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Essays in Hedge Fund Performance

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ABSTRACT

Over the last decade, hedge funds domiciled in the Asia Pacific has been one of the fastest growing sectors in the global hedge fund universe both in terms of the number of funds and assets under management (AUM).

The issue of the sustainability of hedge fund risk-adjusted performance (alpha) has become more relevant given the rapidly increasing inflows in hedge funds in this region. The first part of this thesis investigates the alpha generating of the hedge funds domiciled in the Asia Pacific based on a recent sample compiled from the Eurekahedge, TASS, and Morningstar databases covering both the up and down markets and including the latest financial crisis. I find a positive average alpha in the cross-section for the majority of strategies and a positive and significant alpha for roughly half of all funds. Moreover, the alpha of three-quarter of the strategy indices is positive and significant in the time series. A comparison of the stepwise regression factor model and the widely used factor model proposed by Fung and Hsieh (2004a) reveals that the estimated alpha is robust with respect to the choice of the factor model. In contrast to prior research I find little evidence of a decreasing hedge fund alpha over time except dedicated short bias strategy.

The second part of this thesis examines the issue of performance persistence in relation hedge funds domiciled in the Asia Pacific. Evidence of performance persistence indicates active selection is likely to enhance the expected return, particularly relevant for hedge fund investors. The second sub period that includes the global financial crisis of 2007 to 2010 result only weak evidence of performance. Over the full sample period, the results illustrate only weak evidence of persistence.

Lastly, the thesis relates the survival of hedge funds domiciled in the Asia Pacific to the hedge fund characteristics. Given certain hedge fund characteristics such as age, size, performance, standard deviation, leverage, management and performance fees, high water mark provisions, redemption frequency, lockup provisions, minimum investment requirements, and whether the fund is listed on an exchange, I question whether attrition of hedge funds can be predicted. The results show larger, better performing funds with lower redemption frequency has a higher likelihood of survival irrespective of the model used.

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