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MARKETS

# Hedge Funds Retreat as Markets Advance

Shutdown of Tourbillon Capital Partners marks at least the third large hedge fund closure this month

Jason Karp, CEO of Tourbillon Capital Partners, wrote that the fund firm hadn't delivered the results it was capable of. **PHOTO:** MIKE BLAKE/REUTERS

*By Rachael Levy*

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Three hedge funds have closed in less than a week as investors question a once-highflying industry plagued by weak returns.

Tourbillon Capital Partners LP on Monday told clients it would return money and close its main fund. Last week, Highfields Capital Management and Criterion Capital Management announced they would return billions of dollars to clients.

The closures are the latest in a multiyear re-evaluation of such investment vehicles by managers and investors.

Some funds have closed as skepticism has increased about the value of paying hedge fund's famously high fees. Hedge funds often charge a 2% management fee and a 20% cut of performance gains.

Others have been hurt by poor performance relative to a stock market that has notched nearly a decade of gains. This year, through September, stock hedge funds on average returned 1.9% according to industry research firm HFR. By comparison, the S&P 500 had an average return of 10.6% over that period, including dividends, according to Dow Jones Market Data.

Tourbillon, which managed about $4 billion in 2016, had been losing money for some according to information reviewed by The Wall Street Journal. The firm had assets of about $2 billion as of earlier this year.

When funds underperform, hedge-fund managers must make a choice.

“In the end, you make the decision to close the fund or the investors are going to do it for you,” said Tim Ng, the chief investment officer at consulting firm Clearbrook Global Advisors.

Hedge funds can close at any time of the year, but around October many start to receive redemption notices from some clients and re-evaluate their future business plans. Instead of closing, some funds have lowered their fees.

The industry controls about $3.2 trillion in assets, according to data provider HFR.

Some hedge funds have blamed low interest rates for their problems. As rates have stayed low and stocks have rallied, so-called passive funds have come to dominate inflows as everyone from pension funds and endowments to middle-class Americans have pushed into these low-cost funds.

Still, hedge funds abound. In the first half of this year, more hedge funds launched than closed, with 270 closures compared with 306 startups, according to HFR. There were 8,413 hedge funds as of the end of the second quarter, down slightly from a peak of 8,474 in 2015, according to the research firm. More recent figures aren’t available.

At Tourbillon, the closure stems largely from performance. The firm’s flagship fund launched with gains of about 21% in 2013, and for the next two years posted gains. But since 2016 the flagship fund has lost money, with a 13.8% loss last year, according to a person familiar with the fund’s returns.

“We have recently not delivered the results that you expect of us and what we know we are capable of,” founder Jason Karp told clients Monday in a letter reviewed by the Journal.

Mr. Karp said in the letter he planned to return more than $1 billion from the firm’s main fund at year-end. Mr. Karp didn’t comment beyond the letter.

Mr. Karp previously was the co-chief investment officer at hedge fund Carlson Capital and a portfolio manager at Steve Cohen’s SAC Capital Advisors LP. A founding partner who served as Tourbillon’s chief operating officer and president left the firm earlier this year.

In the letter, Mr. Karp said he and senior members of Tourbillon would continue to invest in stocks “in a radically different unconstrained manner that I believe will allow us to focus only on our highest conviction ideas.”

Mr. Karp added that he plans to focus on private and public companies within the health and wellness space, an area he called “deeply personal.”

Tourbillon is known for its health awareness. Clients who visited the New York office were told the firm didn’t serve soda or other unhealthy foods, said people close to the

Mr. Karp said his family launched New York-based Hu Kitchen, a food company and restaurant, in 2012.

The closure of Tourbillon's main fund follows last week's decisions by Criterion and Highfields to shut.

San Francisco-based Criterion managed about $2 billion and focused on picking stocks in the technology, media and telecommunications industries.

Boston hedge fund Highfields is returning billions in client money to convert into a family office. Founder Jonathon Jacobson cited multiple reasons in his unusual decision to return money from the $12 billion firm, including the "all-consuming" nature of running a fund.

It is unusual for such a large hedge fund to close. At that size, managers could continue to collect handsome fees even with weak relative performance or try to hand the business to a successor. Redemptions at Highfields remained within the range of what the fund had experienced in the past, according to a person familiar with the matter.

In an industry rife with big personalities, Mr. Jacobson and co-founder Richard Grubman, who retired in 2010, kept relatively low profiles. But they received notice for profiting off a bet against Enron Corp., which ultimately filed for one the largest bankruptcies in U.S. history.

The latest hedge-fund closures add to a string of notable shutdowns over recent years.

Among them, investor Eric Mindich moved to close his $7 billion hedge-fund firm Eton Park Capital Management LP in 2017 and billionaire Richard Perry announced his decision to shutter his hedge-fund firm in 2016.

In discussing the personal nature of his new investment focus, Mr. Karp said in Monday's letter that in his early 20s he became "very ill with several autoimmune diseases and was told repeatedly by doctors that, while there was no cure, I should take myriad pharmaceuticals to mitigate my various symptoms. I was also diagnosed with an incurable, degenerative eye disease which impaired my vision and told I would be blind by the age of 30."

He added that he later found his diseases were linked to food, and that "within nine months of dramatically improving my nutrition and lifestyle, all of my ailments reversed, including my 'incurable' eye disease."

*—Juliet Chung contributed to this article.*

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