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## Commodities power second quarter hedge fund returns

By **Christine Williamson**  
Posted: July 30, 2008, 1:03 PM EST

Soaring commodity prices and plenty of market volatility fueled strong hedge fund performance in the second quarter, pushing the return for all strategies to an average 2.63% from the -2.99% average in the first quarter.

Performance numbers for hedge funds managing at least \$100 million for the three months ended June 30 jumped back into positive terrain in all but one of the 17 strategy categories tracked by Morningstar Inc. through its hedge fund database. The sole laggard was the -0.76% average return of the developed Asia equity category.

Returns in all 17 Morningstar hedge fund categories strongly outperformed major market indexes, including the -3.23% return of the Standard & Poor's 500 index, the -2.45% return of the Morgan Stanley Capital International World index and the -1.02% for the Lehman Brothers Aggregate U.S. Bond index.

Among the winners in the Morningstar rankings was the U.S. small-cap equity category, which led the pack for the quarter with an average return of 9.5%, followed by global trend strategies, 6.41%; U.S. equity, 5.97%; and Europe equity, 4.66%.

Nadia Van Dalen, a hedge fund analyst at Morningstar, attributed the strong performance of many equity hedge funds and global trend and non-trend hedge funds to their exploitation of the second quarter's surging commodity wave, especially in the energy sector. Ms. Van Dalen noted that the list of the 25 best-performing hedge funds, calculated exclusively for *Pensions & Investments*, was dominated by energy funds.

The three-best performing funds in the second quarter were managed by oilman and energy guru T. Boone Pickens, founder and principal of BP Capital Management LP, Dallas. The BP Energy Equity Master Fund II LP returned 49.43% in the second quarter, while sister funds BP Capital Energy Equity International Holding I LP and the BP Energy Equity Fund LP returned 49.19% and 48.06%, respectively.

The BlackRock Small Cap Energy Hedge Fund was No. 4 in Morningstar's universe, with 46.14%. BlackRock Inc., New York, is the fund's manager. The AIS Futures Fund LP 3X - 6X was fifth, with a 45.7% return. AIS Futures Management LLC, Wilton, Conn., is the fund's manager.

See also

- [Hedge fund performance: top-performing funds](#)
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### Arbitrage worked

Ms. Van Dalen noted that hedge fund managers employing arbitrage strategies also were rewarded by market volatility that helped them hit an average return of 3.2% in debt arbitrage and 2.62% in the equity arbitrage categories. Hedge funds of funds also had a strong quarter, with an average return of 2.18%.

Ms. Van Dalen said flows into single-strategy hedge funds in the first half of 2008 have largely followed performance. "That goes to show that it's not only mutual fund investors who chase hot performance," she quipped, referring to a new data set that Morningstar created for P&I's quarterly hedge fund analysis.

Morningstar's data showed that single-strategy global trend funds with more than \$100 million under management had the highest net inflows for the first five months of the year at \$7.6 billion, followed by \$1.85 billion for equity arbitrage funds. Flows into the better performing strategies came at the expense of U.S. equity managers, which endured net outflows of \$8.1 billion in the first two quarters, and Europe equity managers, who watched a net \$6.8 billion flow out of their funds.

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Ed Ferrigno, Washington affairs chief for the Profit Sharing/401(k) Council, called the 2009 effective date for the new fee disclosure regulations "problematic." [Read more](#)



### Strong foundation

David Lippman is a lawyer, turned trader, turned CEO. He joined bond shop Metropolitan West Asset Management in 2001 as a portfolio manager and became CEO in June this year. He talks to P&I about his plans to grow the firm by building off its existing foundation. [Read more](#)

### Cap it

Citadel Investment Group is urging regulators to cap a new pricing system for options trading that could translate into higher costs for institutional investors needing to hedge their portfolios. [Read more](#)

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