk);
- Do not chase trends;
- Have low, stable net exposure that typically ranges between 5% and 15%;

Volatility Trading: Global Sigma AGSF

Global Sigma AGSF's consistent returns of more than 13% annually since it was launched in spring of 2013 has continued through the first quarter of 2020, with the fund up 2.5%.

The 2020 performance of the 20th-ranked fund is trailing the average Volatility fund, which is up nearly 8% through March. But in contrast with AGSF's long-term performance, this strategy as a whole has lost money over the last 5 years through 2019.

AGSF focuses on US equities, strictly investing in short-dated options on S&P 500 futures contracts, which typically expire within one week. He also invests in VIX futures contracts to help smooth volatility.

Manager Dr. Hanming Rao's limited duration approach to generating absolute returns has enabled him to frequently identify options that are mispriced in comparison to expected near-term volatility.

In January, he saw options underpriced, suggesting lower volatility and risk than what the manager thought was reasonable. So he bought long options.

Then, reflecting the fund's ability to respond rapidly to changing market conditions, it reduced exposure as volatility shot up in March by reducing leverage, executing fewer and more selective trades in response to changing market sentiment. Through May, the fund is now up 4.53%.

Dr. Hanming Rao, Manager

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RANKINGS 2019 WSJ°/ 2020 SALT°°	Fund Name (Location)	Fund Launch Date	Strategy	Fund Assets Dec 2019 ($M)	Firm Assets Dec. 2019 ($M)	2018 Net Returns (%)	2019 Net Returns (%)	2020 1st Qtr Net Returns (%)	2020 YTD Net Returns Thru 3rd Qtr	3-Year Annualized Net Returns (%) Thru 2019	5-Year Annualized Net Returns (%) Thru 2019	Annualized Net Returns (%) Since Inception Thru 2019	Worst Draw Down (%) 5 Years Thru 2019	Worst Draw Down (%) Since Inception Thru 2019	5-Year Annualized Standard Deviation Thru 2019	Annualized Standard Deviation Since Inception Thru 2019	5-Year Sharpe Ratio Thru 2019	Sharpe Ratio Since Inception Thru 2019	5-Year Fund Correlation vs S&P 500 T.R. Thru 2019
30 / 21	Hudson Cove Credit Opportunity (Jersey City, NJ)	Aug-09	Structured Credit	477 ^	477 ^	9.67	12.93	-25.03	-16.27	11.17	10.56	13.26 ^	-1.08 ^	-1.08	N/A	2.62 ^	N/A	N/A	N/A
- -/ 22	Ivalo (Coral Gables, FL)	Jun-12	Mortgage-Backed Securities	922	15,700	8.18	11.20	N/A	-10.48	11.70	10.44	11.38	N/A	N/A	4.89	N/A	1.73	2.10	N/A
- -/ 23	Old Kings Capital LP (Darien, CT)	Oct-02	Equity Long/Short	318	805	6.32	29.81	-24.42	14.94	17.89	10.36	9.20	-20.00	-23.40	12.29	10.56	0.76	0.72	0.72
- -/ 24	D.E. Shaw Composite (New York)	Mar-01	Multistrategy	13,800	26,400	11.20	10.40	1.70	14.30	10.60	10.25	11.30	NA	N/A	N/A	5.70	N/A	1.73	0.14
17 / 25	Blue Diamond Non-Directional (Pfäffikon, Switz.)	Oct-11	Volativity Relative Value	941	941	17.27	5.09	4.78	9.16	4.29	10.20	15.26	-9.52	-9.52	9.10	N/A	1.12	1.33	0.12
- -/ 26	Cadian LP - A (New York)	Oct-07	Equity Long/Short	1,068	1,869	20.07	17.71	0.88	51.78	19.52	10.17	11.10	-21.77	-27.32	14.89	15.35	0.61	0.68	0.52
- -/ 27	Legion Partners Commingled (Los Angeles)	Jan-14	Small-Cap Activist	354	395	5.10	17.25	-33.28	0.45	17.26	10.08	7.05	-17.20	N/A	15.98	N/A	0.62	0.30	0.48
- -/ 28	Intrinsic Edge Capture LP (Chicago)	Jan-07	Equity Long/Short	304	775	7.82	6.67	-9.40	6.84	10.50	9.83	13.78	-9.50	-15.97	8.41	12.78	1.00	0.99	0.58
- -/ 29	Boothbay Absolute Return Strategies LP (New York)	Jul-14	Multistrategy	499	643	6.07	11.80	1.90	12.31	11.22	9.47	8.87	-2.41	-2.41	3.57	3.53	2.35	2.24	0.24
18 / 30	Black Diamond Credit Strategies Master (Greenwich, CT)	Jul-09	Distressed	1,300 ^	9,000	13.27	7.30	-10.62	-13.99***	9.73	9.40	16.40 ^	N/A	-6.67	N/A	7.09 ^	N/A	N/A	N/A
	Backstop BarclayHedge Hedge Fund Index Returns					-5.23	10.64	-11.52	1.69	4.98	4.20	7.42	-7.43	-24.09	4.60	7.05	0.68	0.76	0.90
	S&P 500 Total Returns					-4.38	31.51	-19.60	5.58	15.28	11.70	11.09	-13.52	-50.95	11.88	14.96	0.89	0.46	1.00

° Uhlfelder, Eric. "As Hedge Funds Struggle, These Are Standing Out," The Wall Street Journal, 6 May 2019. This survey of 60 funds was based on the same methodology as the current survey. When the fund doesn't show a ranking in that survey, it means either fund data was not available or that it did not qualify for inclusion.

°° Ranking is based on 5-Year Trailing Net Returns Thru 2019. *** Returns for Black Diamond Credit Strategies is through August 2020.
^ Data is through January 2020. Sources: Backstop BarclayHedge, Preqin, and various online periodicals.
N/A = data not available.

- Are inherently risk adverse;
- Have a proven track record, including experience successfully managing risk during a major crisis; and
- Have shown the ability to repeat a proven investment process.

These traits helped his €1.5 billion hedge fund exposure to limit first quarter losses to -5.0%, well less than half the average hedge fund loss and superior to the HFRI Fund of Funds Composite returns of -7.6%.

While strategy-level performance may provide some guide to what funds have done, Mr. Wendorff knows average numbers don't reveal the outlying talent that's out there.

Equity Market Neutral

About one quarter of Mr. Wendorff's hedge fund exposure is in Equity Market-Neutral funds—a strategy that limits net exposure between -20% and +20% to help capture positive returns that are then often enhanced with leverage. The 114 Equity Market-Neutral funds tracked by BBH generated little gain over the last five years through 2019. But over the same period, these funds helped Mr. Wendorff generate nearly 9% annual returns.

Anson Fund's Moez Kassam and Amin Nathoo

Only one Equity Market Neutral fund made this year's survey. Toronto-based Anson Investments Master (No. 49) generated 11.7% annualized since its inception nearly 13 years ago. During the first quarter of 2020, the fund lost -4.30%. It cut losses slightly to 3% by the end of May.

This $378 million fund, which invests primarily in micro- and small-cap equities, focuses on absolute returns, according to co-portfolio managers Moez Kassam and Amin Nathoo. "Our shorts are opportunistic investments," explains Mr. Nathoo, "not hedges, which helps our balanced exposure to perform consistently, especially during a crisis. Anson's annual volatility historically has been running several percentage points less than the market.

Mr. Kassam is cautious about the current market rally. He believes that "when the exuberance of government stimulus has waned, the problems that had troubled many companies will become quite evident as investors begin to more accurately assess valuations." He expects this to generate compelling short opportunities."

On the long side, the fund believes the crisis will provide an opportunity for attractive entry into new financing—in the form of secondary stock and convertible debt offerings with compelling terms.

With the managers believing a second wave of the Coro-

RANKINGS 2019 WSJ°/ 2020 SALT°°	Fund Name (Location)	Fund Launch Date	Strategy	Fund Assets Dec 2019 ($M)	Firm Assets Dec. 2019 ($M)	2018 Net Returns (%)	2019 Net Returns (%)	2020 1st Qtr Net Returns (%)	2020 YTD Net Returns Thru 3rd Qtr	3-Year Annualized Net Returns (%) Thru 2019	5-Year Annualized Net Returns (%) Thru 2019	Annualized Net Returns (%) Since Inception Thru 2019	Worst Draw Down (%) 5 Years Thru 2019	Worst Draw Down (%) Since Inception Thru 2019	5-Year Annualized Standard Deviation Thru 2019	Annualized Standard Deviation Since Inception Thru 2019	5-Year Sharpe Ratio Thru 2019	Sharpe Ratio Since Inception Thru 2019	5-Year Fund Correlation vs S&P 500 T.R. Thru 2019
- - / 31	Ninepoint TEC Private Credit Class F (Toronto) ^^	Jan-12	Asset-Backed/ Enterprise Loans	896	2,450	10.64	8.69	-0.01	4.06	9.38	9.49	10.21	-1.73	-1.73	1.72	2.03	4.96	4.56	-0.18
36 / 32	Mudrick Distressed Opp. Ltd B (New York)	Jul-09	Event Driven	516	926	16.45	22.24	-9.45 >	1.39	14.92	9.39	11.21	-31.31	-31.31	16.77	12.33	0.50	0.87	0.09
9 / 33	Astra Structured Credit Investments (London)	Nov-12	Structured Credit Relative Value	442	N/A	14.60	6.68	-10.78	1.42	10.35	9.33	N/A	N/A	N/A	4.07	N/A	1.80	N/A	N/A
- -/ 34	Alphadyne International Master (New York)	Apr-06	Global Macro	3,900	7,800	10.68	17.46	7.43	13.65	12.75	9.32	8.14	-7.10	N/A	4.35	N/A	1.90	N/A	0.22
29 / 35	AG Mortgage Value Partners Ltd (New York)	Apr-09	Mortgagep-Backed Securities	2,853	N/A	9.37	8.89	-33.18	-11.11	11.43	9.28	13.60 ^	-3.76	-3.76	N/A	3.72 ^	N/A	N/A	N/A
54 / 36	Waterfall Victoria Ltd (New York)	Jul-07	Asset-Backed Securities	1,121	8,500	9.64	8.97	-10.57	-5.97	9.32	9.27	9.38	-0.10	-1.45	1.68	2.29	4.87	3.79	0.01
19 / 37	Citadel Global Equities (Chicago)	Jul-09	Equity Long/Short	3,020	29,725	5.78	8.51	-2.25	-3.14	8.98	8.53	12.26	-4.96	N/A	4.76	N/A	1.45	N/A	-0.06
32 / 38	OWS Credit Opportunities (New York)	Dec-10	Distressed Securities	1,250 ^	4,500	8.38	6.88	-17.59	-4.26	9.85	8.36	9.72 ^	N/A	-7.61	N/A	3.98	N/A	N/A	N/A
- -/ 39	ChapelGate Credit Opp. Ltd - A Regular (Singapore)	Nov-05	Credit Multistrategy	1,020	5,569	5.20	11.59	-8.04	2.35	8.03	8.25	11.52	-1.89	-4.23	3.05	3.76	2.36	2.77	N/A
51 / 40	Citadel Global Fixed Income (Chicago)	Aug-12	Macro/Fixed Income	2,375	29,725	6.74	5.49	1.36	13.76	8.43	8.25	8.78	-4.28	N/A	5.79	N/A	1.15	N/A	-0.29
	Backstop BarclayHedge Hedge Fund Index Returns					-5.23	10.64	-11.52	1.69	4.98	4.20	7.42	-7.43	-24.09	4.60	7.05	0.68	0.76	0.90
	S&P 500 Total Returns					-4.38	31.51	-19.60	5.58	15.28	11.70	11.09	-13.52	-50.95	11.88	14.96	0.89	0.46	1.00

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^ Data is through January 2020. ^^ Ninepoint return, risk, and correlation data are all based in Canadian dollars.
> 1Q20 net returns for Mudrick was through 3 April 2020.
Sources: Backstop BarclayHedge, Preqin, and various online periodicals. N/A = data not available.

"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 impacting prices."

- Eric Costa, Cambridge Associates

navirus likely to hit, accompanying with enhanced market turbulence, they think the most difficult challenge is trying to estimate future consumer demand and corporate investment. "This makes due diligence that assesses the underlying strength and weaknesses of companies more critical than ever," explains Mr. Nathoo, "as well as the ability to rotate quickly out of mistakes."

Smaller funds like Anson have a much easier time making such sudden course corrections, revealing another key finding of the survey.

Size

Large shops including Renaissance, Element Capital, and Citadel are top consistent performers. But annual historical surveys reveal a high percentage of funds that make the cut are on the smaller side.

ERS Texas PM Mr. Lambropoulos believes "in the merit of proven, smaller, institutional-caliber managers to help potentially achieve long-term investment goals." His pension fund has teamed up with the fund of funds manager PAAMCO-Prisma to underwrite small, emerging managers to help boost returns.

"Because of their size," explains Cambridge's Eric Costa, "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 impacting prices."

Perhaps it's not so surprising to find 8 of the top 10 funds in this year's survey were running less than $900 million. Nearly half the funds on the list were managing under $750 million; 15 were running less than $500 million.

Credit Long/Short

Another small shop: the $500 million Millstreet Capital was the top-performing Credit Long/Short fund (No. 6) in this year's survey. Not only did the fund limit first quarter 2020 losses to less than 4.4%, but managers Craig Kelleher and Brian Connolly believe the worst may be over for select non-investment-grade credits.

Millstreet has been generating annualized returns of 10.8%

Employee Retirement System of Texas' Panayiotis Lambropoulos

SALT

RANKINGS 2019 WSJ°/ 2020 SALT°°	Fund Name (Location)	Fund Launch Date	Strategy	Fund Assets Dec 2019 ($M)	Firm Assets Dec. 2019 ($M)	2018 Net Returns (%)	2019 Net Returns (%)	2020 1st Qtr Net Returns (%)	2020 YTD Net Returns Thru 3rd Qtr	3-Year Annualized Net Returns (%) Thru 2019	5-Year Annualized Net Returns (%) Thru 2019	Annualized Net Returns (%) Since Inception Thru 2019	Worst Draw Down (%) 5 Years Thru 2019	Worst Draw Down (%) Since Inception Thru 2019	5-Year Annualized Standard Deviation Thru 2019	Annualized Standard Deviation Since Inception Thru 2019	5-Year Sharpe Ratio Thru 2019	Sharpe Ratio Since Inception Thru 2019	5-Year Fund Correlation vs S&P 500 T.R. Thru 2019
22 / 41	LibreMax Value Offshore (New York)	Jul-13	Structured Credit	1,413	8,216	5.26	8.00	-31.87	-25.17	9.70	8.21	11.69	-2.30	-2.30	2.57	4.09	2.09	2.66	0.33
35 / 42	One William Street Capital Master (New York)	Mar-08	Credit Long/Short	1,900	4,500	5.55	6.74	-16.25	-1.13	9.42	8.15	9.54 ^	N/A	-8.25 ^	N/A	4.70 ^	N/A	N/A	N/A
- - / 43	HGC Arbitrage (Toronto)	Jun-13	Merger Arbitrage	386	397	7.54	9.01	-1.45	19.60	7.22	8.11	11.76	-0.49	-0.59	1.48	3.74	4.76	2.92	0.21
60 / 44	Wolverine Flagship (Chicago)	Sep-01	Multistrategy	2,547	2,569	5.13	10.88	-10.23	6.26	8.78	8.05	7.79	-7.03	-25.97	3.81	6.10	1.83	1.06	0.64
42 / 45	PIMCO Tactical Opportunities (Newport Beach, CA)	Feb-13	Multi-Sector Credit	3,819	1,913,685	5.57	7.33	-14.29	-0.83	7.89	7.78	8.83	-1.41	-1.88	2.10	3.12	3.20	2.58	0.20
48 / 46	Brookdale Intl. Partners LP (Boston) >>	Sep-91	Multistrategy	1,159	1,712	9.69	10.06	-9.95	-2.87	9.22	7.53	14.24	-1.16	-4.12	1.74	5.02	3.71	2.16	0.21
58 / 47	Owl Creek Credit Opp. LP (New York)	Jul-12	Event Driven	642	2,563	6.54	9.22	-13.07	0.99	9.78	7.48	7.77	-7.15	-8.29	4.48	4.33	1.43	1.63	0.58
33 / 48	Barnegat (Hoboken, NJ)	Jan-01	Fixed Income Relative Value	685	685	5.26	8.24	-9.37	4.53	10.84	7.43	15.01	-8.50	N/A	6.29	N/A	1.01	N/A	0.00
27 / 49	Anson Investments Master (Toronto)	Jul-07	Equity Market Neutral	378	648	19.28	10.10	-4.30	29.30	5.77	7.35	11.71	-17.36	-17.36	9.90	9.66	0.55	0.99	0.49
43 / 50	Guggenheim Ptrs. Opportunistic Inv. Master (Chicago)	Oct-08	Asset-Backed Securities	1,999	215,552	5.97	6.57	-12.08	-5.13	6.74	7.12	12.59	-1.37	-1.37	1.83	4.05	3.32	2.98	0.30
	SURVEY AVERAGES	11.7 years		2,066	48,521	12.08	13.60	-7.75	9.22	13.19	11.26	13.05	-9.10	-12.55	7.80	7.68	1.84	1.78	0.20
	Backstop BarclayHedge Hedge Fund Index Returns					-5.23	10.64	-11.74 +	1.69	4.98	4.20	7.42	-7.43	-24.09	4.60	7.05	0.68	0.76	0.90
	S&P 500 Total Returns					-4.38	31.51	-19.60	5.58	15.28	11.70	11.09	-13.52	-50.95	11.88	14.96	0.89	0.46	1.00
	J.P. Morgan Global Gov't Bond Index (USD)					1.02	6.05	4.40	5.56	2.77	2.51	7.11	-4.51	-8.43	3.38	5.90	0.42	0.66	-0.28

° Uhlfelder, Eric. "As Hedge Funds Struggle, These Are Standing Out," The Wall Street Journal, 6 May 2019. This survey of 60 funds was based on the same methodology as the current survey. When the fund doesn't show a ranking in that survey, it means either fund data was not available or that it did not qualify for inclusion.°° Ranking is based on 5-Year Trailing Net Returns Thru 2019. ^ Data is through January 2020.

>> Returns prior to Brookdale International Partners, L.P. inception date of November 1, 1994 are reported based on the returns of its predecessor fund, Brookdale Equity Partners L.P. ("BEP"). BEP's returns are included for the period between September 1, 1991 and October 31, 1994. Sources: Backstop BarclayHedge, Preqin, and various online periodicals. N/A = data not available. +Updated BBH 1Q20 Average.

Sosin Partner's Clifford Sosin

since it launched its high-yield credit fund a decade ago through 2019. After Covid-19 struck, the managers are seeing increased opportunity in the under-researched space of small- to-mid-cap firms, which contributes to trading inefficiencies. The firm's net long exposure has moved up from 52% to 63%, and the managers expect it to inch higher.

In not mincing words, Mr. Kelleher projects "the next couple of quarters will be ugly as companies burn through cash, credit metrics deteriorate, and defaults rise." But he also sees substantial mispricing, creating short opportunities for firms he thinks will tank and long buys for firms he believes will survive—such as grocery chains and delivery services.

Keys to the firm's credit selection include identification of companies with clear liquidation value, stock price that trades at an exceeding low earnings multiple, a long runway that will allow a firm to stay in business over the next year, access to credit, and a relatively low Debt/EBITDA ratio, and stronger cash positions compared to the rest of the high-yield industry.

> "Consumers will go back to work and government will adequately fill in the gap caused by the shut down, and production will recover. I believe what we are seeing is only the temporary idling of our country's capacity."
>
> - Clifford Sosin, Sosin Partners

The managers have preserved capital by largely investing in first-lien senior-secured credits, avoiding companies with substantial debt, hedging materially long individual or sector positions, focusing on fundamental issues that may reveal risk before financials do, and avoiding making decisions based on emotion, especially when there may be an innate urge to do so.

Equity Long Bias

The top-spot of the survey was claimed by another small fund—the $510 million Equity Long-Bias Sosin Partners, which generated annualized returns of more than 33% since its launch in fall of 2013 through 2019.

Managed by Clifford Sosin, the fund is a throw back to the way many hedge funds used to be run prior to the 21st-century waves of institutionalization that throttled back industry risk and returns.

In keeping with this swash-buckling spirit, Mr. Sossin searches out companies with creative business plans, digging into their operations and finances, then concentrating a large portion of his book into his favorite names.

Carvana, the online used-car sales portal, and Cardlytics, the direct advertising vehicle channeled primarily through bank websites, made up 70% of Mr. Sosin's positions before Covid-19 struck.

He refrains from using hedges or shorts to counter volatility, believing the most essential part of his risk management is in stock selection. More so than any manager interviewed for this survey, Mr. Sosin's deep investment convictions also extends to belief in the essential soundness of our government and economy.

"Consumers will go back to work and government will adequately fill in the gap caused by the shut down, and production will recover," predicts Mr. Sosin. "I believe what we are seeing is only the temporary idling of our country's capacity."

He believes his two largest positions "will not only survive this shutdown but come out ahead of their respective competitors because of the strength of their balance sheets and business strategies."

Guided by such certainty in his calls, it's not surprising that while generating top

Niall Ferguson: An Economic Historian's View

Photo credit: Dewald Aukema

EU: How do you think the economy will fare in 2020?
NF: The IMF projected the US economy would contract by -5.9% in 2020. That's assuming lockdowns are over in the 2nd quarter and a recovery in the second half. My expectation is not for a sustained V-shaped recovery. I anticipate the US will be hit by a second wave of Covid-19, which will inhibit recovery.

EU: What are financial markets telling you?
NF: Financial markets are sending false signals about the likely trajectory of the real economy and that's because they are still responding to massive government relief programs, which for the time being, have prevented financial assets from cratering the way they did in 2008.

The real economy has been hit far harder by Covid-19 than by the financial crisis of 2008-9. The Fed and the Treasury have built floors not just under equity prices, but beneath other asset classes, including non-investment-rated bonds. But this is an unsustainable state of affairs.

EU: Are we responding to the current crisis like we did 2008 or are we making necessary adjustments?
NF: We're seeing a similar response that was made in 2008, but on steroids. We won't be able to bring the economy back until we get a handle on the public health crisis. And the Trump Administration is not making it clear that's it's not just one curve we have to bend. There will be other curves, unless this pandemic is completely unique in history. Fiscal and monetary measures only bought us a small amount of time. Soon businesses will begin to die if there isn't a return to work in the next few weeks.

EU: What does all this mean for markets and investing?
NF: Oil markets are showing there has been a massive economic contraction the world over. My sense is that equities haven't yet bottomed and the rally that started in March in response to government intervention will likely fade.

returns over the last five years through 2019, Mr. Sosin had one of the worst draw downs over that time: -24.6%. This is a vulnerability of Equity Long-Bias funds.

During the first quarter of 2020, Sosin Partners got hit more severely than any other fund in this survey, having lost more than 44%. By the end of May, the fund had rallied back to being nearly flat.

Multistrategy

Despite the strategy average having declined by nearly 9% in the first quarter, Reuters reported a breakout for some Multistrategy managers. It found a number of these funds, which "bet on a broad array of markets using teams of traders, leverage and centralized risk management, have flourished as stocks ended their worst three months since the 2008 financial crisis."

As their name suggests, Multistrategy funds integrate various strategies to ensure access to opportunity across market cycles.

The annualized returns of the 164 Multistrategy funds reporting to BBH over the past five years through 2019 suggest funds are running strategies that are cancelling each other out, having generated just 2.3%.

But this year's survey shows seven outliers that collectively have registered 5-year trailing returns of 11.73%. And their collective first quarter losses averaged -1.14%. Leading performers included the $20 billion Citadel Wellington (No. 12), the $14 billion D.E. Shaw Composite (No. 24), and the $3.7 billion Hong Kong-based Segantii Asia-Pacific Equity Multistrategy fund (No.13).

Segantii preserved capital during one of the worst economic downturns, according to partners Simon Sadler and Kurt Ersoy, by staying consistent with an investment approach that was established more than a decade ago. It was up 30 basis points through the first quarter of 2020.

> "Knowing when to ratchet back risk and then shift back into it are essential managerial qualities."
>
> - Tilo Wendorff, Prime Capital

The fund has delivered annualized returns of better than 14% since its launch over a dozen yeas ago by focusing on liquidity, net exposure, and most importantly, responding quickly to material market changes as it moves in and out of its Event Driven and Relative Value investments.

What gave both managers confidence to make rapid decisions was having worked in Hong Kong through various crisis, starting with when SARS struck in 2003. And last year, they dealt with the growing risks associated with widespread political protests across Hong Kong—which have again flared back up. "We've been in crisis mode for quite some time," observes Mr. Ersoy.

In late February 2020, the partners read clear signs the virus, which had exploded in Hubei Province in China, was beginning to morph across global markets. "We saw spreads widening to crisis levels in merger arbitrage and relative value trades," noted Mr. Ersoy. The US VIX also shot up to 40, something it had only previously done a few times since the 2008 Global Financial Crisis, as option valuations begin blowing out. "The velocity and the degree of change are why we thought risk was blinking red," recalls Mr. Sadler.

Segantii began shifting its portfolio into a more defensive posture in early March. By month's end, it saw sentiment again changing and began employing more risk. This helped Segantii end the quarter in the black. Through the end of May, the fund was up 4.25% for the year.

Knowing when to ratchet back risk and then shift back into it are essential managerial qualities, says Prime Capital's Tilo Wendorff. Specifically, he wants to "see a fund identify specific thresholds that will trigger a reduction in portfolio risk when events call for it and a corresponding set of parameters that will trigger a Risk-On response when increased exposure is in order."

Structured Credit

The most telling example of the risks investors can face when over-concentrating on a single strategy, even one that has delivered a consistent long-term track record, has been borne out (so far) by structured credit.

These are financially engineered investment vehicles that look to generate steady income from various sources of debt, including Asset-Backed Securities, Mortgage-Backed Securities, and Collateralized Debt and Loan Obligations. And until this year, many such funds have delivered on their promise.

In both last year's Wall Street Journal Survey (data through 2018) and this year's survey, structured credit funds were the most prevalent strategies by fund count. So far through March, the funds that made this year's survey lost around one-quarter of their value.

As widely reported, structured credit funds were the most severely stung by Covid-19, because of anticipated impairment on interest payment flows and valuation of underlying assets. Most managers were also hurt because they do not meaningfully hedge their exposure, believing in their strategies' inherent stability. "It will take time," Mr. Kanterman says, "to assess how deep or recoverable the damage has been."

Kai Rimpi, head of hedge

SALT

Why Good Funds Didn't Make the List

While a main reason most funds that didn't qualify for inclusion in this list was due to inconsistent or lackluster performance, survey parameters excluded some very good managers. Examples include the concentrated Long Equity fund TCI (formerly The Children's Investment Fund). Chris Hohn's fund didn't make the cut because his 2018 performance was 1%. This was well above the average hedge fund return for that year. But it was below the survey's 5% hurdle. Mr. Hohn is a venerable fund manager, having generated more than 18% a year since TCI was launched in 2004.

Nigol Koulajian's Alpha Quest Original fund has more than doubled the S&P 500 since it start in 1999, averaging annualized returns of 10%. During the first quarter of 2020, the Global Macro fund was up nearly 20%. Its systematic strategy, which targets sharp market moves, is designed to excel during major market downturns. But over the trailing five years through 2019, when volatility was extremely low, it generated returns of 2.4% a year.

Discus Composite, a Managed Futures program, has been returning 9.6% a year since it launched nearly 30 years ago. Part of the global asset manager Capital Fund Management's portfolio of funds, Discus' assets at the end of 2019 was less than $250 million, below the $300 minimum threshold for inclusion in this survey.

fund allocation at €47 billion Helsinki-based Varma Mutual Pension Insurance Company, saw this damage close up.

For 18 years, Varma has been generating average gains of close to 7%. It's €9 billion hedge fund exposure has been a significant contributor to the firm's consistent returns, explains Mr. Rimpi.

While diversified across its core US-based Multistrategy, Global Macro, Fixed-Income Relative Value, and Equity Market-Neutral funds, Mr. Rimpi's largest strategy exposure is Opportunistic Credit and US Residential Mortgages. They have generated a fairly steady annual return stream of 10% over the last decade, until 2020.

They lost -15% during the first quarter of the year, which brought down his net hedge fund loss year-to-date through March to nearly -12%.

He explains, "March was a very tough month for various asset classes, especially for credit, which was hurt by a sharp sell off by money market funds meeting redemptions and public REITS deleveraging to meet margin calls." The resulting collapse in meaningful pricing of credit led to REIT liquidations, which fueled the sharp decline in marked-to-market numbers.

"It was kind of a self-reinforcing cycle," observes Mr. Rimpi, "which seems to have come to a stop." While he doesn't expect a quick rebound in Opportunistic Credit and Residential Mortgages, he thinks pricing may recover over the next 12 months.

Legion Partner's Ted White and David Katz

Despite significant exposure to Structured Credit, Aberdeen Standards' $14 billion hedge fund book held up, down 3%.

The reason, explains Mr. Barlow, the firm's global head of alternative investment strategies, is due to balanced weighting across all its strategies, which include Relative Value, Distressed Securities, and Credit Long/Short funds. Performance of these three strategies were collectively neutral during the first quarter.

Another reason for having sidestepped major losses, explains Mr. Barlow, is that "we don't diversify across dozens of managers but focus about two-thirds of our exposure to just 10 managers in which we have strong convictions." Limited manager exposure, he explains, is key to being able to thoroughly understand each fund, monitor its behavior, and manage risk to help ensure quality long-term performance across market cycles.

Having seen substantial price dislocation across Residential Mortgage-Backed Securities, Collateralized Loan Obligations, and Levered Loans, Mr. Barlow is selectively increasing his exposure to Structured Credit.

While he believes the market may retest its March lows, Mr. Barlow is cautiously optimistic based on broad sentiment that the market has bottomed, the US Federal Reserve Bank is throwing everything at the crisis, and the speed and magnitude in which the Federal Government has responded with stimulus packages.

Activists

Managers that seek material exposure in troubled companies to turn them around may be seeing a shopping cart of opportunities as businesses try to restart. But many of their open positions likely took a sharp hit, having suffered worse than the market.

For Legion Partners (No. 27), it was a perfect storm because not only is it invested in companies in need of operational improvement, they target small-cap firms that are more volatile than large companies, and they run a concentrated book of less than a dozen core positions—leaving them no place to hide.

The $354 million Los Angeles-based small-cap activist fund, managed by Chris Kiper and Ted White, which had been churning out 10% annual gains over the last 5 years through 2019, and lost a third of its value in the first quarter of 2020. By the end of May, it had cut year-to-date losses to 11.5%.

The managers' early response to the crisis was to sell a main position that was in an industry they don't expect to recover very quickly and to reinvest in a food distribution firm in which it had already successfully cashed out. With its share price having crashed 90%, Legion's co-founder Ted White saw an opportunity in a shop he already knew well.

Legion also moved into a new communication/infrastructure firm that the managers believe should execute well in a Covid-19 restricted environment and beyond. "About half our core investments are in businesses that should thrive during lock-down and economic uncertainty," explains White.

The sudden market crash did indeed create a host of potential buying opportunities across the 700 companies Legion tracks. The problem: many of these companies also saw their potential target values recalibrated downwards. And herein lies the challenge of identifying truly deep value opportunities during a pandemic, explains White.

Many assumptions must be made in estimating forward valuations. With the constant flood of data and opinions about how the crisis will further unfold, White admits it's difficult to distinguish between accurate signals versus noise. He feels "one can't even be particularly certain how the rest of the year will play out."

That's pretty much the challenge facing managers of all strategies.

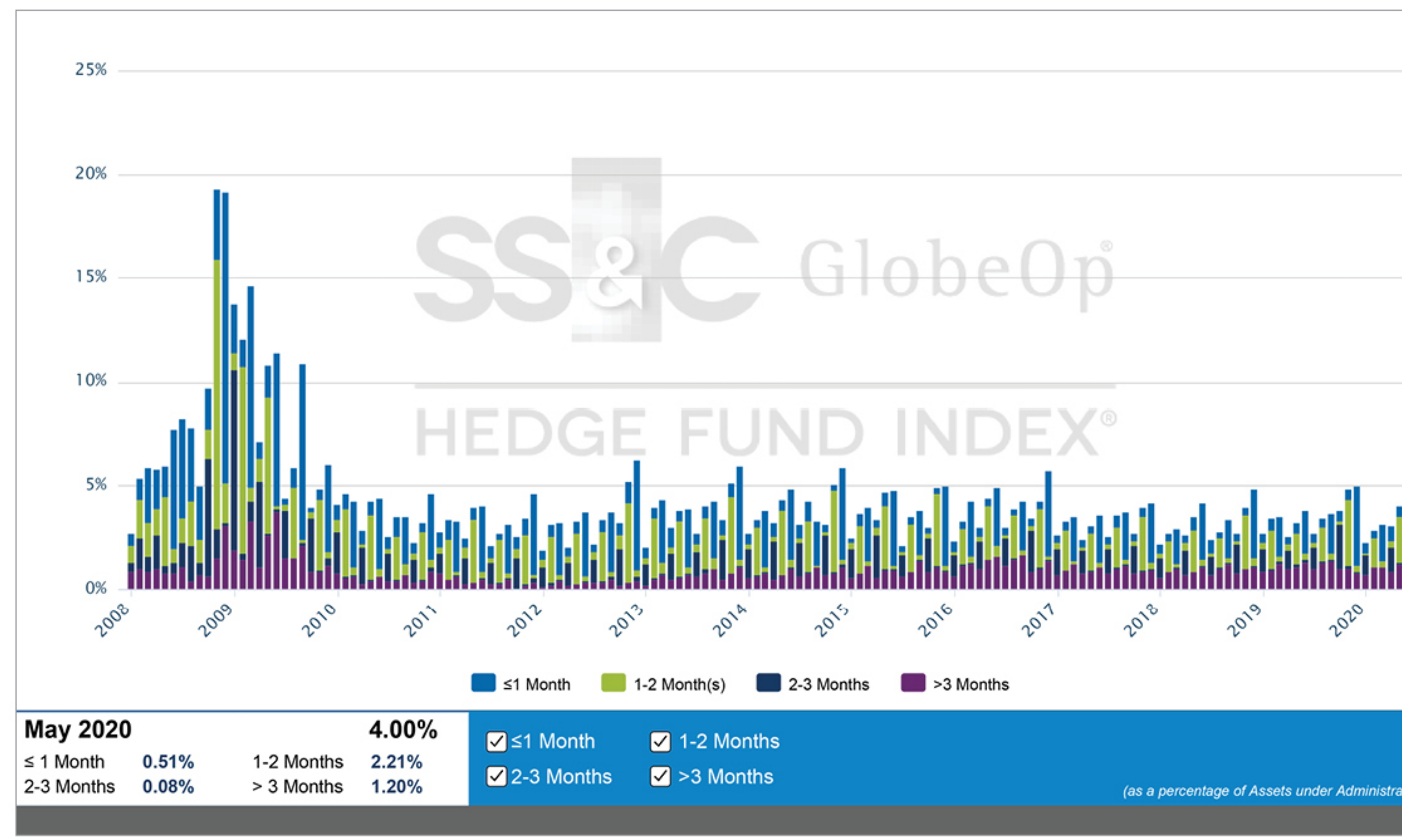
Running a concentrated book, however, enables Legion to better focus on its few investments than managers running much larger portfolios. This helps White's team to be far more certain about which companies can maintain sufficient liquidity and access to capital to survive the lock down and additional waves of the pandemic with business plans that can be expected to thrive regardless of an uncertain future.

TRYING TO LOOK AHEAD

As the SS&C GlobeOp Forward Redemption Indicator graph shows (below) hedge fund investors have largely stayed on board. The graph doesn't even register any kind of event having occurred this year. As the world's largest hedge fund administrator, its trends may be a legitimate proxy for the industry.

To Jim Ramenda, head of risk analytics at SS&C Technol-

SS&C GLOBEOP FORWARD REDEMPTION INDICATOR



ogies, the administrator's parent company, he surmises the steadiness in both redemption and net asset flows may be reflective of lessons learned by institutional investors and hedge fund managers from panic selling during the Great Recession that's helping both to more calmly navigate the crisis.

Limited redemptions doesn't surprise Cambridge's Eric Costa, who notes there has been less than a dozen notable fund closures during the first four months of the year and doesn't expect that number to materially increase.

"Managers as a whole have responded reasonably to the shock," observed Mr. Costa, "served well by their increasingly defensive positioning over recent years, and quick and aggressive government response. This has tempered initial fears of a systemic market collapse far more effectively than the government's much slower reaction to the Great Recession.

But such optimism doesn't indicate allocators are ready to turn on the pre-crisis financial spigots.

"While most institutional investors have been pleased by how their hedge fund investments have performed," observes Mr. Costa, "over the near term, the majority will take 'a wait and see' approach." Knowing there will be permanent damage to major industries, allocators will encourage many investors to keep their powder dry until there is clarity about the how well the economy is mending.

> "Retail investors, who fear missing out on the party, may be fueling the current stock rally. It feels more like a Bear Market rally, than a substantive recovery."
>
> \- Tilo Wendorff, Prime Capital

FIM's Riutta-Nykvist cautions that most managers who are currently seeing their portfolios rebound will take it as proof central banks will protect their investments. But it's the small minority of managers who see passed the government-sponsored rally that she believes can more accurately assess future risk.

Toward that end, she believes a focus that includes ESG will help drive alpha. "In fundamental strategies, ESG is at the core of effective risk management," says Ms. Riutta-Nykvist, "and this is especially true during the time of Covid. ESG doesn't impede profitable investing; it's one of the keys to it."

Seeing regional and global recession, she's looking to direct new allocation into discretionary macro and systematic CTA managers who should be able to profit.

Aberdeen Standard's Mr. Barlow agrees. Both strategies have so far contained the fallout through the first quarter of the year. As long as the broad markets in which they invest don't trend sideways, he expects they should also be able to excel.

Prime Capital's Mr. Wendorff is sustaining his 15% exposure to Global Macro and CTAs, and has slightly lowered his exposure to Distressed Securities to 25%.

"I personally don't expect a sustainable full V-shaped recovery," posits Mr. Wendorff, "but there's really no way of knowing what to expect from markets, especially after having rallied so aggressively off their March lows." This is why he's remaining defensive with a core focus in Market Neutral and Relative Value funds.

He worries about the disconnect between climbing equities and likely serious reduction in demand after economies reopen. Echoing the sentiment of Dr. Kaufman, Mr. Wendorff says, "there will most likely be material destruction of capital and reduction in the level of risk consumers and manufactures will take, which doesn't seem to be figured into current market valuations and PEs that are returning to their pre-Covid-19 levels."

He speculates retail investors, who fear missing out on the party, are fueling the current stock rally. "It feels more like a Bear Market rally, than a substantive recovery," says Mr. Wendorff, suggesting more pain is likely to come.

Nationwide demonstrations that broke out in response the police killing of George Floyd in Minneapolis in late May just as the country was beginning to open up is making restarting local economies harder and risking the flare up of Covid-19 hotspots across the country. This could potentially undo the progress made against the pandemic after several months of lockdown. If dense protests don't accelerate the spread of the virus, then it may enhance the near-term outlook for the economy.

Photo credit: (AP Photo/Seth Wenig)

"Covid-19 testing and lots of it," he says, "is key to assess risk and opportunities. It's no different than an analyst requesting financial data to help make a buy or sell recommendation. Currently, there are still too many unknowns out there."

ERS Texas' Mr. Lambropoulos agrees, saying it's too difficult to determine fair valuations of most firms. As an allocator, he sees merit in raising cash, expecting markets to retest their March lows.

Looking out 6 to 9 months, Mr. Lambropoulos will be concentrating on the longer-term distressed cycle that government intervention will not be able to rectify. He anticipates "fundamental changes to operations in a weaker macro environment will lead to credit downgrades and a material increase in bankruptcies and takeovers." This is where Mr. Lambropoulos expects to see compelling investment opportunities.

Ms. Riutta-Nykvist sees the same opportunities when the fog of Covid-19 begins to lift over the next year or two. She also will be tracking the prospects of emerging markets as economic conditions stabilize.

If there has been a glimmer of hope that the economy is beginning to dig itself out of this deep hole, it's been Big Tech, which has shown an ability to respond quickly to the crisis. CNBC reported in May that bell-weathers like Facebook, Apple, Amazon, Netflix, Google/Alphabet (and Microsoft) "have proven to be far stronger than other industries ravaged by the pandemic. The stay-at-home orders across the world have people using technology to work remotely more than ever, providing a big boost and more optimism around technology."

Their services, software, and hardware are enabling a host of traditional businesses to function better and to permanently improve operational efficiency. This may suggest light at the end of this dismal tunnel.

Yet, there's no way to be certain about the likelihood or severity of additional waves of Covid-19 cases or increased market uncertainty.

Economic historian Niall Ferguson fears governments are too focused on flattening just the current curve of cases. "There will be other curves," says Mr. Ferguson, "unless this pandemic is completely unique in history. Fiscal and monetary measures only bought us a small amount of time. But my sense is that equities haven't yet bottomed, and the rally that started in March in response to government intervention will likely fade." ■

This independent study was originally commissioned for the 2020 SALT conference catalogue. The survey is not a recommendation to invest in any of the funds cited, an action that requires extensive due diligence before allocations should be made. All data comes from databases and proprietary sources that receive performance numbers directly from each hedge fund. Additional time was spent contacting each fund to confirm data. Nearly 3/4s of the funds confirmed data through conversation or provision of performance documents. The author is not responsible for any data inaccuracies, especially those manifested unintentionally or intentionally through the data reporting process to third parties or to himself. Again, all potential or existing investors must confirm all data before deciding to allocate or redeem.

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About the Author: This is Eric Uhlfelder's 17th annual hedge fund survey, with previous reports having been commissioned by The Financial Times, Barron's, and The Wall Street Journal. He covers global capital markets from New York over the past 25 years for various major financial publications. He wrote the first book on the advent of the euro post currency unification, "Investing in The New Europe," for Bloomberg Press. And he has earned a National Press Club Award. His website is www.globalinvestmentreport.net.

This report is in memory of David Schutt who first taught me the art of surveying hedge funds at Barron's.