



## Article

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# Funds of hedge funds: performance, risk and capital formation 2005 to 2010

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## Abstract

Using a comprehensive data set of funds-of-hedge funds, we extend the results of Fung et al. (*J. Finance* 63:1777–1803, [2008](#)) (FHNR) with an augmented version of the Fung and Hsieh (*Financ. Anal. J.* 60:65–80, [2004a](#); *J. Empir. Finance* 18:547–569, [2004b](#)) model to document performance characteristics from January 2005 to December 2010. We find that our sample period is divided into three distinct subperiods: January 2005 to June 2007 (pre-subprime crisis); July 2007 to March 2009; and April 2009 to December 2010 (post-credit crunch) during which the average fund of hedge funds delivered positive alpha only in the first subperiod. We divide the funds of hedge funds sample into those who have alpha and the rest, which we call beta-only. The empirical results show a dramatic decline in the population of alpha producing funds of hedge funds post 2008 compared to the FHNR findings. When we repeat our analysis with a synthetic hedge fund index replicator, we find qualitatively similar results.

## Keywords

Hedge funds Funds-of-funds Performance Alpha Survival Flows Capacity constraints