

A Win-Win-Win Solution to the Problem that Everybody is Talking About

Hedge funds had a tough year in 2018. Just look at the headlines:

“Hedge Funds Are on the Way to a Bad 10-Year Streak” —*Wall Street Journal*

“Majority of big investors disappointed by hedge fund returns” —*Financial Times*

“October was the worst month for hedge funds in three years” —CNBC

At Northstar, we believe we can help. We can help investors, we can help hedge funds and we can help prime brokers. A win-win-win solution.

More of the Right Risk

You may not expect to hear this from risk managers, but reducing risk is not the answer. Risk and reward are two sides of the same coin. Hedge funds should be taking more risk, not less. But before they can do that, they need to become better at managing risk.

By reduce unnecessary factor exposures —by only taking the risks that they need to take—and maintaining a more consistent risk profile, hedge funds can increase their average risk, while maintaining or even reducing tail risk. Northstar’s risk/performance platform can help funds do this by making risk easy to understand, by making it easy to measure and hedge factor exposures, and by automatically alerting managers to unexpected risks in their portfolio.

More risk on average means higher long-run returns for investors, higher fees for funds, and more trading volume for prime brokers. A win-win-win solution.

Less Uncertainty

Investors don’t like unnecessary risk, and they don’t like uncertainty. Even the best funds are going to have a down month occasionally. If you have a bad month and can’t explain *why* you had a bad month to investors, they will not be happy. If you have a bad month, and can demonstrate to investors that you were taking the risks that you should have been taking, if you can precisely quantify your performance, you can reassure investors. When they are most concerned, you can show them that their money is being carefully managed.

Hedge funds that performed poorly in 2018 need to explain what happened. Vague or evasive investor letters will not do. Northstar’s risk-based profit attribution allows funds to precisely quantify their performance. Northstar is the only complete risk-based profit attribution platform designed specifically for hedge funds. We can help hedge funds understand their performance and reduce uncertainty for their investors.