

Citywire

Newcits versus hedge funds: which performed better?

by **Philip Haddon** on Jul 14, 2010 at 07:00



The most common concern investors express about Ucits III-compliant hedge fund strategies, or Newcits funds as Citywire dubbed them, is that they will fail to match the performance of their offshore, unregulated hedge fund counterparts. But latest data suggests Newcits funds are not all the poor relations of hedge funds, as some feared they would be.

We compared the performance of our Newcits universe with the latest hedge fund data from Bank of America, and found that in the second quarter of 2010 some Newcits performed better than their hedge counterparts.

In the second quarter the average performance of the 478 funds in our unique Newcits database was -1.75%, with the euro-denominated universe, in which there are 279 funds, performing best with an average loss of 0.75%.

In the same period, the latest Hedge Fund Monitor report from Bank of America Merrill Lynch shows its diversified HF composite index was down 2.6%, making it the worst quarter for hedge funds since the end of 2008.

The best performing hedge fund sectors in the past quarter, according to the Hedge Fund Monitor, were CTA Advisors (up 1.87%) and equity market neutral (up 0.04%).

Our equivalent Newcits sectors, managed futures and market neutral, were only slightly behind. The average return in our euro-denominated managed futures sector, was 1.03%, and in the market neutral the average was a loss of 0.52%.

Most notably, however, long/short, global macro and event driven Newcits funds all outperformed their hedge fund counterparts.

In the hedge fund analysis from Bank of America Merrill Lynch, the long/short equity sector recorded an average loss of 4.18% in the past quarter, while the average Newcits fund in our euro-denominated long/short equity sector lost 2.01%.

Long/short strategies have often been **singled out by selectors** as the hedge strategies best-suited to fitting into a Ucits-compliant wrapper, and the latest figures suggest investors need not accept worse performance as a pay-off for better liquidity and transparency or for the fact Ucits compliant funds may only use **synthetic shorts**.

Global macro Newcits funds also outperformed, with an average return over the quarter of 0.25% compared to an average loss of 2.99% from macro hedge funds.

Event driven Newcits funds significantly beat the hedge fund versions, returning an average of 0.04% compared to an average loss of 2.99% from Bank of America Merrill Lynch's event driven hedge fund sector.

Newcits convertibles funds compare less favourably to their hedge counterparts, however. In the past quarter the average convertible Newcits fund lost 5.17%, while the Hedge Fund Monitor reports that the average performance of its convertible arbitrage hedge funds was a loss of only 0.68%.