

Quantitative Insight into Management of Funds of Hedge Funds and Consequences on Fund Performance

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Abstract

In this chapter, we study the performance behaviour of classified Funds of Hedge Funds (FoHFs) according to certain risk criteria before, during and after the recent financial crisis of 2008-2009. Our methodology uses nine well-known risk measures to rank FoHFs, to calculate the first two corresponding principal components PC1 and PC2 of these rank vectors. The factor loadings of these principal components are reviewed and interpreted as styles (PC1 as consistency and PC2 as aggression). The universe of FoHFs is classified according to these styles as BL=(low consistency, low aggression), BR=(high consistency, low aggression), TL=(low consistency, high aggression), TR=(high consistency, high aggression) and the remainder (scores moderate in either of the principal components). We examine the performance behaviour of the four classes BL, BR, TL and TR whereby this classification method provides an indication on returns and management styles of FoHFs.