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Computer-Driven Hedge Funds End Three-Year Losing Streak

ByLaurence Fletcher

Hegde funds, many of them based in London's upmarket Mayfair, have been lackluster in recent years.

Bloomberg News

A little-known but long-established London hedge fund showed a clean pair of heels to peers last year, ratcheting up a gain of almost 70% as funds of its style staged a comeback in Europe.

Mulvaney Capital Management's Global Markets fund, which gained 67.4%, was the standout performer in Europe in a year when a tumbling oil price and sinking bond yields provided money-making trades for only a handful of star performers in broadly lackluster year for European hedge fund managers.

Mulvaney, set up in 1999 by Paul Mulvaney, a former Merrill Lynch options trader with a background in computer science, belongs to the group of trend-following computer-driven hedge funds that gained more than 11% on average, ending a three-year losing streak.

That gave these so-called Commodity Trading Advisors (CTAs) one of the best returns of any strategy and their best figures since the credit crisis. CTAs are computer driven hedge funds, also known as managed futures funds, that use algorithms designed to take advantage of trends in global markets.

One prominent CTA, Man Group PLC's AHL Diversified fund, which has struggled in recent years, gained 33.9% last year, according to data from the company. Another, Winton Capital Management Limited, saw its flagship Futures fund rise 13.9% and its smaller Evolution fund gain 17.2%, said a person who had seen the numbers. Cambridge, England-based Cantab Capital Partners LLP's $3 billion Quantitative

Programme rebounded from 2013's 27.7% loss to gain around 39%, said a person familiar with the matter.

And Solaise Capital Management LLP's Systematic Programme gained 12.3% last year, helped by falling government bond yields and short bets on energy, according to a letter to investors reviewed by the Wall Street Journal.

Secor Alpha fund, a computer-driven global macro fund, finished 2014 up 30.7% after a 6.7% gain in December, according to a source who had seen the numbers. Recent gains were helped by short positions in crude oil and natural gas and long positions in the U.S. dollar.

"Clearly it was a huge bounceback for the [CTA] industry," said Martin Estlander, chairman of Helsinki-based Estlander & Partners, which runs $480 million in assets. Its main AlphaTrend fund, a trend-follower, gained 10% during the year.

"Bond markets have been the biggest winner [for CTAs]. It was just a one-sided story the whole year."

After years in which bond buying by central banks pushed down volatility in many financial markets and left hedge funds struggling to find clear trends to bet on, 2014 saw U.S. 10-year Treasury yields fall almost continuously during the year from more than 3% to 2.2%.

The U.S. dollar surged 13% against the yen from mid-October to the end of the year, providing a helpful trend for some managers.

Broker Newedge's Trend Indicator, a model portfolio that replicates the bets that these computer funds may put on, has been long 10-year Treasuries and 10-year Bunds for almost the whole of 2014, while it has been short crude oil for more than four months.

Oil's collapse from more than $100 in the summer to below $50 also helped funds such as Andurand Capital Management LLP, which gained 38%, in large part due to bets against oil, according to a person familiar with the matter.

But the story was different elsewhere.

On average funds across all strategies gained just 3.6% last year, the third year of single-digit gains following on from a loss in 2011, according to HFR. That's a far cry from the double-digit gains seen in the early days of the industry in the 1990s and even in the immediate aftermath of the credit crisis.

"Globally it was a bit disappointing, it was not brilliant at all," said Nicolas Rousselet, head of hedge funds at Swiss-based investment firm Unigestion.

"It is important for both the industry and individual funds to not have continuous uninspiring numbers with the fees many command," said Lars Kroijer, founder of hedge fund firm Holte Capital and now an author and board member of several hedge funds.