Spartan Fund Management Inc.

‘For Hedge Funds, Smaller is Better’
Institutional Investor ***(May/18)***

“Small funds outperform large funds and are more likely to maintain good performance…"

"Our analysis suggests that Investors are more likely to earn higher returns by Investing in small hedge funds"

‘In Chaos, Small Hedge Funds Do Better’
Wall Street Journal ***(Sep/15)***

“…Researchers at City University London found that smaller funds hold up better when the world is going haywire….

“on average, investors were better off investing with a small hedge instead of a large on in times of crisis…”

‘Smaller hedge funds outperform during a crisis’
Financial Times ***(Jul/15)***

“…new research from London’s Cass Business School that shows smaller hedge funds perform better during a time of crisis…by 125 basis points a year.

“Many investors would expect large hedge funds with bigger risk management and research teams to outperform when markets are choppy.”

‘Emerging Hedge Funds Post Biggest Gains’
Hedge Fund Research, Inc. ***(Sep/14)***

“Emerging hedge funds—those with an under two-year track record—have outperformed over the 12 months ending in Q2, returning an average of 11.3% compared to 9.1% for the HFRI Fund Weighted Composite Index.

“Emerging hedge fund managers continue to drive not only industry performance gains, but also strategic innovation across the hedge fund industry, with new funds launching to identify and monetize opportunities created by the shifting financial industry landscape, investor preferences and risk thresholds,” said Kenneth J. Heinz, president of HFR, in a statement.

“…in the present paradigm of low interest rates and low inflation, investors are likely to benefit from the unconstrained return generation capabilities and idiosyncratic innovations which new, emerging hedge fund strategies add to their portfolio exposures and allocations.”

‘Exploiting the Hunger Premium of Emerging Managers’
Najy Nasser, HeadStart Advisers Inc. ***(Jul/14)***

“Research[1] has shown managers tend to provide their best performance during their early years. In large part, this is because managers trying to establish a new fund are more focused on providing performance.

Very hungry is very focused, not just on posting strong returns to attract investors, but also on managing risk. The impact of a drop in performance will be felt more profoundly by an emerging manager trying to attract capital than by an established firm. Smaller funds are also more nimble, allowing them to move assets more quickly and dynamically. Furthermore, smaller funds can more easily exploit opportunities before they become crowded and the return potential is diminished.

The hunger premium is particularly strong where an emerging hedge fund is led by a highly experienced and seasoned portfolio manager who previously worked out of a larger hedge fund or banking firm.

These portfolio managers, which may previously have managed billions of dollars, combine the experience of tenure with the nimbleness of managing considerably fewer assets under management."

Bloomberg Brief – Hedge Funds: 'Emerging' Funds Post Best Returns in 2013 ***(Feb/14)***

*"Emerging hedge funds…posted the best returns last year, according to a report by Simplify LLC, a New York-based firm that specializes in data on alternative funds. {Emerging} Funds…bested those managing more than $1 billion in assets **by 231 percent**…"*

Beachhead Capital: Smaller Hedge Fund Managers Outperform: A Study of Nearly 3,000 Equity Long/Short Hedge Funds ***(Feb/13)***

"Results demonstrate that hedge funds managed by firms with $50 million to $500 million in AUMs have outperformed those run by larger peers over almost any period.

- *Five and ten year **outperformance** was **254** bps and **220** bps per annum, respectively.*
- *Overall risk was in line, with a beta of approximately **1.09** relative to larger peers."*

"The key question for investors is what factors drive the differential in returns. Three potential factors include:

- *The most talented managers self-select to start firms rather than work at larger firms. Many talented managers build experience in larger firms before launching their own firms.*
- *Smaller managers have a better opportunity set: based on trading volume, the number of potential long and short side investments declines by up to 80% between $100 million and $1 billion in AUMs. Off the run and less efficiently priced stocks can have a meaningful impact on returns. Anecdotally, capacity issues materialize sooner on short positions.*
- *Pressure to perform: performance fees are a higher percentage of overall compensation and drive asset growth."*

PerTrac: Impact of Size and Age on Hedge Fund Performance 1996-2011 ***(Oct/12)***

By Size

"Since 1996, the cumulative return for the average small fund has been 558%, mid-size 356%, and large 307%. The annualized compound ROR for the average small fund is 12.50%, for midsize 9.95%, and for large 9.16%. The annualized standard deviation for the average small fund is 6.92%, for mid-size 5.94%, and for large 5.95%.

By Age

"2011 marks the eighth year in a row in which the average young fund has outperformed the average mid-age and average tenured fund, and the fourteenth year out of the last sixteen.

The most impressive feature of this strong track record is that the average young fund has generally outperformed its average mid-age and average tenured peers, while keeping a lower volatility profile."

Extract from Fundana's White Paper in Opalesque's New Manager's October 2012 edition

"…our emerging managers have significantly outperformed the overall portfolio, indicating that this strategy of looking to emerging managers has been a successful one."

Extract from Ernst & Young's 'Global hedge fund and investor survey 2012'

"…a much larger number of investors than anticipated have increased their allocations to emerging and start-up funds…{with the 2 primary reasons being}…the expectation of better performance in the early years {and the preference for} nimble managers…"

"On average, investors currently allocate 5% to 6% of their assets to emerging or start-up hedge funds."

Extract from Investment Europe article ***(Oct. 23/12)***

"…research from data monitors PerTrac showing small funds with assets of under $100m have outperformed rivals holding over $500m in 13 of the last 16 years.

Additionally, funds started within two years of a measurement point had cumulative returns of 827% since 1996, far outpacing the 350% from funds that were more than four years old."

Extract from a Neuberger Berman strategy outlook report ***(Oct. 5/12)***

"…smaller managers have shown to consistently outperform their larger peers. …the average emerging manager returned 9.49% in 2011 against the 7.46% for the average established manager. "The emerging manager hedge fund space is continuing to evolve and these managers are capable of producing strong returns and additional diversification benefits. Investors are becoming increasingly disappointed with hedge fund returns and may be tempted to look towards smaller managers that can offer higher alpha, lower fees and greater transparency," read the report."