

# Hedge Funds beat traditional in 2016 - risk adjusted

Stockholm (HedgeNordic) – According to AIMA and data provider Preqin, Hedge funds, despite the subconsciously felt disappointment, actually outperformed traditional assets such as equities and bonds on a risk-adjusted basis in 2016.

Hedge funds' risk-adjusted return, as measured by the Sharpe ratio, was 1.45 for the year, ahead of the S&P 500 (1.1), MSCI World (0.68) and Barclays Global Aggregate (0.20) indices, according to AIMA and Preqin.

The analysis, based on a database of more than 3,000 funds, found that hedge funds also outperformed stocks and bonds on a risk-adjusted basis over three years and five years. Risk-adjusted outperformance is highly valued by institutional investors such as pension funds since it reflects volatility as well as net returns.

On an absolute basis, hedge funds returned 7.4 per cent last year, according to the Preqin All-Strategies Hedge Fund index. The Nordic Hedge Index Composite (NHX) by comparison shows an indicative return of 3.5% for 2016, with an 88% conviction.

At the same time, AIMA and Preqin estimated that the net gain in the value of hedge fund assets in 2016 represented USD120 billion. That would be the value of investment profits net of all fees, were investors to withdraw their investments and crystallise those gains.

AIMA's Jack Inglis told Hedgeweek "We already know from the various indices such as Preqin that have reported their flash numbers this month that 2016 was one of the better years for hedge funds since the financial crisis. Even though the headline numbers may not have met all investors' expectations, our analysis highlights the importance of explaining various strategies and timeframes for yielding returns to clients. Significantly, on average hedge funds outperform on the key metric of risk-adjusted returns over one year, three years and five years."

Amy Bensted, head of hedge fund products, Preqin, added: "2016 could be characterised as a year of a series of unpredicted events. As markets responded to the unexpected events of 2016 hedge funds were able to show their worth and generate their best returns for three years. Investors, however, are looking for hedge funds to produce more than high returns; as this study shows hedge funds have delivered solid risk-adjusted returns over the short and longer terms, a facet of hedge funds that is highly prized among the institutional investors that Preqin works with."

*Picture: (c) STILLFX—shutterstock.com*