

HEDGE FUNDS

*Managers' secrets to beating market**Different styles, but same stellar results*

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It is always fun to see how Canadian and international managers I have interviewed for this column over the years have done along the way. Let's take a look.

First, most of the managers run long/short equity hedge funds, so no they are not using excessive leverage, and none have "blown up." Just thought I would cover that since mostly in the financial press all you see is so called "hedge fund" blow ups.

One of the first managers I covered was Veronika Hirsch. Hirsch was one of the first in Canada to come up with the idea of running a more flexible investment equity approach, with her Hirsch Performance Fund. She is so confident of her ability to outperform that she charges no management fee, only a performance bonus if she achieves positive performance. The fund is coming up to its 10-year anniversary, and \$150,000 invested in September, 1997 was worth \$629,000 10 years later. The same amount in the TSX index over this time frame would be worth \$370,000. Hirsch has been bull-ish recently so the volatility has picked up, but looking back at 2000-2002, she had substantial positive returns each year also, even during a bear market.

I first interviewed Jean Francois Tardif, who runs the Sprott Opportunities Hedge Fund, in March, 2005. At that time, he had not had any down months since he started the fund in early 2004. Tardif has since been steadily turning out non-correlated positive returns, and recently has low net market exposure (long positions minus short positions). The largest monthly drop for the fund was 2.9% in August, 2007. For the types of small-cap stocks Tardif invests in, he manages volatility very well.

The fund is closed to new investors but the good news is the fund has an RRSP twin, called the Sprott Opportunities RSP Fund, which is still open to new money.

Poor income trusts – nobody ever talks about them any more. Well a couple of months after last year's Halloween Surprise on income trusts, I chatted with Oscar Belaiche of Dynamic and quizzed him on his strategy for his hedge fund, the Dynamic Income Opportunities Fund.

It has an emphasis on income trusts but will also take advantage of any securities with a decent yield, including real estate and higher-yielding common shares.

The fund is up 10% in the past six months and 31% in the 12 months ended Aug. 31. I guess good hedge managers like Mr. Belaiche can still find ways to make money, even in a crummy market.

Three months ago, I also highlighted the Dynamic Power Hedge Fund, discussing manager Rohit Sehgal's success over the years. Since then, we have had a brutal correction in the junior market, but Rohit largely skirted the price compression, only being down about 3.5% for August.

How did he do it? A little old fashioned "taking money off the table" – other words, reducing leverage when he thought some of the valuations were stretched early in the summer. The fund is still up 20% on the year, until the end of August.

I also interviewed Dave Fawcett, of Epic Capital Management in this column quite a while ago now, and although the strategies have changed over the years, he and his team have been able to make quite a bit of money in the merger mania that has engulfed the resource space in Canada over the past few years.

Performance? Well, according to their Web site, from inception Dec. 1, 2000 until July 31, 2007, \$100,000 would have compounded to \$574,000. The same amount in the TSX would have compounded to \$157,000, so performance has continued to be exceptional.

There is usually too much emphasis among investors on recent performance, but in this column I will continue to strive to talk about sustainable strategies. Better yet, strategies that have survived the test of time, but may be out of favour for a bit are even better to look at. ■

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Hedge Fund Performance

As at August 31, 2007				
Fund Name	YTD Return	1Yr compound return	3Yr compound return	5Yr compound return
TOP 5 BY MINIMUM INVESTMENT GREATER THAN 25K				
Dynamic Power Hedge Fund Class A	19.44%	57.21%		
Arrow WF Asia Fund	15.14%	36.71%	19.52%	18.49%
Dynamic Income Opportunities Fund	22.31%	31.05%		
Lawrence Partners Fund LP	13.02%	27.73%		
Dynamic Alpha Performance Fund	6.49%	24.91%	13.29%	9.68%
BOTTOM 5 BY MINIMUM INVESTMENT GREATER THAN 25K				
DeltaOne Energy Fund LP	-58.33%	-78.855	-39.49%	
DeltaOne Strategic Energy Fund LP	3.34%	-19.58%		
BluMont Canadian Opportunities Fund	-0.32%	-3.16%	6.89%	7.00%
SciVest Market Neutral Equity Fund Class A2 C\$	-8.03%	-2.32%		
SciVest Market Neutral Equity Fund	-6.48%	-1.07%	-0.58%	-0.84%
TOP 5 BY MINIMUM INVESTMENT LESS THAN 25K				
Salida Multi Strategy Hedge Fund	20.60%	42.03%		
Vertex Fund Class A	7.99%	17.84%	22.05%	23.18%
Redwood Long/Short Fund	4.87%	15.27%	4.95%	
BNP – Mesirov Notes Series 2	4.59%	8.79%	5.17%	
BNP – Mesirov Notes Series 1	4.58%	8.78%	4.89%	
BOTTOM 5 BY MINIMUM INVESTMENT LESS THAN 25K				
AGF Managed Futures Fun	-47.619%	-59.259%	-31.35%	-17.91%
TA3 – Campbell 'A' C\$	-16.089%	-10.466%	-1.59%	
The Friedberg Currency Fund	-13.047%	-9.096%	10.47%	9.72%
ONE Financial MSCI Hedge Invest Index Nts Series 1	-5.577%	-3.546%	-1.62%	
ONE Financial Guaranteed Absolute Return Notes	-3.813%	-3.279%	0.70%	

SOURCE: FUNDATA

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