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Hedge Funds Deliver 'Stark' Performance Dispersion in Bumpy Q1

Macro and managed futures funds ended the quarter on a high note while long/short equity funds struggled.

By Lydia Tomkiw | April 13, 2022

Hedge funds faced immense turmoil during the first quarter as Russia's full-scale invasion of Ukraine and rising inflation roiled markets. In a quarter with wide performance dispersion, macro and managed futures strategies emerged as winners, while funds with technology and growth exposure were hit with losses.

"The dispersion was quite stark," said Tim Ng, senior consultant at Fiducient Advisors. "When managers either take directional bets and/or concentrated bets, it's going to be very much amplified in a market environment where investors reward those underlying commodities, [and] equities that have favorable outlooks and absolutely punish those that don't."

The top-decile performing funds surged an average of 24.3%, while the bottom declined 15.4% during the first quarter, according to data from HFR. Overall, hedge fund performance through the end of March was down 0.3%.

It was a quarter when macro strategies came out strong, with HFRI's macro index up 7.71%, while equity hedge funds finished the quarter down 3.86%, according to HFR.

And it marked the fourth most challenging quarter for North American long/short funds in absolute terms since 2010, according to a Morgan Stanley prime brokerage March 2022 hedge fund recap report seen by FundFire. Morgan Stanley data said North American long/short funds were down approximately 6.1% through the first quarter.

Several big-name funds succumbed to the volatility. Tiger Global Management and Melvin Capital Management were both down double digits, as reported.

Other funds posted positive results, according to performance reports seen by FundFire. Leda Braga's Systematica was up nearly 18% in its Bluetrend fund; Bridgewater Associates was up over 16% in its Pure Alpha fund for the quarter; and Man Group's AHL Diversified fund was up over 15% through the end of March.

Commodities and energy markets were impacted by Russia's full-scale invasion of Ukraine in late February, something that many managers pointed to in their analysis and notes to investors.

K2 Advisors is bullish on commodities as well as global macro and relative value in the second quarter, said Rob Christian, the firm's co-CIO. He also noted that long/short equity funds proved "frustrating" during the first quarter because of the performance dispersion.

"Some funds were long Russia, and [those] oriented that way probably took the biggest hit," he said. "The category that did the best… was CTAs."

Managed futures strategies continued a strong start to the year. Drury Capital's diversified trend-following fund was up 23.4% through the end of March, according to a performance document viewed by FundFire. The firm's president and CEO, Bernard Drury, noted to FundFire in an email that performance during the first quarter was driven by "strong upward pressures in commodity markets, especially energies, grains and metals."

Welton Investment Partners' trend fund was up over 12%, and a firm document viewed by FundFire noted that "wheat, corn, cotton, nearly all energy markets, and industrial metals led by nickel contributed significant returns."

It was a quarter full of "dramatically different performance depending on what strategy you're talking about," but the quarter also opened up opportunities for active management in sectors such as energy and commodities, said Adam Blitz, CEO and chief investment officer at Evanston Capital Management.

"You've had an underinvestment in those companies, fewer active managers that traffic in those sectors… there is a real opportunity in good stock picking in [energy and commodities]," he said.

Evanston recently added a dedicated manager in the energy space with a decarbonization theme, Blitz added.

With so many macro themes impacting managers, it's key to not only talk with them on fundamentals, but also risk management, Blitz added. "When you get into markets like these, it's absolutely critical they are good at [risk management]," he said.

Macro themes that hit hedge funds in the first quarter will only continue, K2's Christian said.

"Right now, everything is driven on central banks, inflation and war. Those are the three areas driving flows and returns," he said.