

## A closer look at the “surprisingly small” change in hedge fund numbers last year

Apr 7th, 2009 | Filed under: [Today's Post](#)

There are nearly a dozen commercial hedge fund databases in existence today. As most practitioners and academics are painfully aware, the voluntary nature of these databases means that they are susceptible to various widely-reported biases. For example, since databases only track funds that currently exist, they necessarily ignore the historical returns of funds that no longer exist. In addition, since the decision to report to a database remains at the discretion of the manager, only funds they consider worthy of publicizing are included. Funds that started off poorly are apt to be shut down or folded into another fund before they ever hit the radar screens of hedge fund databases.



Many funds only report their returns to one database. A small minority report to 3 or more. In fact, a 2005 study (see [related post](#)) found that only 3% of hedge funds reported to all of the five largest databases. As a result of this, each database is forced to extrapolate its results across the entire hedge fund universe.

But there is one company that, by virtue of its unique business model, is able to see across all sources. That company is **Pertrac**, a provider of performance analytics software that maintains relationships with all hedge fund databases.

Last week, the company **announced** the results of its recent industry-size study. What they found was curious indeed. The study confirmed what was being observed by individual databases - that hedge fund assets fell during 2008. But the study also found that the number of hedge funds was relatively stable from YE 2007 to YE 2008 (down only 1.3% - an amount Pertrac calls “*surprisingly small*”).

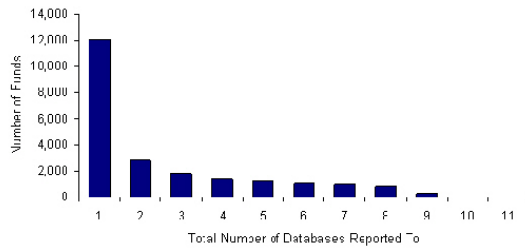
We asked Pertrac’s Meredith Jones about this apparent anomaly. She said that it was likely the result of several factors. First, Pertrac doesn’t sign the death certificate on a hedge fund until it has ceased reporting for several months. Jones points to a 2002 study that found that 20% of supposed “dead” funds were still very much alive. (By YE 2008, there were 1,700 single-manager funds out of 15,150 that fell into this purgatory.) Still, she expects March 31 data to catch up with the industry and show that many funds have indeed been taken off life support.

Secondly, a whopping 9,000 single manager funds (out of around 15,000) were *pari passu* “clones” of other funds. So there were really only about 6,000 unique single-manager funds in the database. So a manager’s decision to open new share classes (e.g. for different currencies) could easily impact the total number of funds reported.

But there is another possibility. It could also be that hedge funds have simply stopped reporting to multiple databases. A database would assume the fund has gone out of business if it stopped reporting - even though it might have continued reporting elsewhere. As Jones suggests, this reporting recalcitrance, if true, could be due to poor performance or simply because “the marketing manager was laid off.”

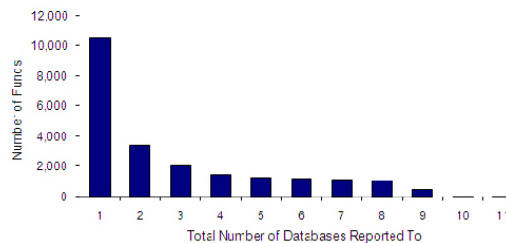
In 2007 Pertrac reported that 12,000 out of 22,500 funds (53%) reported to only one database.

How Many Databases Do Hedge Funds and FOFs Report To?



That proportion remained stable **this year**, with about 10,500 out of 20,000 funds (52%) reporting to only one database.

How Many Databases Do Hedge Funds and FOFs Report To?



So it looks like a drop in the number of hedge funds’ reporting relationships may not be at work here. In fact, to the naked eye, it appears from these charts that the average number of databases reported to has actually *increased* over the past year.

But even if the proportion of single-database reporters remains roughly the same, it’s still possible that database vendors are incorrectly extrapolating from their proprietary samples across the hedge fund universe. Pertrac’s Jones reminds us that even her company cannot track those funds that report *nowhere*. But it would seem that they do have the advantage of tracking 100% of the *reporting* universe...

Who knows? We’ll be interested to see if and when Pertrac’s total number of hedge funds (1.3% drop) aligns with the more commonly-cited numbers from individual databases (a 10%+ drop).

**Addendum:** Here’s an example of a single database that happened to have experienced a *significant* drop in reporting funds over 2008. Morningstar saw **36%** of the constituents of its hedge fund index close down last year. So 1.3% really is “*surprisingly small*”.

Email This Post Print This Post

### LEAVE COMMENT

Name (required)  
 Email (will not be published) (optional)

User ID   
Password   
 Remember Me   
Forgot ID or password? [What is this?](#)

### INDUSTRY PARTNERS



### T O P I C S

- CAPM / Alpha Theory (120)
- Portable Alpha & Alpha/Beta Separation (145)
- Hedge Fund Industry Trends (205)
- Alternative Beta & Hedge Fund Replication (92)
- Investment Management Fees (68)
- Performance, Analytics & Metrics (52)
- 130/30 (79)
- Hedge Fund Regulation (65)
- Liability Driven Investing (8)
- Institutional Investing (64)
- Media Coverage of Hedge Funds (26)
- AAA Newsreels (21)
- Retail Investing (20)

### NEW REPORTS IN OUR RESEARCH DOSSIERS

- Alpha Generating Momentum Strategies
- Why Does Hedge Fund Alpha Decrease Over Time? Evidence from Individual Hedge Funds
- Leverage as a Measure of Risk

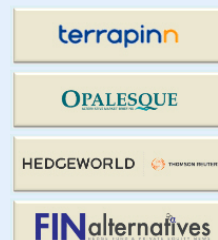
### A R C H I V E S

Select Month

### HEDGE FUND INDEX RESULTS

- Barclay Hedge Fund Indices
- CASAM
- CogentHedge
- Credit Suisse/Tremont
- Dow Jones Hedge Fund Indexes
- Edhec
- EurekaHedge
- FTSE
- Greenwich
- HedgeFund.Net
- HedgeWeb.Net
- Hennessee Group
- HFR
- Morningstar/MSCI
- RBC Hedge 250
- 130/30 & Alternative Beta Indices

### MEDIA / EVENT PARTNERS



max (4000) characters (required)

Website

Submit Comment

**Pensions & Investments**  
magazine.com

RECENT COMMENTS

- Ranjan Bhaduri on *HF Managed Accounts: A tool for change...*
- Denise Shull on *Updates from the Windy City*
- Mkt Commentator on *Is Merger Arbitrage going the way of t...*
- Tom on *Hedge fund bracketology and other tidb...*
- Guy Albert Carbonneau on *Replication de fonds de couverture*

STAY INFORMED

AllAboutAlpha.com

**RSS Feed**

[Click Here to Subscribe](#)

