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The Definitive Source for Everything Hedge Funds

BY STEPHEN TAUB

THE HEDGE FUND REPORT CARD

PERFORMANCE ISN'T THE ONLY FACTOR THAT DETERMINES HOW WELL A FIRM FARES IN THE EYES OF ITS INVESTORS — BUT IT'S BY FAR THE MOST IMPORTANT.

ILLUSTRATIONS BY MATTHEW HOLLISTER

LAST YEAR WAS A DISASTER FOR WILLIAM ACKMAN'S PERSHING SQUARE CAPITAL MANAGEMENT. THE NEW YORK–BASED ACTIVIST HEDGE FUND FIRM POSTED A 20.5 PERCENT LOSS, THE WORST YEAR IN ITS 13-YEAR HISTORY, AND ENDURED WIDESPREAD CRITICISM FOR TWO OF ITS WORST-PERFORMING BETS: ITS HUGE STAKE IN CONTROVERSIAL DRUGMAKER VALEANT PHARMACEUTICALS INTERNATIONAL AND ITS HIGH-PROFILE SHORTING OF HERBALIFE, A MULTILEVEL MARKETER OF NUTRITIONAL PRODUCTS.

Ackman himself is among his biggest critics. In his firm's annual letter, he conceded that "2015 is a year we will not forget. . . . The first place to look for an explanation is mistakes we made in 2015, and we did make some important mistakes." These sharp setbacks provided plenty of fodder for Ackman's critics, who continue to sneer at what they deride as his slick, self-promoting style.

Investors in Ackman's funds, however, don't seem too concerned about the manager or the firm's one-year performance — at least, not for now. Pershing Square manages to earn an A grade in *Alpha*'s annual Hedge Fund Report Card ranking, in which pension funds, endowments, foundations, funds of funds and other investors are asked to grade the hedge fund firms in which they are invested. (The Report Card scores the firms that land on *Alpha*'s annual Hedge Fund 100 ranking of the world's largest hedge fund firms. This year's Report Card includes results for the 51 firms that received a statistically significant number of responses. For more on the methodology, see "How We Compiled the Ranking," on page 23.)

Pershing Square's investors are likely giving Ackman the benefit of the doubt, as his firm's flagship fund clocked a 40.4 percent net gain in 2014 and has delivered a 17.1 percent compound annualized return since inception in 2004. In addition, we conducted polling for this year's Report Card from September through November 2015, as the extent of Pershing Square's losses was becoming clear. Last, the Report Card rankings are not simply a reflection of one year's performance; other firms that lost money in 2015, such as Larry Robbins's Glenview Capital Management, earned decent grades on the back of previously high performance and because their investors gave them high marks in other categories.

That said, hedge fund investors are not known for their patience when it comes to accepting losses, and if Ackman doesn't right his ship — and fast — he could be looking at a far worse score next year.

"Ackman is a really talented investor," says a prominent investor who doesn't have assets with Pershing Square. "He has made a lot of money over a long period of time. But a couple more 2015s and he won't be near the top of the list."

Indeed, a look at the firms at the top and bottom of this year's Report Card shows that performance still carries significant weight with investors, who consider it the most important factor when evaluating a hedge fund for the fourth year in a row. No. 1–ranked Marshall Wace posted double-digit gains in several of its largest funds, as did The Children's Investment Fund Management U.K. (No. 2) and Two Sigma (No. 5). Meanwhile, the four firms with the lowest grades — Brevan Howard Asset Management, Perry Capital, Greenlight Capital and BlueCrest Capital Management — lost money last year, although some fared far worse than others.

Although investors may be willing to give Pershing Square a pass for now, a number of other firms have learned over the years that once people sour on them for any of a variety of reasons, it can take up to a few years for perception to catch up with improved performance and other investor-friendly changes. What's more, investors disappointed in a hedge fund's performance may become concerned that the firm will not meet expectations in other areas, like risk management, infrastructure and maybe even alignment of its interests with theirs.

In the case of Pershing Square, it helps that investors are very happy with the firm in several nonperformance areas. This year it scores third overall in three of the eight categories for which hedge funds were

KEY FACTORS WHEN EVALUATING A HEDGE FUND

RANK	FACTOR	SCORE*
1	Alpha generation	9.14
2	Risk management	8.40
3	Alignment of interests	8.35
4	Infrastructure	7.38
5	Transparency	7.34
6	Independent oversight	7.02
7	Investor relations	6.65
8	Liquidity terms	6.55

*Scale 1-10 (10=most important).

THE HEDGE FUND REPORT CARD 2016

RANK	FIRM (LOCATION)	WEIGHTED SCORE
GRADE A		
1	**Marshall Wace** *(London, U.K.)*	87.01
2	**The Children's Investment Fund Mgmt U.K.** *(London, U.K.)*	84.81
3	**Adage Capital Mgmt** *(Boston, MA)*	84.77
4	**Citadel** *(Chicago, IL)*	83.45
5	**Two Sigma** *(New York, NY)*	82.76
6	**Egerton Capital** *(London, U.K.)*	82.46
7	**Balyasny Asset Mgmt** *(Chicago, IL)*	82.11
8	**Silver Point Capital** *(Greenwich, CT)*	81.91
9	**Maverick Capital** *(Dallas, TX)*	80.87
10	**Pershing Square Capital Mgmt** *(New York, NY)*	80.48
11	**Viking Global Investors** *(Greenwich, CT)*	80.02
12	**Elliott Mgmt Corp.** *(New York, NY)*	79.06
GRADE B		
13	**Glenview Capital Mgmt** *(New York, NY)*	78.57
14	**Millennium Mgmt** *(New York, NY)*	78.47
15	**Winton Capital Mgmt** *(London, U.K.)*	77.56
16	**HBK Capital Mgmt** *(Dallas, TX)*	77.50
17	**Davidson Kempner Capital Mgmt** *(New York, NY)*	76.84
18	**Bridgewater Associates** *(Westport, CT)*	76.41
19	**Carlson Capital** *(Dallas, TX)*	76.12
20	**D.E. Shaw & Co.** *(New York, NY)*	75.90
21	**Fir Tree Partners** *(New York, NY)*	75.56
22	**Magnetar Capital** *(Evanston, IL)*	75.33
23	**Cerberus Capital Mgmt** *(New York, NY)*	75.23
24	**Tudor Investment Corp.** *(Greenwich, CT)*	75.19
25	**Wellington Hedge Mgmt** *(Boston, MA)*	74.84
26	**Anchorage Capital Group** *(New York, NY)*	74.63
27	**BlackRock** *(New York, NY)*	74.27
GRADE C		
28	**Visium Asset Mgmt** *(New York, NY)*	73.74
29	**Och-Ziff Capital Mgmt Group** *(New York, NY)*	73.46
30	**Lone Pine Capital** *(Greenwich, CT)*	72.96
31	**Marathon Asset Mgmt** *(New York, NY)*	72.16
32	**Fortress Investment Group** *(New York, NY)*	71.55
33	**King Street Capital Mgmt** *(New York, NY)*	70.50
34	**York Capital Mgmt** *(New York, NY)*	69.92
35	**Moore Capital Mgmt** *(New York, NY)*	69.66
36	**AQR Capital Mgmt** *(Greenwich, CT)*	69.27
37	**Canyon Capital Advisors** *(Los Angeles, CA)*	68.99
38	**Paulson & Co.** *(New York, NY)*	68.16
39	**Angelo, Gordon & Co.** *(New York, NY)*	67.88
GRADE D		
40	**Pine River Capital Mgmt** *(Minnetonka, MN)*	66.85
41	**Discovery Capital Mgmt** *(South Norwalk, CT)*	66.52
42	**Eton Park Capital Mgmt** *(New York, NY)*	66.48
43	**Taconic Capital Advisors** *(New York, NY)*	66.36
44	**Highfields Capital Mgmt** *(Boston, MA)*	64.76
45	**Cevian Capital** *(London, U.K.)*	64.06
46	**Third Point** *(New York, NY)*	63.58
47	**Farallon Capital Mgmt** *(San Francisco, CA)*	62.66
GRADE F		
48	**Brevan Howard Asset Mgmt** *(Jersey, Channel Islands)*	62.01
49	**Perry Capital** *(New York, NY)*	61.89
50	**Greenlight Capital** *(New York, NY)*	60.96
51	**BlueCrest Capital Mgmt** *(Jersey, Channel Islands)*	52.28

rated: Alignment of Interests, Independent Oversight and Transparency. This suggests that investors believe Pershing Square has their interests in mind, even when performance is unsatisfactory. Transparency is a strong suit of Ackman's, in part because he runs a publicly traded vehicle. Pershing Square discloses weekly performance and monthly portfolio information for the fund on an accessible website, and Ackman regularly publishes a lengthy quarterly letter and a detailed slide show for his private fund, including discussions of his top holdings. Still, these nonperformance factors may not help the firm if it has another bruising year in 2016.

One firm that demonstrates how long it can take and how hard it can be to get back into investors' good graces is Maverick Capital, founded by Tiger Cub Lee Ainslie III. In 2011 the Dallas-based hedge fund firm's long-short Maverick Fund USA lost 11.7 percent. Other Maverick portfolios lost more, with Maverick Levered down more than 30 percent.

This did not sit well with Ainslie and his team. In the firm's fourth-quarter 2011 letter, he told investors the performance was "embarrassing," "frustrating" and "primarily driven by avoidable mistakes." At the same time, Ainslie made it clear that Maverick had already swung into action to improve performance and win back investor confidence. He told investors the firm had fully implemented its long-planned MavRank quantitative system to its otherwise fundamental research process. MavRank, developed by Maverick's investment team, uses fundamental inputs to rank stocks, to enhance its research process. Ainslie also assured investors that lessons regarding risk "were seared into our collective memory" and that the firm had taken steps to improve its risk management.

Sure enough, in 2015, when half of all hedge funds lost money, the Maverick Fund returned 16.5 percent, putting it among the best-performing hedge funds for the year. Maverick Levered gained 26.7 percent, while the Maverick Long fund rose 6.6 percent. Perhaps not coincidentally, this year Maverick Capital earns its first A grade, up from a low B last year. "Lee had a moment where he said things were not working and did a re-underwriting of his business," says a well-known investor in hedge funds. "Lee created a clean slate and put in a quant element."

Several of the firms with A rankings this year have scored highly in recent years. They include Boston-based Adage Capital Management; Greenwich, Connecticut–based Silver Point Capital; Chicago-based Citadel; and New York–based Two Sigma. However, five of the 12 firms that earn an A this year have done so for the first time, including Marshall Wace, which also got an A in all eight categories.

Far better known in the U.K. and Europe than in the U.S., Marshall Wace is only the second non-U.S. firm to top the Hedge Fund Report Card. (The first was London-based Egerton Capital last year.) Founded in 1997 by Paul Marshall and Ian Wace, the global long-short specialist is noted for its Eureka fundamentally driven funds and TOPS systematic funds; it had $22 billion in assets under management as of August 1, 2015.

Some of the growth came from strong performance. Last year Marshall Wace's $1.1 billion MW Market Neutral TOPS fund gained 19 percent, and the $7.5 billion MW Eureka (euro) Fund returned about 12 percent. The former also posted double-digit gains in each of the three previous years, while the latter rose by 8.44 percent in 2014.

U.S. investors may become more familiar with Marshall Wace as a result of private equity giant KKR & Co.'s acquisition last summer of a 24.9 percent stake in the firm, with the option to lift it to 39.9 percent. That a firm like KKR took a shine to Marshall Wace does not surprise one long-time investor in hedge funds. "They have really high-grade, institutional-quality investment funds," he says admiringly. "Their hedge funds are run like a business. They have highly seasoned executives and a very deep management team."

The Children's Investment Fund Management U.K. finishes second overall, up from seventh place a year ago, when it was finally rewarded for several years of hard work revamping its relationship with investors following a year of bad performance and a rash of redemptions. This year TCI earns an A in six of the eight categories.

"WE ARE RELENTLESSLY FOCUSED ON ENHANCING OUR RESEARCH PROCESS AND BELIEVE WE ARE SKILLED AT CONVERTING INSIGHTS INTO INVESTMENT OPPORTUNITIES."
—KENNETH GRIFFIN, CITADEL

Last year TCI's concentrated fund gained 14.4 percent, making it one of the best performing among both activists and hedge funds in general. The London firm, founded in 2003 by Christopher Hohn, now manages $11 billion, up from $4.9 billion at the end of 2012. It receives its second consecutive A after receiving an F just three years ago; investors at that time were still unhappy with TCI's 43.1 percent loss in 2008. The firm took a series of significant steps to dramatically repair its relationship with investors. And although its main fund gained 47 percent in 2013, it wasn't until the following year's survey, published in early 2015, that TCI was recognized for its transformation.

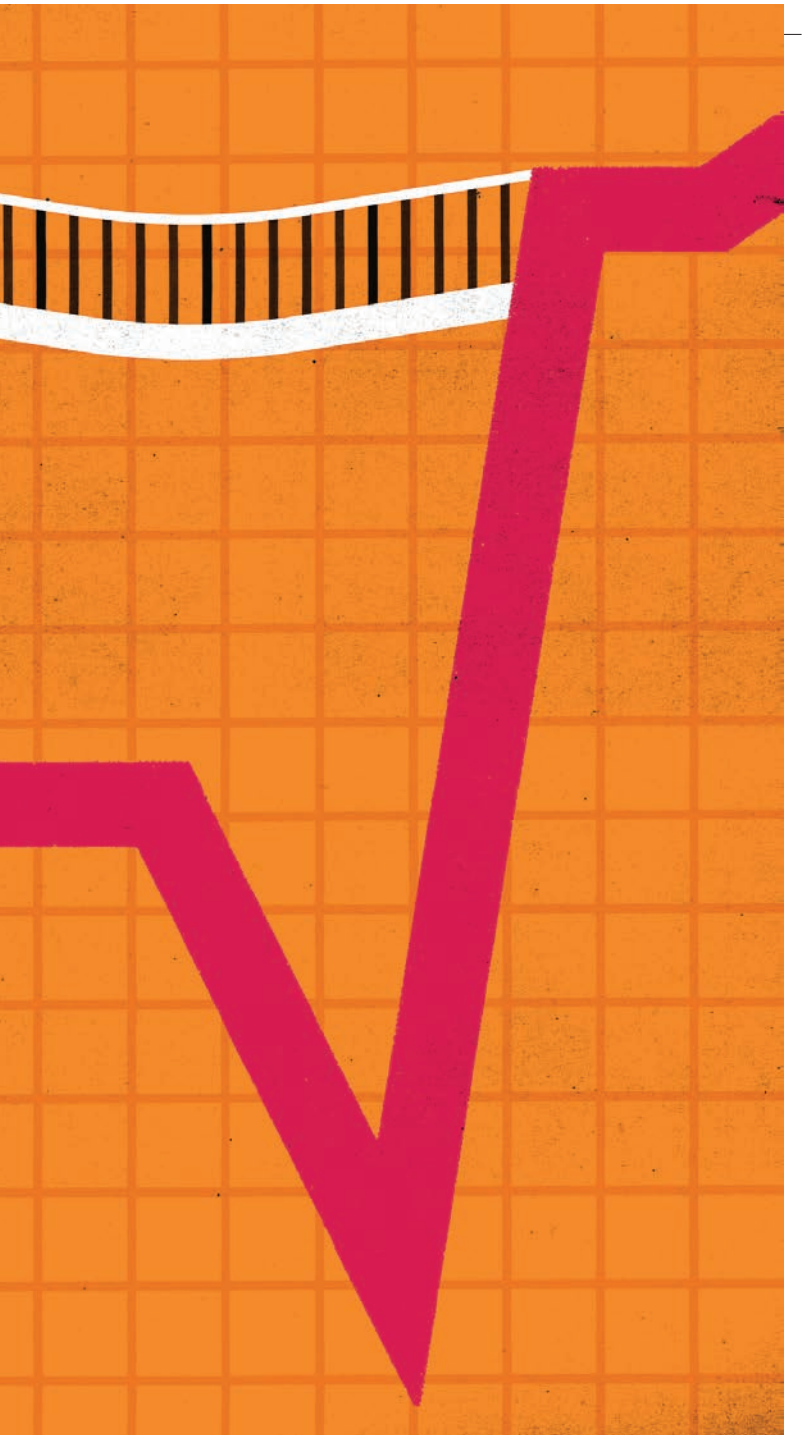
"We continue to be transparent and good partners," Hohn tells *Alpha*. "People trust you with their money, and we must show it is justified by taking market risk and continuing to demonstrate that our risk-return [profile] is compelling."

Adage ranks No. 3 this year, up from No. 12 last year, and takes home its third consecutive A grade. The firm was founded in 2001 by Robert Atchinson and Phillip Gross, former executives with Harvard University's endowment fund, and manages about $28 billion. Adage is very secretive. There is little information available about it besides what can be gleaned from required regulatory filings, and the firm is not well known for its communication with investors or the media. In fact, its only bad grades this year are D's for Transparency and Investor Relations. Adage — known for its very favorable fee terms — ranks first for Independent Oversight, Infrastructure and Risk Management, and third for Alpha Generation.

Kenneth Griffin's Citadel drops one position this year to No. 4. The firm earns an A in six categories, including Alpha Generation, Infrastructure and Alignment of Interests. "We are relentlessly focused on enhancing our research process and believe we are skilled at converting insights into investment opportunities," Griffin says.

"They have the most extraordinary technology platform," notes an investor in hedge funds. "Their trading risk management is extraordinary." However, Citadel slips from an A to a B for Independent Oversight and drops from a B to a C in Transparency. Those two grades don't sit well with Griffin. "My team has its work cut out for them in 2016," the Citadel founder tells *Alpha*. "I want to know where our capital partners think we are falling short so we can address their concerns right away."

Two Sigma rounds out the top five — its second straight year receiving an A. The computer-driven firm was founded in 2001 by former D.E. Shaw & Co. colleagues John Overdeck and David Siegel. Its main funds have posted strong returns for the past few years, including 2015, when both the



ALPHA GENERATION

RANK*	FIRM (LOCATION)	SCORE	GRADE
TOP 5			
1	**Two Sigma** *(New York, NY)*	9.61	*A*
2	**Citadel** *(Chicago, IL)*	9.45	*A*
3	**Adage Capital Mgmt** *(Boston, MA)*	9.33	*A*
4	**The Children's Investment Fund Mgmt U.K.** *(London, U.K.)*	9.05	*A*
5	**Viking Global Investors** *(Greenwich, CT)*	8.94	*A*
BOTTOM 5			
47	**Brevan Howard Asset Mgmt** *(Jersey, Channel Islands)*	5.10	*D*
48	**Perry Capital** *(New York, NY)*	5.00	*F*
49	**Greenlight Capital** *(New York, NY)*	4.94	*F*
50	**BlueCrest Capital Mgmt** *(Jersey, Channel Islands)*	4.69	*F*
51	**Taconic Capital Advisors** *(New York, NY)*	4.11	*F*

* The full list is available at institutionalinvestorsalpha.com.

RISK MANAGEMENT

RANK*	FIRM (LOCATION)	SCORE	GRADE
TOP 5			
1	**Adage Capital Mgmt** *(Boston, MA)*	9.33	*A*
2	**Millennium Mgmt** *(New York, NY)*** **Two Sigma** *(New York, NY)***	9.11	*A*
4	**Citadel** *(Chicago, IL)*	9.08	*A*
5	**Marshall Wace** *(London, U.K.)*	9.00	*A*
BOTTOM 6			
46	**Cevian Capital** *(London, U.K.)*** **Greenlight Capital** *(New York, NY)***	5.75	*D*
48	**Discovery Capital Mgmt** *(South Norwalk, CT)*	5.70	*F*
49	**Lone Pine Capital** *(Greenwich, CT)*** **Perry Capital** *(New York, NY)***	5.64	*F*
51	**Paulson & Co.** *(New York, NY)*	5.57	*F*

* The full list is available at institutionalinvestorsalpha.com. **Actual tie.

Two Sigma Compass Cayman Fund and the Two Sigma Absolute Return Fund gained about 15 percent. The firm says on its website that it combines "massive amounts of data, world-class computing power and financial expertise to develop sophisticated trading models." It regularly reinvests in its research and staffing, especially in technology. One longtime fan says Two Sigma has been able to grow its assets and expand its ranks of scientists, including more than 150 Ph.D.s, without cannibalizing returns, in part by developing new strategies. "They are a technology company like Google that used investment vehicles to express their use of technology," says another.

Also moving into the top tier for the first time this year: Viking Global Investors. The Greenwich, Connecticut–based firm was co-founded by O. Andreas Halvorsen, who like Maverick's Ainslie is considered a Tiger Cub because earlier in his career he worked for legendary investor Julian Robertson Jr., founder of New York–based Tiger Management Corp. Last year Viking posted an 8.3 percent gain in its hedge fund, Viking Global Equities, and a 4.5 percent increase in its Viking Long Fund, easily beating the global market indexes. The world's sixth-largest hedge fund operator, with $33 billion at year-end, is also perhaps the most successful and consistent of the firms that can trace their roots to Robertson.

On the other end of the spectrum, four firms receive an F in this year's Hedge Fund Report Card:

New York-based Greenlight and Perry, and Jersey-based BlueCrest and Brevan Howard. All four had a rough year in 2015, to say the least.

Greenlight, which lost 20.2 percent in its flagship fund last year, earns an F in Alpha Generation, Investor Relations and Liquidity, and a D in Infrastructure and Risk Management. Perhaps investors were upset that the firm stuck with three major losers even as their stocks went into free fall: CONSOL Energy, Micron Technology and SunEdison.

For its part, Greenlight proactively surveys its own investors, using an independent market research firm. In its fourth-quarter letter to investors, Greenlight said it received "very high marks in all aspects" of its business except for performance when it carried out the survey last summer. It said that in June, for example, its satisfaction rate was 87 percent. However, that rate fell as the survey was conducted over several months, "to . . . well, let's just say a lot less than that for those surveyed in October." The letter added: "Frankly, we don't understand why anyone was still satisfied by October. We certainly weren't."

Brevan Howard suffered its second straight losing year in its flagship macro fund: The Brevan Howard Master Fund fell 1.99 percent in 2015. Firmwide assets under management have dropped by nearly half in the past two years, to $23.7 billion. This includes about $5 billion that left in early 2015, when New York-based DW Partners took control of the assets for two funds it had already been running for Brevan Howard. The firm, founded in 2002 by Alan Howard and four Credit Suisse colleagues, gets an F in four of eight categories and a D in three others. Its only high grade was a B for Risk Management.

BlueCrest finishes dead last for the second straight year and takes home an overall F for the third straight year. Mercifully for the firm, this will be the last year it will be included in the survey: In late 2015, BlueCrest announced it will return all outside capital to investors.

The firm didn't perform as badly as some of its peers last year, with some of its smaller funds posting gains and its flagship BlueCrest Capital International fund declining by just 0.63 percent. But BlueCrest has been suffering significant redemptions, as its investors have been unhappy with the firm's mediocre performance over the past few years. The firm's assets took a big dive in late 2014, when BlueCrest co-founder Michael Platt spun off its $9.2 billion quantitative trading business into Systematica Investments, headed by Leda Braga. In addition, global pension consulting firm Albourne Partners raised concerns about BlueCrest to its clients in 2014, following the revelation that the firm had an internal hedge fund, called the BlueCrest Staff Managed Account, that was offered only to its partners and performed much better than the funds offered to the general public. (Platt has called the fund a retention tool for staff and said the firm followed procedures to ensure there were no conflicts of interest.)

Perhaps the sharpest and most shocking decline in the ranking took place at Perry, which earned an A just one year ago. Investors probably were not happy that in 2015 the firm's funds lost money for a second straight year. And last fall chief investment officer David Russekoff left the firm after nearly 14 years. He'd been named sole CIO in 2014, just when Perry began its two-year losing streak. Last year's loss was particularly galling to one investor, who says he was disappointed that in a booming year for mergers and acquisitions, Perry — which specializes in event-

ALIGNMENT OF INTERESTS

RANK*	FIRM (LOCATION)	SCORE	GRADE
TOP 5			
1	**Adage Capital Mgmt** *(Boston, MA)*	9.17	A
2	**The Children's Investment Fund Mgmt U.K.** *(London, U.K.)*	9.00	A
3	**Pershing Square Capital Mgmt** *(New York, NY)*	8.62	A
4	**Maverick Capital** *(Dallas, TX)*	8.50	A
5	**Citadel** *(Chicago, IL)*	8.43	A
BOTTOM 5			
47	**Fortress Investment Group** *(New York, NY)*	6.29	D
48	**Pine River Capital Mgmt** *(Minnetonka, MN)*	6.13	F
49	**Farallon Capital Mgmt** *(San Francisco, CA)*	6.00	F
50	**Brevan Howard Asset Mgmt** *(Jersey, Channel Islands)*	5.80	F
51	**BlueCrest Capital Mgmt** *(Jersey, Channel Islands)*	4.08	F

* The full list is available at institutionalinvestorsalpha.com.

TRANSPARENCY

RANK*	FIRM (LOCATION)	SCORE	GRADE
TOP 5			
1	**The Children's Investment Fund Mgmt U.K.** *(London, U.K.)*	9.55	A
2	**Egerton Capital** *(London, U.K.)*	9.13	A
3	**Pershing Square Capital Mgmt** *(New York, NY)*	9.00	A
4	**Lone Pine Capital** *(Greenwich, CT)*	8.92	A
5	**Marshall Wace** *(London, U.K.)*	8.57	A
BOTTOM 5			
47	**Third Point** *(New York, NY)*	5.80	D
48	**Cevian Capital** *(London, U.K.)*	5.25	F
49	**Brevan Howard Asset Mgmt** *(Jersey, Channel Islands)*	5.14	F
50	**Moore Capital Mgmt** *(New York, NY)*	4.75	F
51	**BlueCrest Capital Mgmt** *(Jersey, Channel Islands)*	4.31	F

* The full list is available at institutionalinvestorsalpha.com.

driven and merger arbitrage investments — wound up posting a loss in the low double digits despite being just 50 percent net long.

New York–based Eton Park Capital Management has had a tough time winning back admirers. The firm, headed by former Goldman, Sachs & Co. partner Eric Mindich, takes home a D for the second straight year, after receiving an F in 2014. Eton Park earns three D's in the individual categories, including Alpha Generation, and four C's. Its best grade is a B, for Independent Oversight. The firm's main fund, the Eton Park Fund, lost 11 percent in 2011. Back then Mindich upset investors with his firm's longer-than-average lock-ups. And longtime Eton Park investors may also be unhappy with the firm's Special Investment program, which was ended in 2012 and has not made a new investment since August 2011. The firm is trying to liquidate these investments and regularly assures investors in its quarterly reports that it is "working to prepare the remaining investments for exit as soon as practicable."

However, Eton Park has gone a long way toward putting 2011 behind it. The firm's flagship fund posted gains of 12.2 percent, 22.4 percent, 6.5 percent and 7.5 percent in each of the four years from 2012 through 2015. What's more, in late 2013, Eton Park established a new share class with shorter liquidity terms, allowing investors to get their money back faster than they could before if they want to get out of the fund.

"INVESTORS DIDN'T PANIC BECAUSE WE GAVE THEM OUR VIEW, WHICH WAS RIGHT. IT IS VERY IMPORTANT FOR YOUR INVESTORS TO BE EDUCATED ON WHAT YOU OWN SO THEY DON'T PANIC."

—CHRISTOPHER HOHN, THE CHILDREN'S INVESTMENT FUND MANAGEMENT U.K.

Investors surveyed for the Hedge Fund Report Card are asked to rate hedge fund firms on eight different attributes. For the third straight year, participants rank the top three attributes in the same order: Alpha Generation, Risk Management and Alignment of Interests.

"It's all about alpha generation," says Charles Krusen, CEO of New York–based Krusen Capital Management, investment adviser to the Lion Hedge Platform of alternatives strategies, which include hedge funds. "Nothing else matters." For Krusen risk management is embedded in alpha generation. He is especially concerned about a fund's drawdown history and pays close attention to how much return a firm is generating for each unit of risk it is taking.

Ash Williams, chief investment officer of the $177.5 billion Florida State Board of Administration, agrees with *Alpha* voters' assessment of the top three attributes. As important as those attributes for Williams are the character and integrity of a manager. He's interested in how a manager lives his life; his firm's business history, including any litigation; and whether a manager strays from the fund's stated strategy.

Two Sigma, Citadel and Adage top the Alpha Generation category. The Two Sigma Compass fund has compounded at nearly 16 percent since its 2005 launch; its worst drawdown was a little less than 10 percent.

Adage tops all firms when it comes to Risk Management, followed by Two Sigma and Millennium Management. Millennium — a New York–based multistrategy firm headed by Israel (Izzy) Englander — delivered a 12.5 percent return in its main fund last year. Multistrats, which invest in a variety of markets, including stocks, bonds, currencies, commodities and other assets, were among the biggest winners of all hedge funds last year, when roughly half lost money. Investors believe these funds are best positioned to offset big declines in one market with gains in other markets. Millennium, for example, has roughly 180 trading teams specializing in a large number of strategies across different markets.

When it comes to Alignment of Interests, it is not surprising to see Adage and TCI head the list: Both firms have self-imposed hurdle rates that they must meet before they can earn their incentive fees. Adage does not get paid a performance fee unless it beats the S&P 500, and its fee is based on the amount it exceeds the target. It also has a clawback provision, meaning that if it doesn't meet the benchmark, it will pay back some of the previous year's fee.

TCI's share class with a three-year lock-up charges a 1 percent management fee, less than many funds. In addition, it charges a 15 percent performance fee — again, less than most funds. What's more, the fund can't earn that incentive fee until it exceeds a compounded hurdle of the Libor rate. This share class is 40 percent cheaper than a typical one-year share class.

Pershing Square ranked third in this category. Maybe investors feel that although Ackman's flagship fund suffered its worst-ever year, Ackman wasn't personally spared, as he has the bulk of his wealth invested in the firm. Investors seem inclined to give the Pershing founder a pass for one losing year.

This year Infrastructure ranks as the fourth-most-important attribute, up one spot from the 2015 Report Card. Adage and Two Sigma are tied for first in the category, followed by Marshall Wace and Citadel. "Our back-office and middle-office teams are best-in-class," Citadel's Griffin says, noting that his firm employs several hundred software developers. "We deploy cutting-edge tools when making risk decisions and constructing portfolios."

This year Transparency slips in importance from fourth to fifth place. But it remains critical to TCI's Hohn, whose firm tops the list in this category this year. "Why spend so much time on transparency? To build trust in good times and bad," he tells *Alpha*. He cites his winning position in Time Warner Cable as an example. Shortly before the company's planned merger with Comcast Corp. fell apart last April, Hohn reassured investors that he thought another company could come along and offer about $200 a share for Time Warner. Sure enough, one month later Charter Communications agreed to a deal for a price just shy of that. "They didn't panic because we gave them our view, which was right," Hohn says of his firm's investors. "It is very important for your investors to be edu-

INFRASTRUCTURE

RANK*	FIRM (LOCATION)	SCORE	GRADE
TOP 5			
1	**Adage Capital Mgmt** *(Boston, MA)*** **Two Sigma** *(New York, NY)***	9.67	*A*
3	**Marshall Wace** *(London, U.K.)*	9.36	*A*
4	**Citadel** *(Chicago, IL)*	9.33	*A*
5	**Bridgewater Associates** *(Westport, CT)*	9.24	*A*
BOTTOM 5			
47	**Third Point** *(New York, NY)*	7.11	*D*
48	**Perry Capital** *(New York, NY)*	6.82	*F*
49	**BlueCrest Capital Mgmt** *(Jersey, Channel Islands)*	6.77	*F*
50	**Farallon Capital Mgmt** *(San Francisco, CA)*	6.70	*F*
51	**Discovery Capital Mgmt** *(South Norwalk, CT)*	6.50	*F*

* The full list is available at institutionalinvestorsalpha.com. **Actual tie.

INVESTOR RELATIONS

RANK*	FIRM (LOCATION)	SCORE	GRADE
TOP 5			
1	**Silver Point Capital** *(Greenwich, CT)*	9.20	*A*
2	**Egerton Capital** *(London, U.K.)*	8.88	*A*
3	**The Children's Investment Fund Mgmt U.K.** *(London, U.K.)*	8.86	*A*
4	**Citadel** *(Chicago, IL)*	8.64	*A*
5	**Marshall Wace** *(London, U.K.)*	8.57	*A*
BOTTOM 5			
47	**Moore Capital Mgmt** *(New York, NY)*	6.25	*D*
48	**Brevan Howard Asset Mgmt** *(Jersey, Channel Islands)*	6.10	*F*
49	**Lone Pine Capital** *(Greenwich, CT)*	5.91	*F*
50	**Greenlight Capital** *(New York, NY)*	5.50	*F*
51	**BlueCrest Capital Mgmt** *(Jersey, Channel Islands)*	5.23	*F*

*The full list is available at institutionalinvestorsalpha.com.

INDEPENDENT OVERSIGHT

RANK*	FIRM (LOCATION)	SCORE	GRADE
TOP 5			
1	**Adage Capital Mgmt** *(Boston, MA)*	8.83	*A*
2	**Egerton Capital** *(London, U.K.)*	8.71	*A*
3	**Pershing Square Capital Mgmt** *(New York, NY)*	8.43	*A*
4	**Marshall Wace** *(London, U.K.)*	8.31	*A*
5	**The Children's Investment Fund Mgmt U.K.** *(London, U.K.)*	8.16	*A*
BOTTOM 6			
46	**Paulson & Co.** *(New York, NY)*** **Third Point** *(New York, NY)***	6.57	*D*
48	**Angelo, Gordon & Co.** *(New York, NY)*	6.17	*F*
49	**Perry Capital** *(New York, NY)*	6.09	*F*
50	**AQR Capital Mgmt** *(Greenwich, CT)*	5.50	*F*
51	**BlueCrest Capital Mgmt** *(Jersey, Channel Islands)*	5.38	*F*

* The full list is available at institutionalinvestorsalpha.com. **Actual tie.

LIQUIDITY TERMS

RANK*	FIRM (LOCATION)	SCORE	GRADE
TOP 5			
1	**Egerton Capital** *(London, U.K.)*	9.25	*A*
2	**Marshall Wace** *(London, U.K.)*	9.21	*A*
3	**Winton Capital Mgmt***(London, U.K.)*	8.90	*A*
4	**Two Sigma** *(New York, NY)*	8.56	*A*
5	**Bridgewater Associates** *(Westport, CT)*	8.38	*A*
BOTTOM 5			
47	**Eton Park Capital Mgmt** *(New York, NY)*	5.63	*D*
48	**Brevan Howard Asset Mgmt** *(Jersey, Channel Islands)*	5.58	*F*
49	**Cerberus Capital Mgmt** *(New York, NY)*	5.22	*F*
50	**Greenlight Capital** *(New York, NY)*	5.20	*F*
51	**Cevian Capital** *(London, U.K.)*	4.25	*F*

*The full list is available at institutionalinvestorsalpha.com.

cated on what you own so they don't panic."

For all the discussion of alignment of interests, transparency and other non-investing-related attributes, those factors still take a backseat to performance in the eyes of investors. "This is definitely a performance-driven industry," stresses Hohn. "Investors don't have long periods of patience. As a friend said in 2008: 'You want a good relationship with investors? Make them money.'" **a**

HOW WE COMPILED THE RANKING

Investors were asked to score the funds they're invested in on eight attributes: Alignment of Interests, Alpha Generation, Independent Oversight, Infrastructure, Investor Relations, Liquidity Terms, Risk Management and Transparency. Investors also rated each of the attributes in terms of importance. The scores in the attribute categories are based on the average of the ratings for each hedge fund firm by its investors. For the overall ranking we started by calculating weighted scores for the attribute categories for each firm, using the importance ratings for those attributes. The attribute-weighted scores were added up for each firm, then divided by the total possible maximum score to come up with the overall weighted scores. A grading curve was applied to the results to arrive at the relevant letter grades.