

FP INVESTING

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Hillsdale's solid gains worth bumpy ride

Hillsdale Canadian Aggressive
up 28.5% over the past year

BY TONY SANFELICE

Hedge fund performance fees are designed to reward the brightest managers that are able to beat benchmark returns, but they are imperfect and do not always achieve this goal. Some managers are adding risk in place of skill to achieve top returns and are being compensated for the wrong reason.

Over the past year, the Hillsdale Canadian Aggressive Hedged Fund did exhibit slightly greater volatility, with a beta of 1.10 relative to the S&P/TSX composite index, compared to a beta of 0.76 over the past three years.

The fund's volatility measured as annualized standard deviation is 15.4% since inception which is not far from that of the TSX (around 16%) and therefore this fund is among the more volatile long -- short equity hedge funds.

Over the past three years this fund has produced attractive risk-adjusted returns, with an alpha of 7.32%. This clearly

RETURNS	1 YR	2 YR	3 YR	SINCE INCEPTION
Simple Return	28.5%	8.0%	7.8%	N/A
Ann'l Comp. Return	28.5%	17.8%	14.4%	15.5%
FUND STATISTICS				
Alpha	8.63%		7.32%	
Beta	1.10		0.76	
Standard Deviation	13.04%		14.36%	15.40%
Largest Monthly Decline	5.64%		10.41%	11.01%
Largest Drawdown	6.18%		14.51%	14.51%

SOURCE: FUNDATA (NOTE: FIGURES AS OF SEPTEMBER 30, 2004)

Christopher Guthrie and Arun Kaul manage the **Hillsdale Canadian Aggressive Hedged Fund**, a long-short equity hedge fund, which began operations in January 2000. This fund has a long bias all the time and therefore is more positively correlated with the Canadian equity markets (the fund's stated target correlation to the S&P/TSX composite is 0.5).

The fund has produced solid high average annualized compounded returns of 15.5% since its inception. During the past year, the fund generated even stronger performance, with a return of 28.5%.

Since its launch, the largest monthly decline was a relatively high 11.01%. Over the same period, the fund has experienced a peak to trough decline (largest drawdown) of 14.51%.

The fund has generated positive returns in 38 of the past 57 months (or 67% of the time). Given the market's rather rocky performance over the same period the fund's experience delivering positive performance is quite good.

indicates that the fund is delivering better than expected performance, given the fund's beta.

The fund's other risk-adjusted measures, particularly over the past year, are attractive, with Sharpe and Sortino ratios of 1.83 and 3.46 respectively. With a Sharpe ratio of 1.83, the fund's managers have added almost 2% in return for each 1% in variability (standard deviation). With a Sortino ratio of 3.46, the Fund's managers were able to generate 3.46% in additional return for each unit of downside risk.

This fund has been performing well although its volatility has been rather on the higher side. Having said that, added to a well diversified portfolio, it will undoubtedly add value.

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