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# How to Identify Top Hedge Fund Managers Using Public Ownership Data

**By Stan Altshuller**

If you're searching for the best money managers, are you only concerned with how they performed in the past, or would you like to predict how they will perform on your dime? A manager's future performance is going to depend on a few different factors, with the markets they are playing in being one definitive driver. Sheer luck is also going to be a factor. Another critical factor will be the investment skills they bring to the table as an active manager. Investing in managers with skill will improve your odds of a successful outcome. Yet, looking at past returns alone, it's difficult to figure out the portion directly attributable to skill. More and more investors are using data beyond returns to screen for managers based on skill, precisely the skill they can rely on for future performance.

### Ownership Data

Ownership data refers to positions disclosed by managers adhering to reporting regulations around the world. Using this ownership data it is possible to tease out skill sets by stringing historical filings together and linking them to simulate portfolio returns. When you do this, the data tells a rich story – it tells you how the manager achieved returns, not just how much was made.

### How to Identify Skill

Once you know what to look for, skill sets are not hard to identify. We are going to focus on three skill sets (out of many) that managers rely on to generate returns: Security selection, position sizing and the win/loss ratio. The reason we focus on these three is that they are fairly simple to calculate using ownership data. To isolate these skills we need to simulate historical portfolio performance based on reported holdings for each

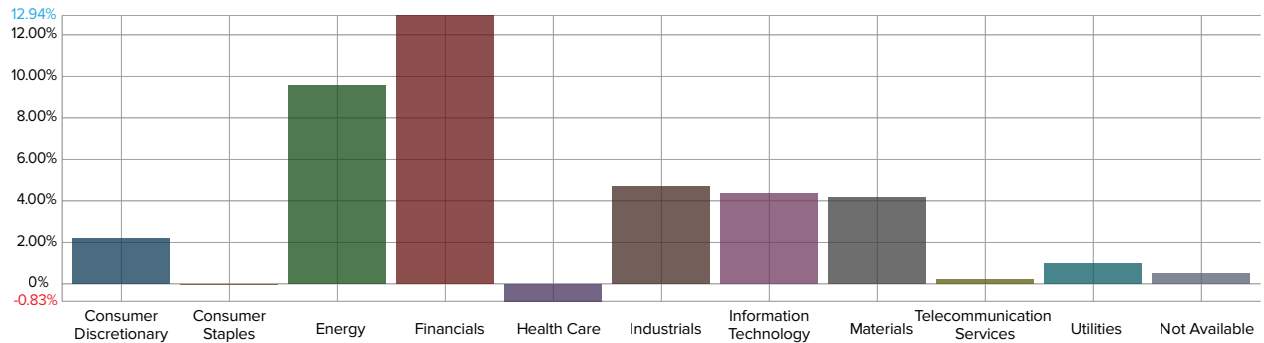
consistently? To find top stock pickers in each sector, we filter for managers with meaningful total exposure to the sector, the number of securities the manager historically invested in the sector and how long the manager has been investing in the sector. We do this to make sure only managers with significant presence in each sector are considered. We then run screens on managers that consistently demonstrate security selection skill.

***"Once you know what to look for, skill sets are not hard to identify."***

manager in our universe. Once this is done we can isolate the portion of the manager's return attributable to each skill. Now we will briefly touch on the three skill sets we are looking for and provide examples of some managers that consistently come up as winners on our skill-based screens.

### Security Selection Skill

*Security Selection Skill* refers to a manager's ability to choose the top performing stocks within a certain group of securities (such as a sector or market cap) that outperform that group as a whole. To estimate this skill in managers using public ownership data, we need to control for the manager's exposure to a portion of the market they participate in, such as a sector specific benchmark. For instance, to understand security selection in the healthcare sector, we can ask the following question: Do US healthcare securities that the manager chose to invest in outperform the S&P1500 Healthcare index

**Locust Wood Capital Management** Security Selection by Sector

Source: Novus Ownership Platform™. [For more information, click here.](#)

One example of a manager that shows up on the lists for top stock pickers in multiple sectors is **Locust Wood Capital Management**. Looking at just the portion of their returns attributable to security selection for each sector, it's clear that their stocks outperform the benchmarks, especially in *Financials*. This is fortunate because that also happens to be their largest sector allocation at 35% of their public portfolio.

In fact, the manager has added value above the benchmarks in most sectors they participate in. Their security selection skill for the past five years has been positive across the board save Health Care, which is only a 5% allocation in their book. Very few managers can make such a claim. If this manager wants to make the case for being an excellent stock picker, the numbers are on their side.

### Position Sizing Skill

*Position Sizing* is perhaps the most important skill a portfolio manager can possess. A manager

holding all the securities in a passive benchmark can over- or underperform significantly just based on sizing decisions. This skill speaks to the conviction of the manager in their best ideas and an inherent understanding of relative value and risk control. Thankfully, estimating this skill set is straight forward from public ownership data. We can compare the performance of the actual weighted portfolio to an equally weighted portfolio – the delta between the two is attributable mostly to sizing decisions.

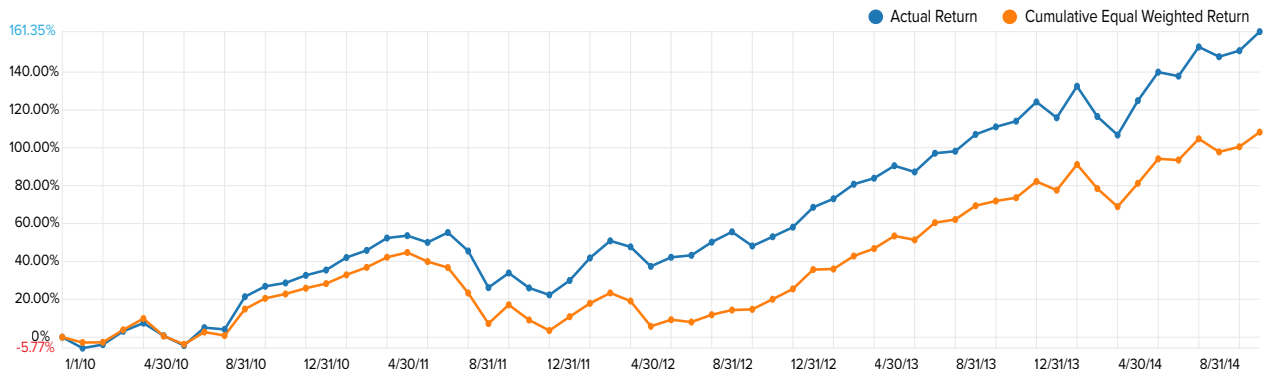
One of the most skilled managers based on position sizing skill is **Coatue Capital** whose simulated returns trounced the equally weighted portfolio returns since 2000. In the last five years this skill is striking in a comparison of their simulated portfolio based on their actual weights and a portfolio with the same stocks all equally weighted. It is clear that this manager has consistently benefited from a deep understanding of how to size positions relative to each other.

## Novus Ownership Platform™

The Novus Ownership Platform™ is the most powerful database and portfolio analytics platform for analyzing hedge fund ownership data. Search, analyze and conduct powerful research on 10,000+ investment managers across hedge funds, mutual funds, investment advisors and other institutional investors to better understand their positions, profitability, alpha-generation and fundamental skill sets.

[Learn More >](#)

**Coatue Capital** Position Sizing Alpha (Simulated)



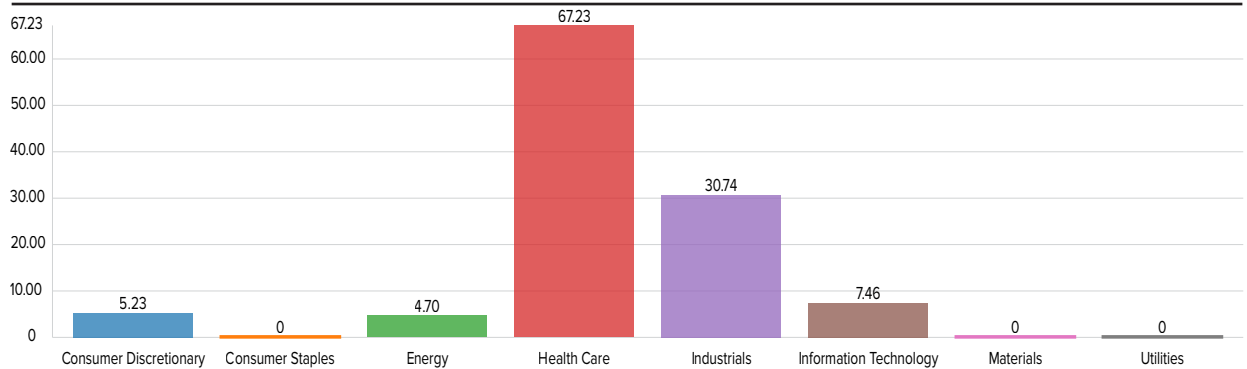
Source: Novus Ownership Platform™. For more information, click here.

**Win/Loss Ratio**

The *Win/Loss Ratio* is related to *Position Sizing* and can be thought of as a manager’s ability to ride winners and cut losers. In other words, does the manager water the plants and cut the weeds or vice-versa? This metric is sometimes used alongside the batting average (number of winning trades / number of total trades), but we find that with hedge fund managers it is the win/loss (how much do you make on your winners / how much you lose on your losers) that is the more informative measure for future performance. Most managers’ batting averages hover around 50-55% while the win/loss ratios vary greatly from one to another. Some managers are masters at getting the most from their winning trades and cutting their losses in a timely manner. The best managers in this category are outliers that exhibit huge win/loss ratios over time.

One such manager is activist Carl Icahn. When studying Icahn’s win/loss ratios we should keep in mind that the fund is very concentrated and in most cases has only a few positions in each sector. For example, there were 35 positions that contributed to the portfolio in the last five years in total and the Healthcare sector had five of those positions. The data shows that, on average, winning positions contribute many multiples more than the detractors take away. For instance, in Healthcare, the average winner made Icahn 67X what the average losing position cost.

**Icahn Management** Win/Loss Ratio by Sector



Source: Novus Ownership Platform™. For more information, click here.

### Managers with All Three Skill Sets in the Top Quartile

Rarely, you come across exceptional managers that possess multiple skill sets. At the intersection of these three areas of skill sit a number of managers that are consistently in the top quartile for all three screens we have discussed. As of the latest ownership data here are 20 of such managers:

Hedge Fund Manager	Security Selection Skill					Position Sizing Skill					Win/Loss Ratio Skill					CT.
	2010	2011	2012	2013	2014	2010	2011	2012	2013	2014	2010	2011	2012	2013	2014	
Miura Global Management	●	●	●		●	●	●			●	●	●			●	11
Brenner West Capital	●	●	●		●		●	●	●	●	●	●	●			11
PAR Capital Management			●	●	●		●	●	●	●			●	●	●	10
ValueAct Capital Partners	●	●	●	●		●	●				●	●	●	●		10
Biotechnology Value Fund	●		●			●	●	●		●	●		●		●	9
Coatue Capital	●		●		●	●	●	●			●		●		●	9
Egerton Capital		●	●	●				●		●		●	●	●	●	9
Greenlight Capital, Inc.	●		●	●	●	●		●		●	●		●			9
Icahn Management		●		●	●		●	●	●				●	●	●	9
MSD Capital	●	●	●				●	●	●		●	●	●			9
Tyrus Capital		●	●		●		●	●		●		●	●		●	9
Visium Capital Management	●		●	●	●			●	●		●			●	●	9
Cadian Capital Management	●				●	●		●		●	●		●		●	8
Chieftain Capital Management		●		●	●				●	●		●		●	●	8
Hound Partners		●	●	●	●		●	●	●			●				8
Impala Asset Management	●		●		●			●		●	●		●		●	8
Sheffield Asset Management			●	●		●	●		●	●	●		●			8
Third Point LLC	●	●		●	●		●		●			●		●		8
Tiger Global Management			●	●	●	●				●			●	●	●	8
Valinor Management			●	●	●	●		●		●			●	●	●	8

### How Do You Screen for Managers?

Chances are that you are very well aware that skill plays a critical role in future returns of managers. But if you are like many investors you may find it challenging to gather, normalize, aggregate and maintain data outside of monthly returns. With subscription to Novus' Hedge Fund Ownership Platform™, you can search, analyze and conduct powerful research on 10,000+ investment managers across hedge funds, mutual funds, investment advisors and other institutional investors to identify top managers. Contact us to learn how Novus can improve your manager selection process and help you select better managers.

*Please reach out to [sales@novus.com](mailto:sales@novus.com) to receive a sample review of your own managers?*

**For more information, contact:**

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Mr. Altshuller is Novus' Chief Research Officer and charged with spearheading various business initiatives, leading the research team and overseeing blueprinting and competitive analytics for the Novus Platform™. Before co-founding Novus in 2007, Stan worked in Ivy Asset Management's Portfolio Management Group as part of a team responsible for constructing, monitoring and managing all of Ivy's portfolios. At Ivy, he designed and implemented a set of tools and processes for analyzing multi-manager portfolios focusing on key drivers and risks across the entire product line. Prior to Ivy, Stan served at Lyster Watson & Co., where he was responsible for quantitative analysis, manager screening and portfolio modeling. Stan holds a B.S. in Mathematics and a B.A. in Economics from Brandeis University.

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