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Goldman to close Global Alpha fund after losses

By Lauren Tara LaCapra, Svea Herbst-Bayliss

NEW YORK (Reuters) - Goldman Sachs Group Inc is shuttering a well-known hedge fund that relies on computer-driven trading strategies after the portfolio rang up a hefty loss this year.

People walk past the entrance to the Goldman Sachs building at 200 West Street, New York June 2, 2011. REUTERS/Shannon Stapleton

Goldman told investors in the roughly $1.6 billion Global Alpha fund the news on Thursday, one day after it announced a management shake-up at the fund that had been the crown jewel than other hedge funds that rely on computer programs to quickly take advantage of opportunities in the market, people familiar with the number said. These types of funds are supposed to move quickly in and out of stocks, bonds, currencies and other assets and exit positions before losses accrue.

This is the second time in four years the Global Alpha fund -- once one of Goldman’s biggest with $12 billion in assets -- has suffered big losses and its performance raises questions about the ability of Goldman Sachs to manage quantitative strategies for its wealthy clients.

In fact, people familiar with Goldman Sachs have said the company’s decision to liquidate Global Alpha signals its decision to exit quantitative hedge fund strategies altogether. The firm still manages billions in quantitative mutual funds.

Goldman Sachs declined to comment.

Even though Goldman’s Global Alpha fund is in the red, most other quantitative hedge funds are up or are flat for the year. The average quant fund is down less than 1 percent over that period, according to performance tracking service Hedge Fund Research Inc.

Mark Carhart, the man who managed the Global Alpha fund with Raymond Iwanowski for more than a decade until 2009, has gained 7 percent net of fees this year at his new hedge fund Kepos Capital, a person familiar with his numbers said.

The new turmoil at Global Alpha comes almost four years to the day after the fund lost 22.5 percent in August 2007, during the early days of the financial crisis. Those losses prompted investors to pull money out.

Even though the fund’s performance steadied with a 4 percent gain in 2008 and raced ahead with a 30 percent increase in 2009, assets never recovered. By the time Carhart and Iwanowski left in 2009, the fund had shrunk to $4 billion from its $12 billion peak. Soon after the pair retired, assets shriveled further to about $2 billion. The fund neither gained nor lost money last year, delivering a zero return.

On Wednesday, Goldman Sachs Asset Management sent a letter to Global Alpha investors notifying them that Katinka Domotorffy, the head of the group's quantitative investment strategies, would retire at year's end. The letter, a copy of which was obtained by Reuters, did not discuss the poor performance of the Global Alpha fund.

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What may have hit the Goldman fund especially hard were the unexpected stock market sell offs in early August and recent currency market fluctuations in the wake of the Swiss National Bank's decision to halt the rise of the Swiss franc, people familiar with the fund's models said.

Andrew Schneider, president and CEO of Global Hedge Fund Advisors, said the first half of September has been brutal for some large hedge funds, due to unpredictable moves in market direction.

"The volatility has been so high; if you're wrong, especially if you're using margin or leverage, your returns are going to be extremely poor," said Schneider.

Other quantitative hedge funds, however, fared better. James Simons' Renaissance Technologies' Renaissance Institutional Equities fund has gained more than 25 percent this year, said a person familiar with the fund run by the math professor turned hedge fund manager. Another quant fund, QuantZ Capital Management, for instance, is up 12.8 percent through September 6, according to a letter sent to investors.

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