Bloomberg Markets

THE WORLD'S 100 RICHEST HEDGE FUNDS

100
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COVER STORIES

FOR 20 YEARS, DON BROWNSTEIN TAUGHT philosophy at the University of Kansas. He specialized in metaphysics, which examines the character of reality itself. ¶ In a photo from his teaching days, he looks like a young Karl Marx, with a bushy black beard and unruly hair. That photo is now a relic standing behind the curved bird's-eye-maple desk in Brownstein's corner office in Stamford, Connecticut. Brownstein abandoned academia in 1989 to try to make some money. ¶ The career change paid off. Brownstein is the founder of Structured Portfolio Management LLC, a company managing $2 billion in five partnerships. His flagship fund, the abstrusely named Structured Servicing Holdings LP, returned 50 percent in the first 10 months of 2010, putting him at the top of BLOOMBERG MARKETS' list of the 100 best-performing hedge

CONTINUED ON PAGE 43

DR. BROWNSTEIN'S WINNING FORMULA

By ANTHONY EFFINGER
and KATHERINE BURTON
PHOTOGRAPH BY BEN BAKER/REDUX

THE STRUCTURED PORTFOLIO MANAGEMENT FOUNDER MINES ONCE-SHUNNED MORTGAGE BONDS FOR PROFITS. HIS FLAGSHIP FUND'S 50 PERCENT GAIN PUTS HIM AT THE TOP OF OUR ROSTER OF THE BEST-PERFORMING LARGE HEDGE FUNDS.

NO. 1 / *BEST-PERFORMING LARGE FUNDS*

Don Brownstein, left,
and William Mok
Structured Portfolio Management

FUND: Structured Servicing Holdings

50% 2010

135% 2009

TOTAL RETURN

THE 100 TOP-PERFORMING LARGE HEDGE FUNDS

In BLOOMBERG MARKETS' first-ever ranking of the top 100 large hedge funds, bets on mortgages, gold, emerging markets and global economic trends stand out.

	FUND, MANAGER(S)	MANAGEMENT FIRM, LOCATION	STRATEGY	ASSETS, IN BILLIONS	YTD TOTAL RETURN	2009 RETURN
1	***Structured Servicing Holdings,*** *Don Brownstein, William Mok*	*Structured Portfolio Management, U.S.*	Mortgage-backed arbitrage	1.2	49.5%	134.6%
2	***Russian Prosperity,*** *Alexander Branis*	*Prosperity Capital Management, Russia*	Emerging markets	1.1	39.3	195.2
3	***Pure Alpha II,*** *Ray Dalio*	*Bridgewater Associates, U.S.*	Macro	34.0	38.0	2.0
4	***Ikos FX,*** *Elena Ambrosiadou*	*Ikos Asset Management, Cyprus*	Currency	1.2	30.5	18.1
5	***Cevian Capital II,*** *Christer Gardell, Lars Forberg*	*Cevian Capital, Sweden*	Activist	3.9	29.8	35.7
6	***AQR Global Risk Premium,*** *Team managed*	*AQR Capital Management, U.S.*	Macro	3.7	27.3	21.2
7	***Nisswa Fixed Income,*** *Steve Kuhn*	*Pine River Capital Management, U.S.*	Mortgage-backed arbitrage	1.2	27.0	92.0
8	***Third Point Offshore,*** *Daniel Loeb*	*Third Point, U.S.*	Event driven	2.2	25.2	38.6
9	***Autonomy Global Macro,*** *Robert Gibbins*	*Autonomy Capital Research, U.K.*	Macro	1.7	24.7	69.0
10	***Linden International,*** *Joe Wong*	*Linden Asset Management, U.S.*	Multistrategy	1.1	23.4	72.9
11	***All Weather 12% Strategy,*** *Ray Dalio*	*Bridgewater Associates, U.S.*	Macro	2.2	23.2	11.3
12	***Ortus Currency Program,*** *Joe Zhou*	*Ortus Capital Management, Hong Kong*	Macro	1.7	23.1	19.1
13	***Pure Alpha 12%,*** *Ray Dalio, Robert Prince*	*Bridgewater Associates, U.S.*	Macro	9.9	22.2	1.7
14	***Two Sigma Investments Compass U.S.,*** *Team managed*	*Two Sigma Investments, U.S.*	Systematic	1.7	21.7	20.4
15	***Appaloosa Investment,*** *David Tepper*	*Appaloosa Management, U.S.*	Global credit	4.9	20.9	132.0
16	***Cerberus Institutional Partners Series IV,*** *Stephen Feinberg*	*Cerberus Capital Management, U.S.*	Distressed	7.5	20.0	30.0
17	***Merchant Commodity,*** *Michael Coleman, Doug King*	*Aisling Analytics, Singapore*	Commodity	1.5	19.8	5.3
18	***Monarch Debt Recovery,*** *Michael Weinstock, Andrew Herenstein*	*Monarch Alternative Capital, U.S.*	Distressed	1.6	19.0	35.0
19	***BlackRock U.K. Emerging Companies,*** *Richard Plackett, Ralph Cox*	*BlackRock Investment Management, U.K.*	Long/short	2.0	18.6	6.1
·	***Thoroughbred,*** *David Tepper*	*Appaloosa Management, U.S.*	Fixed income	5.7	18.6	120.0
21	***Coatue Management,*** *Philippe Laffont*	*Coatue Capital Management, U.S.*	Long/short	3.2	18.0	11.0
22	***Element Capital,*** *Jeffrey Talpins*	*Element Capital Management, U.S.*	Fixed-income arbitrage	1.6	17.3	78.8
23	***Discovery Global Opportunity,*** *Rob Citrone*	*Discovery Capital Management, U.S.*	Emerging markets	3.0	17.2	65.0
24	***Paulson Enhanced,*** *John Paulson*	*Paulson & Co., U.S.*	Merger arbitrage	*	16.9	13.2
25	***Visium Balanced Offshore,*** *Jacob Gottlieb*	*Visium Asset Management, U.S.*	Long/short	1.8	16.4	22.0
26	***Renaissance Institutional Futures,*** *Jim Simons*	*Renaissance Technologies, U.S.*	Managed futures	2.3	15.9	3.8
27	***Man AHL Diversified,*** *Team managed*	*Man Fund Management, U.K.*	Managed futures	2.9	15.3	–16.9
28	***Sola 1 Class A,*** *Chris Pucillo*	*Solus Alternative Asset Management, U.S.*	Credit	2.5	15.1	7.9
29	***Tennenbaum Opportunities V,*** *TCP Investment Committee*	*Tennenbaum Capital Partners, U.S.*	Credit	1.0	15.0	58.5**
30	***Ellerston Asia Pacific,*** *Ashok Jacob*	*Ellerston Capital, Australia*	Long/short	1.4	14.9	NA
·	***Silver Point Capital Offshore,*** *Edward Mule, Robert O'Shea*	*Silver Point Capital, U.S.*	Credit	4.5	14.9	NA

	FUND, MANAGER(S)	MANAGEMENT FIRM, LOCATION	STRATEGY	ASSETS, IN BILLIONS	YTD TOTAL RETURN	2009 RETURN
32	**Man AHL Diversified Futures,** Team managed	Man Fund Management, U.K.	Managed futures	1.3	14.6	–16.4
33	**Brummer & Partners Nektar,** Kerim Kaskal, Kent Janer	Brummer & Partners Kapitalforvaltning, Sweden	Macro	2.2	14.2	–6.1
·	**Glenview Opportunity Funds,** Larry Robbins	Glenview Capital Management, U.S.	Opportunistic	1.0	14.2	106.2
35	**Aspect Diversified,** Gavin Ferris	Aspect Capital, U.K.	Managed futures	3.9	14.1	–11.2
36	**Joho Partners,** Robert Karr	Joho Capital, U.S.	Long/short	2.3	13.9	21.0
37	**Paloma Partners,** Donald Sussman	Paloma Partners, U.S.	Multistrategy	1.7	13.0	23.0
·	**Perry Partners International,** Richard Perry	Perry Partners, U.S.	Multistrategy	5.1	13.0	25.2
39	**Wolverine Convertible Arbitrage Trading,** Christopher Gust	Wolverine Asset Management, U.S.	Convertible arbitrage	1.1	12.9	55.1
40	**Farallon Capital Offshore,** Thomas Steyer	Farallon Capital Management, U.S.	Multistrategy	3.8	12.8	26.6
41	**Winton Futures Class B,** David Harding	Winton Capital Management, U.K.	Managed futures	5.4	12.6	–4.6
42	**Paulson Credit Opportunities,** John Paulson	Paulson & Co., U.S.	Credit	8.8	12.4	35.0
43	**Spinnaker Global Opportunity,** Claude Marion, Alexis Habib	Spinnaker Capital, U.K.	Emerging-market debt	2.6	12.3	28.1
44	**GLG Emerging Markets,** Bart Turtelboom, Karim Abdel-Motaal	GLG Partners, U.K.	Emerging-market equity	1.3	12.1	35.2
·	**Renaissance Institutional Equities,** Jim Simons	Renaissance Technologies, U.S.	Long/short	4.4	12.1	–4.6
46	**BlueTrend,** Leda Braga	BlueCrest Capital Management, U.K.	Managed futures	11.9	12.0	4.4
47	**MKP Offshore Credit,** Patrick McMahon, Anthony Lembke	MKP Capital Management, U.S.	Credit	2.0	11.8	17.1
·	**Transtrend Diversified Trend Program—Enhanced Risk (USD),** Team managed	Transtrend, Netherlands	Managed futures	5.7	11.8	–11.3
49	**Strategic Value Restructuring,** Victor Khosla	Strategic Value Partners, U.S.	Distressed	2.5	11.7	19.2
50	**R3,** Rick Rieder	BlackRock Advisors, U.S.	Distressed	1.1	11.6	54.0
51	**Canyon Value Realization,** Joshua Friedman, Mitchell Julis	Canyon Partners, U.S.	Multistrategy	8.8	11.5	55.0
52	**Fir Tree Value,** Jeff Tannenbaum	Fir Tree Partners, U.S.	Multistrategy	6.3	11.1	22.1
53	**SAC Capital International,** Steven Cohen	SAC Capital Advisors, U.S.	Long/short	12.0	11.0	29.0
54	**Fore Multi Strategy,** Matthew Li	Fore Research & Management, U.S.	Multistrategy	1.1	10.8	48.5
·	**Glenview Funds,** Larry Robbins	Glenview Capital Management, U.S.	Long/short	3.4	10.8	82.7
56	**Pershing Square International,** Bill Ackman	Pershing Square Capital Management, U.S.	Event driven	4.4	10.6	41.1
·	**Spinnaker Global Emerging Markets,** Marcos Lederman	Spinnaker Capital, U.K.	Emerging-market debt	1.7	10.6	28.3
58	**BlueCrest International,** Michael Platt	BlueCrest Capital Management, U.K.	Macro	8.2	10.5	45.4
·	**OZ Global Special Investments Master,** Daniel Och	Och-Ziff Capital Management, U.S.	Distressed	1.2	10.5	8.4
·	**PARS IV Offshore II Class A/1,** William H. Gross	Pacific Investment Management, U.S.	Global credit	2.0	10.5	63.3
61	**Maverick Class A/1,** Lee Ainslie III	Maverick Capital, U.S.	Long/short	3.1	10.3	24.2
62	**Saba Capital Master,** Boaz Weinstein	Saba Capital Management, U.S.	Long/short	1.8	10.1	8.0
63	**Tewksbury Investment,** Matthew Tewksbury	Stevens Capital Management, U.S.	Multistrategy	3.3	10.0	10.5
64	**Bay II Resource Partners,** Thomas Claugus	GMT Capital Offshore Management, U.S.	Long/short	1.0	9.6	51.4
·	**Clive,** Christian Levett	Clive Capital, U.K.	Commodity	4.0	9.6	17.4
·	**Millennium International,** Israel Englander	Millennium Capital Management, U.S.	Multistrategy	5.2	9.6	17.2
67	**AQR Absolute Return,** Team managed	AQR Capital Management, U.S.	Multistrategy	1.5	9.5	38.1

THE 100 TOP PERFORMING LARGE HEDGE FUNDS CONTINUED

	FUND, MANAGER(S)	MANAGEMENT FIRM, LOCATION	STRATEGY	ASSETS, IN BILLIONS	YTD TOTAL RETURN	2009 RETURN
·	**AQR Delta,** Team managed	AQR Capital Management, U.S.	Relative value	1.0	9.5	19.3
·	**Millburn Diversified Program,** Team managed	Millburn Ridgefield, U.S.	Systematic	1.1	9.5	–7.4
70	**BlueCrest Emerging Markets,** Nick Riley	BlueCrest Capital Management, U.K.	Emerging markets	1.2	9.4	33.9
·	**BlueMountain Credit Alternatives,** Andrew Feldstein	BlueMountain Capital Management, U.S.	Global credit	2.9	9.4	37.6
72	**Bay Resource Partners Offshore,** Thomas Claugus	GMT Capital, U.S.	Long/short	2.0	9.3	56.6
73	**York Credit Opportunities,** James Dinan	York Capital Management, U.S.	Distressed	3.0	9.1	35.7
74	**OZ Asia Master,** Daniel Och	Och-Ziff Capital Management, U.S.	Multistrategy	1.4	9.0	34.0
·	**Shepherd Investments International Class A,** Brian Stark, Mike Roh	Stark Investments, U.S.	Multistrategy	1.6	9.0	12.2
76	**Davidson Kempner International,** Thomas Kempner, Marvin Davidson	Davidson Kempner Capital Management, U.S.	Distressed	5.7	8.9	NA
77	**Greenlight Capital,** David Einhorn	Greenlight Capital Offshore, U.S.	Long/short	6.8	8.8	30.6
78	**Passport Capital Global Strategy,** John Burbank	Passport Capital, U.S.	Macro	1.7	8.7	19.3
·	**York European Opportunities,** James Dinan	York Capital Management, U.S.	Event driven	2.7	8.7	30.9
80	**Capula Global Relative Value A,** Yan Huo, Masao Asai	Capula Investment Management, U.K.	Fixed-income arbitrage	5.5	8.6	12.2
·	**Halcyon Partners Offshore,** Kevah Konner, John Bader	Halcyon Offshore Asset Management, U.S.	Multistrategy	1.0	8.6	21.5
82	**Carlson Double Black Diamond,** Clint Carlson	Carlson Capital, U.S.	Multistrategy	3.7	8.5	28.2
·	**Caxton Global Investment,** Andrew Law	Caxton Associates, U.S.	Macro	6.6	8.5	6.2
·	**Davidson Kempner Distressed Opportunities International Class A,** Michael Leffell, Anthony Yoseloff	Davidson Kempner Capital Management, U.S.	Distressed	1.1	8.5	45.0
85	**York Select,** James Dinan	York Capital Management, U.S.	Event driven	1.2	8.2	82.6
86	**Advantage Advisers Xanthus,** Takis Sparaggis	Oppenheimer Asset Management, U.S.	Long/short	1.1	8.1	29.6
·	**Sark Limited**, Emmanuel Gavaudan, Emmanuel Boussard	Boussard & Gavaudan Holding, Hong Kong	Multistrategy	1.7	8.1	25.1
88	**Scoggin Capital Management,** Craig Effron, Curtis Schenker	Scoggin Capital Management, U.S.	Event driven	1.8	8.0	37.0
89	**Boronia Diversified,** Angus Grinham	Boronia Capital, Australia	Managed futures	1.7	7.9	–6.1
90	**Paulson Recovery,** John Paulson	Paulson & Co., U.S.	Distressed	2.2	7.8	25.5
91	**Octavian Global,** Richard Hurowitz	Octavian Advisors, U.S.	Global special situation	1.0	7.6	30.6
·	**Moore Macro Managers,** Louis Bacon	Moore Capital Management, U.S.	Macro	3.8	7.6	16.8
93	**Paulson Partners,** John Paulson	Paulson & Co., U.S.	Merger arbitrage	*	7.4	6.2
94	**Exane 1–Archimedes A,** Cesar Zeitouni, Gilles Lenoir	Exane Asset Management, France	Long/short	1.4	7.3	10.2
95	**Blenheim,** Willem Kooyker	Blenheim Capital Management, U.S.	Managed futures	5.0	7.2	43.7
96	**Perella Weinberg Partners Xerion Offshore,** Daniel Arbess	Perella Weinberg Partners, U.S.	Event driven	2.3	7.1	35.3
97	**Citadel,** Ken Griffin	Citadel Investment Group, U.S.	Multistrategy	11.0	7.0	62.0
·	**CQS Convertible and Quantitative Strategies Feeder,** Michael Hintze, Oliver Dobbs	CQS Cayman, U.K.	Convertible arbitrage	1.1	7.0	31.2
99	**Elliott International,** Paul Singer	Elliott Management, U.S.	Multistrategy	16.8	6.7	30.1
·	**OZ Master,** Daniel Och	Och-Ziff Capital Management, U.S.	Multistrategy	18.6	6.7	23.1

*Returns are for the 10 months ended on Oct. 29. Includes funds with more than $1 billion in assets. *Total for both funds is $5 billion. **As of Oct. 31, 2009. Sources: Bloomberg, hedge-fund databases, hedge-fund firms, investors*

JESSE NEIDER

funds managing $1 billion or more. The $1.2 billion fund skyrocketed 135 percent in 2009.

In percentage terms, Brownstein, 67, beat out funds run by bigger, better-known competitors, including Ray Dalio's Bridgewater Associates LP. Dalio, though, has three funds in the top 15. Brownstein also topped Steven Cohen's SAC Capital International (No. 53).

Brownstein did it by exploiting his expertise in something almost as esoteric as metaphysics: the market for exotic securities built from residential mortgages. It was the crackup in housing and mortgage markets that brought the U.S. economy to its knees in 2008 and earned billions for hedge-fund managers such as John Paulson, who saw it coming and bet that mortgage securities would crash.

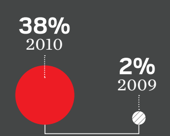
Brownstein and William Mok, Structured Portfolio's director of portfolio management, won't say exactly how they made their 2010 killing. Their longtime strategy is to develop models that predict when homeowners will refinance their mortgages—a move that reduces interest payments on mortgage bonds. They then buy securities they conclude are underpriced. Many homeowners have been unable to take advantage of tumbling rates to refinance their mortgages because their houses are worth less than they owe on their loans. Investors that bet against a refinancing boom have profited.

Two of Brownstein's other funds are in a three-way tie for ninth place in the ranking of mid-size funds, which manage from $250 million to $1 billion. The SPM Core and SPM Opportunity funds were both up 31 percent.

NO. 1 *MOST-PROFITABLE FUNDS*

Ray Dalio, above
Bridgewater Associates

FUND: Pure Alpha II



TOTAL RETURN

The hedge-fund ranking uses data compiled by Bloomberg and information supplied by research firms, fund companies and investors. (See "How We Crunched the Numbers," page 54.)

Three of the top 10 funds made money on mortgage bonds, according to Bloomberg data. The mortgage market is often lucrative for hedge funds because it's volatile, says Jeffrey Gundlach, chief executive at Doubleline Capital LP, a Los Angeles manager of mutual funds that trade mortgages. "The mortgage market has every single risk," Gundlach says. People default, banks foreclose on housing loans and the government often changes the rules. "Any market that has risks morphs into opportunity," he says.

Another fund that profited from betting on mortgages is the $1.2 billion Nisswa Fixed Income Fund Ltd., run by Pine River Capital Management LP of Minnetonka, Minnesota. It ranks No. 7, with a 27 percent return. Manager Steve Kuhn bought mortgage bonds selling at what turned out to be bargain prices.

The top-performing hedge-fund managers also made money in emerging markets, particularly Russia, and in gold. The No. 2 large fund, with a 39 percent return, according to Bloomberg data, is the Russian Prosperity Fund, managed by Moscow-based Prosperity Capital Management. (See page 48.) The No. 2 mid-size fund, with a 48 percent return, is also run by Prosperity, while the No. 1 mid-size fund, returning 50 percent, is part of Moscow-based VR Capital Group Ltd.

Gold jumped 24 percent to $1,359.40 an ounce in the 10 months covered by the ranking. The rally lifted Paulson & Co.'s Paulson Gold Fund 26 percent, making it No. 17 on the mid-size list, and helped to boost Daniel Loeb's Third Point Offshore Fund Ltd. to No. 8 among large funds, with a 25 percent return. Loeb invested in mortgages too, in addition to his usual bets on stocks and bonds, according to people familiar with his holdings.

Overall, hedge funds had a lackluster year, with less impressive returns than in 2009, when the top fund, run by David Tepper's Appaloosa Management LP, returned 132 percent. The same fund earned 21 percent in 2010. On average, the top 100 hedge funds rose 13.9 percent through October, with Nos. 99 and 100 gaining just 6.7 percent. The Standard & Poor's 500 Index rose 6 percent in the same period. A broad index of hedge funds compiled by Hedge Fund Research Inc. in Chicago rose 6.8 percent.

Spotty performance aside, wealthy Americans are pouring money into funds. Half of all households with a net worth of $25 million or more were invested in hedge funds in 2010, up from 35 percent in 2007, according to Spectrem Group, a Chicago-based research firm that tracks the affluent.

The surge doesn't make sense, says Bill Berg, founder of Sigma Investment Management Co. in Portland, Oregon. Investors are paying high fees, Berg says, usually 2 percent of assets to cover hedge funds' costs, plus 20 percent of any profits, for gains they could get from cheaper mutual funds. (All figures in the BLOOMBERG MARKETS ranking are net of fees.) "People insist on viewing hedge funds as being different from normal investments," says Berg, who picks fund managers for individuals and institutions. "They're not."

Only a few funds at the top of the ranks can justify their fees, Berg says. "If you can get into a fund that's in the top 10 percent, do it," Berg says. "The problem is that those funds are probably closed to new investors."

Some hedge funds have a new worry: the wide-ranging investigation of insider trading by the U.S. Justice Department. On Nov. 22, the Federal Bureau of Investigation raided the offices of Diamondback Capital Management LLC in Stamford, Level Global Investors LP in New York and Loch Capital Management in Boston. Diamondback and Level Global were started by alumni of SAC Capital Advisors LP, which received a subpoena in November demanding documents. None of the firms had been charged with wrongdoing as of mid-December.

THE WORLD'S MOST-PROFITABLE HEDGE FUNDS

	FUND, MANAGER(S)	MANAGEMENT FIRM, LOCATION	PROFIT, IN MILLIONS
1	**Pure Alpha II,** Ray Dalio	Bridgewater Associates, U.S.	2,254.2
2	**SAC Capital International,** Steven Cohen	SAC Capital Advisors, U.S.	1,082.0
3	**Pure Alpha 12%,** Ray Dalio, Robert Prince	Bridgewater Associates, U.S.	428.6
4	**BlueTrend,** Leda Braga	BlueCrest Capital Management, U.K.	309.1
5	**Cerberus Institutional Partners Series IV,** Stephen Feinberg	Cerberus Capital Management, U.S.	300.0
6	**OZ Master,** Daniel Och	Och-Ziff Capital Management, U.S.	287.5
7	**Elliott International,** Paul Singer	Elliott Management, U.S.	259.6
8	**Paulson Credit Opportunities,** John Paulson	Paulson & Co., U.S.	236.2
9	**Canyon Value Realization,** Joshua Friedman, Mitchell Julis	Canyon Partners, U.S.	222.2
10	**Thoroughbred,** David Tepper	Appaloosa Management, U.S.	215.5
11	**Appaloosa Investment,** David Tepper	Appaloosa Management, U.S.	202.7
12	**BlueCrest International,** Michael Platt	BlueCrest Capital Management, U.K.	190.9
13	**AQR Global Risk Premium,** Team managed	AQR Capital Management, U.S.	188.3
14	**Fir Tree Value,** Jeff Tannenbaum	Fir Tree Partners, U.S.	147.4
15	**Perry Partners International,** Richard Perry	Perry Partners, U.S.	142.4
16	**Silver Point Capital Offshore,** Edward Mule, Robert O'Shea	Silver Point Capital, U.S.	141.3
17	**Cevian Capital II,** Christer Gardell, Lars Forberg	Cevian Capital, Sweden	140.0
18	**Brevan Howard Master,** Alan Howard	Brevan Howard Capital Management, U.K.	137.0
19	**Greenlight Capital Offshore,** David Einhorn	Greenlight Capital Offshore, U.S.	133.4
20	**Tudor BVI Global,** Paul Tudor Jones II	Tudor Investment, U.S.	130.2

Profits are based on returns for the 10 months ended on Oct. 29 or are based on the latest available figures prior to that date.
Sources: Bloomberg, hedge-fund databases, hedge-fund firms, investors

Because of hedge funds' fee structure, managers need healthy returns on a large pool of client cash to make big money. A 5 percent return on $10 billion is better than a 50 percent return on $100 million. The most profitable fund in 2010 was Dalio's Pure Alpha II, which earned Bridgewater $2.25 billion. His Pure Alpha 12% fund was No. 3, earning another $428.6 million in fees. Westport, Connecticut–based Bridgewater manages $60 billion in hedge funds, making it the biggest firm by assets.

The Pure Alpha funds made money betting

against the U.S. economy, according to a person familiar with Bridgewater's trading. Dalio and his managers bought U.S. Treasury bonds, which rallied as economic growth, which can produce inflation, remained anemic, the person said.

SAC Capital International was the second-most-profitable fund, earning $1.1 billion in fees through the first 10 months of 2010, according to Bloomberg data.

Brownstein's Structured Servicing Holdings has returned an average of 28 percent annually since February 1998, when the fund made its first trade, a person familiar with its performance says. Its only losing year was 2008, when it returned negative 6 percent, according to an investor, while the average hedge fund dropped 19 percent.

'IF YOU CAN GET INTO A FUND THAT'S IN THE TOP 10 PERCENT, DO IT,' BERG SAYS. 'THE PROBLEM IS THAT THOSE FUNDS ARE PROBABLY CLOSED TO NEW INVESTORS.'

The 50 percent gain through October earned Brownstein's investment team $87 million in fees, according to Bloomberg data.

Brownstein has prospered in a market dominated by math savants. The value of many mortgage bonds depends in large part

WORLD'S TOP-PERFORMING MID-SIZE HEDGE FUNDS

	FUND, MANAGER(S)	MANAGEMENT FIRM, LOCATION	STRATEGY	ASSETS, IN MILLIONS	YTD TOTAL RETURN	2009 RETURN
1	*VR Global Offshore,* Richard Deitz	*VR Capital Group, Russia*	Event driven/distressed	$892.3	49.7%	82.5%
2	*Prosperity Quest Sub,* Alexander Branis, Ivan Mazalov	*Prosperity Capital Management, Russia*	Emerging markets	348.7	48.4	148.2
3	*Metacapital Mortgage Opportunities,* Deepak Narula, Sean MacLeod, Jatin Dewanwala	*Metacapital Management, U.S.*	Mortgage-backed arbitrage	339.0	43.0	140.4
4	*Tarpon All Equities,* Jose Carlos Magalhaes	*Tarpon Investimentos, Brazil*	Long-biased equity	935.4	39.8	127.8
5	*Passport Capital Special Opportunities Strategy,* John Burbank, Jim Cunningham, Walther Lovato	*Passport Capital, U.S.*	Global macro	272.7	35.7	41.4
6	*GLG Market Neutral,* Steve Roth	*GLG Partners, U.K.*	Convertible arbitrage	864.0	33.7	82.0
7	*India Capital,* Jon Thorn	*India Capital Management, Mauritius*	Equity directional	335.0	32.1	96.7
8	*SPM Core,* William Mok	*Structured Portfolio Management, U.S.*	Mortgage-backed arbitrage	383.1	30.8	53.6
·	*SPM Opportunity,* William Mok	*Structured Portfolio Management, U.S.*	Mortgage-backed arbitrage	339.8	30.8	100.2
·	*Tulip Trend,* Harold de Boer	*Progressive Capital Partners, Switzerland*	Managed futures	767.0	30.8	–25.5
11	*AQR Global Risk Premium Tactical,* Team managed	*AQR Capital Management, U.S.*	Asset allocation	630.0	30.0	23.1
12	*Providence MBS Offshore,* Russell Jeffrey	*Providence Investment Management, U.S.*	Mortgage-backed arbitrage	511.6	27.9	85.6
13	*CQS Directional Opportunities Feeder,* Michael Hintze	*CQS Cayman, U.K.*	Multistrategy	980.0	27.5	56.3
14	*Third Point Ultra,* Daniel Loeb	*Third Point, U.S.*	Event driven	545.0	27.4	44.1
15	*Lynx 1.5 Bermuda,* Svante Bergstrom, Jonas Bengtsson, Martin Sandquist	*Lynx Asset Management, Sweden*	Managed futures	312.0	26.6	–14.2
16	*Covepoint Emerging Markets Macro,* Melissa Ko, Jonathan Taylor	*Covepoint Capital Advisors, U.S.*	Emerging markets	761.2	26.3	62.6
17	*Paulson Gold,* John Paulson	*Paulson & Co., U.S.*	Commodities	700.0	26.0	NA
18	*Ore Hill International II,* Benjamin Nickoll, Frederick Wahl	*Ore Hill Partners, U.S.*	Event driven/distressed	790.0	25.5	32.9
19	*Obsidian Offshore,* Stuart Spodek	*BlackRock Advisors, U.S.*	Fixed-income arbitrage	534.3	25.2	57.0
20	*Harmonic Macro Value Program,* Richard Conyers, Patrik Safvenblad, David Pendlebury	*Harmonic Capital Partners, U.K.*	Macro	520.0	24.3	1.9

Returns are for the 10 months ended on Oct. 29. Includes funds with $250 million to $1 billion under management.
Sources: Bloomberg, hedge-fund databases, hedge-fund firms, investors

Westman outside his London office

A RUSSIAN ACTIVIST

DURING THE COLD WAR, Mattias Westman trained for a Soviet invasion in the Swedish special forces. The training paid off, he says, when he invaded Russia himself, moving to Moscow in 2000 to set up Prosperity Capital Management, a hedge fund specializing in Russian stocks. "We worked in the school of interpreters, which was essentially a school of interrogators," Westman says. "We were taught to extract information from Russians, and we continue to do so to this day."

Westman's $1.2 billion Russian Prosperity Fund is No. 2 in the BLOOMBERG MARKETS ranking of the 100 best-performing large hedge funds for 2010. Westman and the manager of the fund, Alexander Branis, beat the benchmark by investing in OAO Bashneft, an oil producer in the Ural Mountains, and other commodity companies. Bashneft shares jumped 60 percent for the year through Dec. 8.

Prosperity is an activist fund. It takes stakes in companies and then agitates for improvements. Westman has been a board member at OAO Magnit, Russia's second-largest retailer, and OAO Lenenergo, operator of St. Petersburg's power grid.

Westman has been hooked on Russian capitalism since 1993. While working at a Swedish brokerage, he learned that Siberian oil producer OAO Surgutneftegaz planned to go private by selling vouchers. He invested every kroner he had in the offering—about $25,000. The vouchers shot up 20-fold in six months. "There was no turning back," Westman says.

Prosperity had a near-death experience in 1998, when Russia defaulted on $40 billion of debt and the firm's assets dwindled to $35 million from $250 million as foreign investors fled.

Then, a commodity-fueled recovery took hold, and Prosperity lived up to its name. The Russian fund surged 20-fold from its inception to mid-December, compared with a sevenfold increase for the Micex Index. The smaller Prosperity Quest Sub Fund, with $348.7 million in assets, gained 3,321 percent in the 10 years ended on May 31. It's No. 2 among mid-size funds in the ranking.

Another Moscow-based investor, VR Capital Group, founded by American Richard Deitz, tops the mid-size list with its VR Global Offshore fund, which scored a 49 percent return in the first 10 months of 2010, according to Bloomberg data. VR and Prosperity are two of about a dozen hedge funds that scour the Russian markets for an investment edge.

Agitating for change in corporate Russia can be risky because corporate executives often have tight government connections. "There is always a risk," Westman says, "but things are becoming more civilized."

JASON CORCORAN

on how long homeowners make payments at their current interest rate before either refinancing or defaulting. The top traders have proprietary formulas that predict behavior based on a homeowner's credit score, address, loan size, loan age and other factors.

The walls of SPM are scrawled with such formulas, worked out by Mok, a Salomon Brothers alumnus who has a bachelor's degree in computer science from Columbia University, and his team of math and physics Ph.D.s. Brownstein's strength is his mastery of the logic behind the formulas. "If you're wrong, he'll prove you wrong," Mok, 47, says.

Brownstein, who these days looks more like entertainment mogul Barry Diller than the father of communism (much less hair, much nicer shirts), says he loves his role. "I'm here to argue," he says in a three-hour interview that ranged from ancient Greek philosophers Parmenides and Plato to foreclosures in Florida. "I'm in charge of pontification and arguing."

The son of a furrier, Brownstein grew up poor

TOP EMERGING-MARKET HEDGE FUNDS

	FUND, MANAGER(S)	MANAGEMENT FIRM, LOCATION	ASSETS, IN MILLIONS	YTD TOTAL RETURN
1	***Ping Exceptional Value Offshore,*** *Ping Jiang*	*Ping Capital Management, U.S.*	$154.9	103.5%
2	***Halcyon Power Investment,*** *David Herne*	*Halcyon Advisors, Cayman Islands*	240.0	57.0
3	***Prosperity Quest Sub,*** *Alexander Branis, Ivan Mazalov*	*Prosperity Capital Management, Russia*	364.3	48.4
4	***Prosperity Cub Fund,*** *Alexander Branis, Ivan Mazalov*	*Prosperity Capital Management, Russia*	187.6	41.9
5	***Navis Asia Navigator Non-US Feeder,*** *Patrick Russell*	*Navis Fund Managers, Cayman Islands*	122.1	35.1
6	***Prince Street Opportunities,*** *David Halpert*	*Prince Street Capital Management, U.S.*	103.0	34.2
7	***Covepoint Emerging Markets Macro,*** *Melissa Ko, Jonathan Taylor*	*Covepoint Capital Advisors, U.S.*	761.2	26.3
8	***Greylock Global Opportunity,*** *Hans Humes*	*Greylock Capital Management, U.S.*	105.0	22.5
9	***Zephyr Aurora Fund,*** *Clive Lloyd*	*Zephyr Management, U.S.*	225.7	21.9
10	***Everest Capital Frontier Markets,*** *Marko Dimitrijevic*	*Everest Capital, U.S.*	100.0	21.0

Returns are for the 10 months ended on Oct. 29. Includes emerging-market funds with at least $100 million in assets. Sources: Bloomberg, hedge-fund databases, hedge-fund firms, investors

TOM WAGNER

WORLD'S LARGEST HEDGE-FUND FIRMS

	FIRM, LOCATION	ASSETS UNDER MANAGEMENT, IN BILLIONS
1	*Bridgewater Associates (Westport, Connecticut)*	$60.0
2	*JPMorgan Asset Management (New York)*	41.1
3	*Man Group (London)*	39.5
4	*Brevan Howard Asset Management (London)*	32.0
·	*Paulson & Co. (New York)*	32.0
6	*Highbridge Capital Management (New York)*	27.0
·	*Soros Fund Management (New York)*	27.0
8	*Och-Ziff Capital Management (New York)*	26.3
9	*BlueCrest Capital Management (London)*	24.6
10	*Cerberus Capital Management (New York)*	24.0
11	*Angelo Gordon & Co. (New York)*	23.0
·	*Baupost Group (Boston)*	23.0
13	*BlackRock Advisors (New York)*	22.8
14	*Farallon Capital Management (San Francisco)*	20.0
·	*King Street Capital Management (New York)*	20.0
16	*Goldman Sachs Asset Management (New York)*	19.1
17	*Canyon Partners (Los Angeles)*	19.0
18	*Elliott Management (New York)*	16.8
19	*Lansdowne Partners (London)*	16.0
20	*Moore Capital Management (New York)*	15.0
·	*Renaissance Technologies (East Setauket, New York)*	15.0

Figures are as of Oct. 29 or are based on the latest available numbers.
Sources: Bloomberg, hedge-fund firms, hedge-fund databases, investors

on Gun Hill Road in the Bronx, New York. He got his bachelor's degree from Queens College before heading west for graduate school, earning his Ph.D. in philosophy from the University of Minnesota. He started teaching in 1969 at the University of Kansas in Lawrence.

Brownstein's career suggests a restless mind. In Lawrence, he made documentary films on the side and once interviewed Beat Generation writers Allen Ginsberg and William Burroughs, author of *Naked Lunch*. Brownstein became friendly with Burroughs, a St. Louis native who had moved to Lawrence late in life. A big drinker, Burroughs often showed up at parties at local farms with bags of pistols to distribute for target practice. Once, Burroughs brought a sack of hatchets to throw at trees. "Everyone who had kids left," Brownstein says.

A fight over a shopping mall in Lawrence in the mid-1980s led Brownstein, indirectly, to mortgage trading. A developer wanted to build the mall in a cornfield, while Brownstein and others wanted it downtown. The project got Brownstein thinking about finance. He figured a downtown mall could attract a big anchor tenant and then use its lease payments as collateral for a bond that would be sold to investors to pay for the mall's construction. Brownstein wrote up his idea and got it published in a real-estate trade journal in 1987. The article later led to an interview with William Marshall, a former professor at Washington University in St. Louis who was an executive at Franklin Savings Association in nearby Ottawa, Kansas. Franklin hired Brownstein in 1989.

Franklin was an outpost of Wall Street on the plains. Chairman Ernest M. Fleischer built the thrift into one of the nation's largest savings institutions partly by using mortgage-security trading to reduce interest-rate risk.

Fancy financial engineering couldn't save Franklin from the savings-and-loan crisis. The Office of Thrift Supervision seized it in February 1990, eight months after Brownstein arrived. He stayed until 1992, when he went to work trading mortgages for Caisse des Depots & Consignations, a state-owned French bank, in its New York offices. There, he set up a new unit to buy the rights to collect interest on mortgages—the so-called servicing rights. Owning the rights was like owning

NO. 7 *BEST-PERFORMING LARGE FUND*

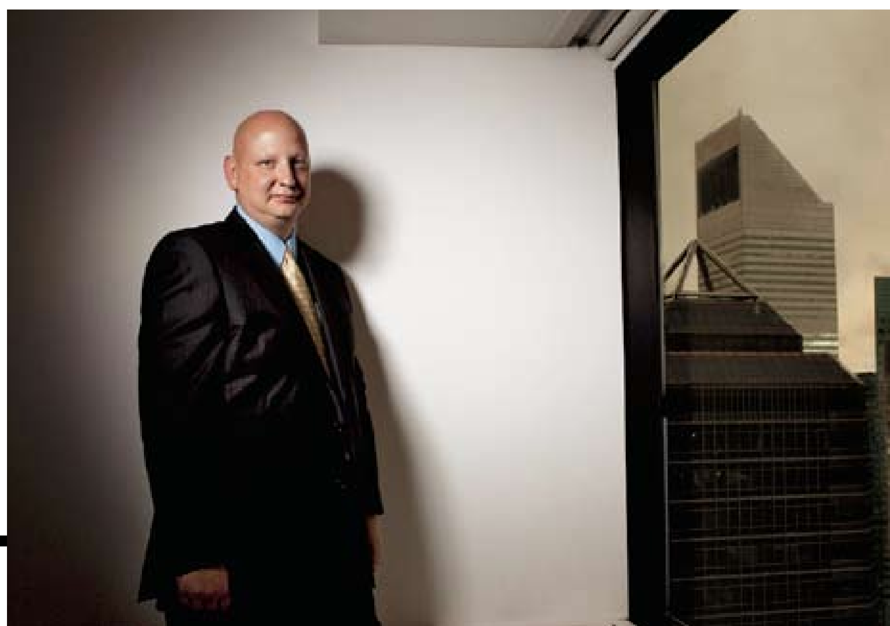
Steve Kuhn, below
Pine River Capital Management

FUND: Nisswa Fixed Income

27% 2010

92% 2009

TOTAL RETURN



NATHANIEL WELCH/REDUX

mortgage bonds, Brownstein says, and if you got them cheap enough, they could be profitable. Many lenders were eager to sell, he says, because they wanted to lock in gains all at once rather than risk losing interest income if borrowers refinanced.

Brownstein set up Structured Portfolio Management in New York in 1996, planning to do more deals for servicing rights. Then he pursued another angle. A popular security in the mortgage business is the interest-only strip, or IO. It's a bond backed by the interest payments from a portfolio of mortgages. Principal payments go into another security called a PO that's more attractive to conservative investors. If a homeowner refinances, the PO owner gets paid sooner and the IO owner loses all of the interest that he was due to collect.

The trick to valuing an IO is figuring out how many borrowers in the pool are going to pay off their mortgages early. So Brownstein and Mok spend their time puzzling over prepayment speeds.

Mortgage bonds, including IOs, come in two variations: agency backed and not agency backed. The first are built from mortgages insured by Fannie Mae and Freddie Mac. The two government-controlled companies own or guarantee repayment on half of all U.S. mortgages, a function that encourages lending. A trader buying securities built from agency-backed mortgages, generally under $417,000 for a single-family home, has no credit risk.

In 1996, the market for securities backed by the bigger, nonguaranteed loans was just getting going, Brownstein says. Most trading was in bonds backed by Fannie and Freddie loans of roughly the same size and age. If interest rates fell, most of the homeowners in the pool refinanced at similar speeds.

Brownstein saw that IOs backed by big, nonagency mortgages were selling for less because the mortgages were more heterogeneous and harder to model. He separated the mortgages backing the bonds into groups with similar characteristics, including the size of the mortgage and other attributes that even today he declines to identify. He thought he could predict how each group would behave when rates fell.

Brownstein has been refining the system ever since, with the help of Mok and his team of analysts. Mok started trading mortgages at Salomon in 1987, after attending the same training class attended by author Michael Lewis, who wrote about the experience in *Liar's Poker* (W.W. Norton, 1989).

Back then, Mok watched interest rates and the yield each security paid relative to Treasury bonds to figure out whether to buy or sell. That was before interest rates started falling in the early 1990s, prompting a wave of refinancing. Now, traders use computer-driven models to predict if and when a homeowner is going to cut off interest payments with a refinancing. "You have to really read the tea leaves to figure out if a mortgage bond is a good buy or not," Mok says.

For its mortgage bet, Pine River Capital went so far as to open an office in Beijing in 2010 to tap a new pool of math experts. The firm has 10 people there doing quantitative research and software development, Pine River founder Brian Taylor says. Numbers crunched in China are sent to an 11-person team in Pine River's office in New York. Taylor opened that office in 2008, when many banks bailed out of the mortgage-trading business and fired mortgage experts. "Financial markets are prone to crisis, and crisis always creates opportunity," Taylor says.

Pine River profited during the past two years by betting correctly that U.S. homeowners wouldn't pay off their mortgages as fast as they did in 2003, even though mortgage rates fell far and fast during both periods.

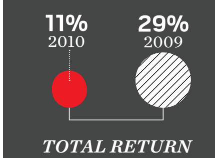
In 2008, when rates were tumbling, IO bonds were trading at 9 cents on the dollar, says Kuhn, manager of Pine River's Nisswa fund. The price implied that 60 percent of borrowers would refinance within one year, he says. No way, he thought. People wouldn't refinance because, unlike in

ANTHONY BEHAR/GETTY IMAGES

NO. 2 *MOST-PROFITABLE FUNDS*

Steven Cohen, above
SAC Capital Advisors

FUND: SAC Capital International



IN KANSAS, BROWNSTEIN BEFRIENDED WRITER WILLIAM BURROUGHS, WHO ARRIVED AT PARTIES CARRYING BAGS OF PISTOLS AND HATCHETS FOR TARGET PRACTICE.

2003, the value of their houses had fallen. Those who could confronted a mountain of paperwork at newly cautious banks.

Kuhn gets excited when talking about the mortgage market. A Minneapolis native, he earned a bachelor's degree in economics from Harvard University in 1991 and went to work trading municipal bonds at Piper Jaffray Cos. in Minneapolis. He switched to mortgage bonds at Piper and then took a job doing the same activity at Cargill Inc., the food producer that started a trading operation out of its effort to hedge the prices of farm products. Kuhn left Cargill in 1998 for Citadel LLC, the Chicago hedge fund, where he traded convertible bonds. In 2002, he joined Goldman Sachs Group Inc., again to trade mortgages.

In 2007, when the market started to wobble, Kuhn saw opportunity. He called up Taylor, a fellow Minnesotan, and offered his services. Taylor had set up Pine River in 2002 after 14 years at Minnetonka, Minnesota–based money manager EBF & Associates. Pine River is named for the town 150 miles (240 kilometers) north of Minneapolis where Taylor has a lake house. He was banished there for a year by a noncompete clause in his EBF employment contract that required him to move at least 100 miles away from the Twin Cities if he started a competing company.

Kuhn pitched Taylor on starting a mortgage fund to do some bottom fishing when the market really cracked. They named it Nisswa after another town in northern Minnesota. The collapse that Kuhn expected came in 2008, when mortgage bonds plunged. Then, the crisis caught up to Fannie Mae and Freddie Mac. The U.S. took them over that September to ease concern that they would fail and cease to back $5 trillion in mortgages.

After the takeover, Fannie and Freddie stopped a key activity, Kuhn says. In addition to guaranteeing mortgages, the companies bought and sold securities in order to moderate fluctuations in rates. That also helped control price differences, or spreads, between various types of mortgage bonds, making it hard for traders to find arbitrage opportunities. "There weren't a lot of nickels lying around," Taylor says.

Without Fannie and Freddie trading, the market is ripe with opportunity, Kuhn says. But government control of the companies means that traders like him have to watch for government programs that make it easier for homeowners to refinance. He watches hours of C-SPAN, the cable channel that broadcasts government hearings. Sometimes he records them to watch in the evening. "My wife is a good sport," he says.

In 2010, you didn't need to be a specialist to see that there was money to be made in mortgages. Daniel Loeb of Third Point normally invests in stocks and bonds of companies going through mergers and restructurings. He has owned mortgage securities since 2007. In 2009, they helped lift the fund 38.4 percent for the year, Loeb said in a letter to investors dated March 1, 2010. "Mortgage securities contributed significantly to our returns during the fourth quarter and have also performed strongly so far in 2010," Loeb wrote.

As of June, mortgage investments accounted

BIGGEST HOLDINGS IN U.S. STOCKS BY HEDGE FUNDS

	STOCK	AMOUNT HELD, IN BILLIONS
1	Sears Holdings	$3.44
2	Nike	3.35
3	AutoZone	3.33
4	Motorola	3.07
5	Citigroup	2.54
6	Viacom	2.41
7	J.C. Penney	1.83
·	Kraft Foods	1.83
9	AutoNation	1.82
·	DaVita	1.82

Ranking is derived from public filings of the 20 top holders of S&P 500 stocks as of Sept. 30. Value of holdings is as of Dec. 13. Source: Bloomberg

GOING IT ALONE, PROFITABLY

THE HEDGE-FUND industry is the College of Cardinals of finance—a man's world. Just two of the managers of the top 100 large funds are women. One of them, Elena Ambrosiadou, ranks No. 4. She runs the Ikos FX Fund, a currency-trading pool that returned 30.5 percent in the first 10 months of 2010.

Ambrosiadou is accustomed to success in male milieus. A chemical engineer, she once worked in refineries for petroleum giant BP Plc and later became an executive for the British company.

Ambrosiadou, a Greek whose firm is based in Cyprus, started Ikos in 1991 with her husband, Martin Coward, a Cambridge University graduate in mathematics and a foreign-exchange strategist, according to a biography accompanying an article he wrote for the *Hedge Fund Journal* in February 2008.

The pair ran Ikos together until December 2009, when Coward left the firm. Ambrosiadou had filed for divorce earlier that year.

Ambrosiadou and Coward declined to comment on Ikos, its performance or their split.

In a video interview in January, Ambrosiadou said one secret to Ikos's success is a focus on the institution. "The scientific process is about building the body of knowledge independent of any one person," Ambrosiadou told Opalesque TV, a website that covers hedge funds.

Ambrosiadou enjoys her performance fees. In 2009, she paid $120 million for the *Maltese Falcon*, a 290-foot (88-meter) computerized sailing ship built by venture capitalist Tom Perkins, according to Yachtpals.com, a boating site.

ANTHONY EFFINGER


Elena Ambrosiadou

DAVE M. BENETT/GETTY IMAGES

for about one-fifth of Third Point's assets, according to a letter sent to investors in August. Loeb used securities called re-remics for about half of his mortgage play, according to the letter.

Remic is an acronym for *real estate mortgage investment conduit*. It's a trust, backed by thousands of mortgages, that pays interest. Remics are divided into tranches according to risk and sold to investors. Each tranche becomes a separate mortgage bond. That makes them cousins of collateralized debt obligations, the bundles of mortgage bonds and other debt whose value plunged in 2007, helping to trigger the larger financial crisis.

Remics also tanked during the credit crisis as the mortgages backing them went into default. Many AAA remics, the least risky ones, lost their rating, and banks and insurers had to put up more capital to cover potential losses. To ease that burden, Wall Street has been repackaging the once-AAA-rated bonds into new trusts that have senior and junior securities.

Loeb is betting on the riskier junior slices, hoping they will pay him a fat yield—as much as 20 percent, according to the August letter to investors. As the credit crisis eased, those bonds rose in value, contributing to Loeb's 25 percent return.

Loeb also bet big on gold, a popular play for hedge-fund managers in 2010. Gold was the biggest position for George Soros and Paulson in September and the second-biggest position of commodity investor Paul Touradji, according to filings with the SEC. They invested in exchange-traded gold funds, shares of mining companies or both.

Gold appeals to investors worried about the value of paper money, Soros said at a meeting of the Canadian International Council, a nonpartisan group devoted to strengthening Canadian foreign policy, on Nov. 15. "The big negative is that too many people know this," Soros said. "There are a lot of hedge funds who are pretty heavily exposed."

Loeb had about 6 percent of Third Point's assets in bullion in November, the biggest gold bet he's ever made, according to Third Point investors. He started buying in September, when the metal was trading at $1,250 an ounce, spurred by a U.S. government report saying Washington can't sustain the deficits it's been running. Gold was up 8.9 percent as of Oct. 29 from its close on Sept. 1.

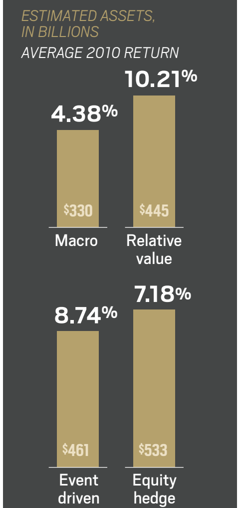
Gold is always popular during times of crisis. Brownstein, buoyant on a darkening November afternoon, says the emergency in his market has passed. "The crisis was when housing prices were accelerating out of control," Brownstein says. Now, there are opportunities for hedge-fund managers willing to drill deep down into mortgage bonds and find value, he says. Given his performance in 2010, other managers would do well to pay attention to the pronouncements of the pontificator-in-chief.

ANTHONY EFFINGER IS A SENIOR WRITER AT BLOOMBERG MARKETS IN PORTLAND. AEFFINGER@BLOOMBERG.NET
KATHERINE BURTON COVERS HEDGE FUNDS AT BLOOMBERG NEWS IN NEW YORK. KBURTON@BLOOMBERG.NET

To write a letter to the editor, send an e-mail to bloombergmag@bloomberg.net or type **MAG <Go>**.

NEW MONEY

Of the $1.8 trillion invested in hedge funds, assets reached record levels in event-driven and macro funds.



Asset figures are as of Sept. 30; returns are as of Nov. 30. Source: Hedge Fund Research

HOW WE CRUNCHED THE NUMBERS

OUR RANKINGS OF hedge-fund managers are based on data compiled by Bloomberg data specialist Anibal Arrascue and information supplied by hedge-fund research firms, hedge funds and investors. This year, we have three lists of top performers: funds with assets greater than $1 billion, funds with assets of $250 million to $1 billion and emerging-market funds with at least $100 million under management. The figures are for the 10 months ended on Oct. 29; in a few cases, we used the latest figures available prior to that date.

The returns we obtained were net of fees. We calculated profits for each fund by dividing the net figure by 100 percent minus the incentive fee. If a fund didn't report its incentive fee, we used the average of all the funds in our universe: 20 percent.

Using the gross returns, we were able to reconstruct approximately what the assets were at the start of the year. (Since we didn't have inflows or outflows, the asset numbers didn't take asset flows into account.) We subtracted original assets from current assets and multiplied the result by each fund's performance fee to derive the profit figures. Management fees aren't included; we assumed they were used for the day-to-day operations of the fund.

Our ranking of the most-profitable funds took 2008 and 2009 performance numbers into account because managers get paid only when the value of their funds is greater than its previous highest value. Funds that didn't exceed this "high-water mark" in their 2010 performance weren't included in this ranking.

Hedge funds typically keep a low profile. We couldn't obtain fund assets or returns for several of the biggest hedge-fund firms by assets. For a handful of other firms, we had returns for only one or two funds. Although we attempted to get returns for the larger class of each fund, onshore and offshore funds were combined for several funds.

The numbers were difficult to verify. Unless the information came from Bloomberg or the hedge-fund firm itself, we tried to verify it with other sources, including investors and other fund databases.

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RANKINGS@BLOOMBERG.NET