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Top hedge fund returns elude pensions

By Dan McCrum in New York

A rush into hedge funds during the last decade has produced poor returns for North American pension plans, according to analysis for the Financial Times.

In the past 10 years institutional investors have been under pressure to allocate more of their assets to expensive alternative investment managers, away from run-of-the-mill stockpickers.

However, figures show that pension plans have failed to back the industry's brightest stars, in aggregate falling short of returns showcased by hedge fund indices.

Between 2000 and 2008, according to academics at Maastricht University and Yale University, US pension plans received just 1.9 per cent a year on average from their investments in hedge funds, after fees.

Canadian pension plans made 0.6 per cent a year from hedge funds, during a period when Canada's stock market returned an average 2.9 per cent each year.

Over the same period the average hedge fund produced an annualised return of 5 per cent, according to the Hedge Fund Research index.

The results could lead to a reassessment of the pension industry's push into hedge funds as it reacted to a decade of poor stock market performance.

More than two-fifths of pension funds reporting were invested in hedge funds by 2008, against just 2 per cent in 2000.

Yet in both the US and Canada performance was below industry benchmarks.

The analysis is based upon data drawn from *Can large pension funds beat the market?* , a wider study by Aleksandar Andonov and Rob Bauer of Maastricht, and Martijn Cremers of Yale. It uses returns reported to the CEM Benchmarking database each year by pension funds representing 30-40 per cent of US pension fund assets, and 80-90 per cent of Canadian pension fund assets.

US pension plan investments in hedge funds beat the S&P 500, which lost investors 3.2 per cent each year between 2000 and 2008, but trailed the 5 per cent annualised gain of the Hedge Fund Research composite index of hedge fund returns during the same period.

"We've found hedge funds to be a very effective tool when implemented correctly, but it takes resources and its not easy," said David Druley, head of the global pension practice at Cambridge Associates, an investment consultant.

Yet the study also finds that pension funds are, in aggregate, better than the market at investing in traditional asset classes.

Large pension funds "provide value to their clients using active management, after accounting for all costs, both before and after risk adjusting", the authors found.