Hedge Funds Beat Traditional Investments

Stockholm (HedgeNordic) – Despite taking a serious lashing from critics in the past several years, new research shows hedge funds have generated higher risk-adjusted returns than equities and bonds over both the long and short term. Furthermore, approximately 32 percent of all hedge funds produced double-digit gains last year, compared with 23 percent in 2016, according to research by data provider Preqin and the global representative of alternative investment managers, AIMA.

The risk-adjusted performance of hedge funds, as measured by the Sharpe ratio, was 0.65 for 2017, leapfrogging the 0.4 and 0.18 Sharpe ratios for the S&P 500 Index and the Barclays Global Aggregate Bond Index, respectively. According to AIMA and Preqin, hedge funds also outperformed equities and bonds on a risk-adjusted basis over three-, five-, and ten-year periods. Hedge funds' Shape ratio over the last ten years, for instance, was 0.73, compared with 0.41 for equities and 0.13 for bonds.

The figures mentioned above stem from the analysis of more than 2,300 individual hedge funds included in Preqin's All-Strategies Hedge Fund benchmark index. On an absolute basis, the Preqin All-Strategies Hedge Fund benchmark gained 11.4 percent in 2017, putting together a positive return streak that ran a full 12 months. AIMA and Preqin also found that hedge funds generated approximately $250 billion in performance gains in 2017, reflecting investment profits net of all fees. In contrast, Nordic hedge funds, as measured by the Nordic Hedge Index (NHX), gained 3.0% last year.

"We already knew that 2017 was a good year for hedge funds, with 11% returns for the average fund and gains in every month of the year. But this new research makes an important contribution to the debate about hedge fund performance over the long-term since it shows that hedge funds have produced consistent and competitive returns for the last ten years. This, of course, helps to explain why the industry has consistently expanded and attracted new investor capital since the global financial crisis," Jack Inglis, the CEO of AIMA, said in a statement.