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HEDGE FUNDS

REVIEW

CQS Diversified Fund - Segregated Portfolio Alpha: CQS

Ninth European Fund of Hedge Funds Awards 2010

Author: [Hedge Funds Review editorial](#)

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Winner: Best performing in-house fund of hedge funds

The \$147 million in-house CQS Diversified Fund is expansive in its scope, with allocations to global convertible and equity arbitrage, directional and relative value strategies as well as Asia convertible and credit long/short.

Portfolio manager James Peattie has notched up an impressive performance history since the fund's launch in March 2007 with annualised returns of 10.19% for volatility of 6.48%. This is all the more impressive since the majority of the fund's performance has been achieved during difficult market conditions during the financial crisis and its aftermath.

Peattie, who joined CQS in 2003, is understandably pleased. "The fund was launched three and a half years ago and has achieved annualised performance net of fees in excess of 10% to the end of September 2010," he notes.

He attributes much of this success to a wide ranging allocation remit. The underlying funds invest across a range of markets and asset classes using various investment approaches and strategies.

Importantly, this flexibility allows the fund to benefit from a range of investment opportunities on a global basis and a dispersion of correlations. Geographic dispersion of investment is broad too, with 58% in Europe, the Middle East and Africa (EMEA), 27% in the Americas and 13% in Asia excluding Japan.

"The strong performance in 2009 and 2010 is attributable both to the performance and diverse nature of the underlying CQS-managed hedge funds and to the dynamic allocation process, supported by CQS' focus excellence in operations and risk management," Peattie says.

Risk management naturally plays a big part in generating the best performance from the fund. The company's risk management committee consists of senior portfolio managers and operations management, with six risk management professionals supported by two dedicated risk management technology staff.

Trading risk management draws heavily on the risk management platform deployed at CQS as well as on the expertise of the portfolio managers themselves. Trading risk systems include Front Arena and MONIS as well as a number of applications that use proprietary systems.

Statistical risk measures used in the risk management process include value at risk (VaR), expected tail, expected tail loss (or conditional VaR, CVaR) and marginal value at risk (MVaR). Credit portfolio loss distribution modelling is also used. CQS has implemented a framework for statistically analysing the risk of portfolio loss as a result of defaults, something which market risk statistical frameworks typically fail to incorporate.

Integrity is high on CQS's priority list. The company, which has \$7.4 billion under management, is a founder member of the Hedge Fund Standards Board. It benefits from a wide client base that includes private banks (36%), family offices (28%), funds of hedge funds (5%) and other asset management companies (1%).

Peattie plans to make sure the good numbers seen since inception continue: "It is certainly a team effort," he says, "and we will continue to work hard for investors in the fund," he concludes.

Fund facts

Full name of fund: CQS Diversified Fund (SPC) – Segregated Portfolio Alpha
 Name of investment/management company: CQS
 Portfolio manager: James Peattie
 Contact: Michael Rummel (+44 (0)20 7201 2491; michael.runmel@cqsm.com)
 Launch date: March 2007
 Assets under management: \$154 million as at September 30, 2010
 Annualised return: 10.19% (B US dollar; at September 30, 2010)
 Annualised volatility: 6.48% (B US dollar; at September 30, 2010)
 Strategy: diversified, multi-strategy
 Share classes: B, B2
 Administrator: Citco Fund Services (Dublin)

Auditor: Ernst & Young

Domicile: Cayman Islands

Management fee: 0.50% (B); none, share proceeds are invested into fee-bearing shares within the CQS-managed hedge funds (B2)

Performance fee: none

Minimum investment: \$100,000 (B); \$20 million (B2)

Lock-in/up: none

Redemption period: quarterly redemption with 100 days' notice. Short notice redemption fee of 3% for redemption in first 12 months (early redemption fee); 10% penalty for redemptions with less than 100 days' notice

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