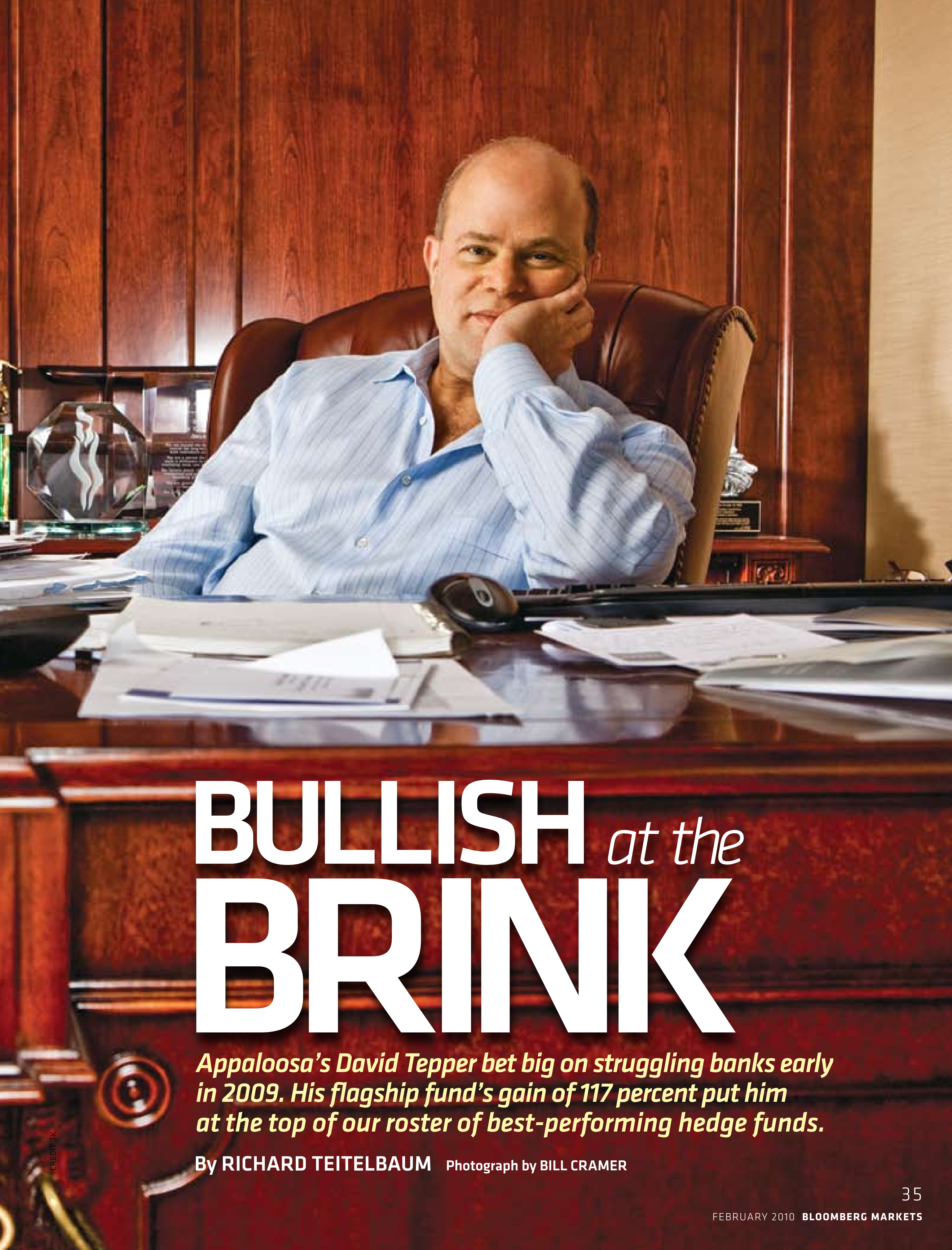
THE RICHEST HEDGE FUNDS

Tepper, in his Short Hills office. His flagship fund has returned an average of 30.7 percent to investors.



BULLISH *at the* BRINK

Appaloosa's David Tepper bet big on struggling banks early in 2009. His flagship fund's gain of 117 percent put him at the top of our roster of best-performing hedge funds.

By RICHARD TEITELBAUM **Photograph by BILL CRAMER**

CREDIT TK

DAVID TEPPER OFTEN throws a $20 bill on the floor when he's weighing a big investment with analysts at Appaloosa Management LP. "Would you pick that up?" Tepper, founder and president of Appaloosa, asks them. His point: The best trades can be like found money. That was the case in early 2009, he says. Shares of banks such as Citigroup Inc. and Bank of America Corp. were collapsing on rumors they would be nationalized. On Feb. 25, the U.S. Treasury put out a white paper and a term sheet on its Web site for the government's Capital Assistance Program. They said the preferred stock the government was buying in the banks would be convertible to common shares at prices far above where they were trading—37 percent higher in the case of Citigroup and 21 percent for Bank of America.

For Tepper, 52, that meant it was time to buy. "If the federal government was putting out this paper, they weren't going to nationalize the banks," he says. Second, the conversion price of the preferred shares meant the bank stocks were seriously underpriced. "It was crazy," says Tepper, a Pittsburgh native. "In February and early March, people were in a panic."

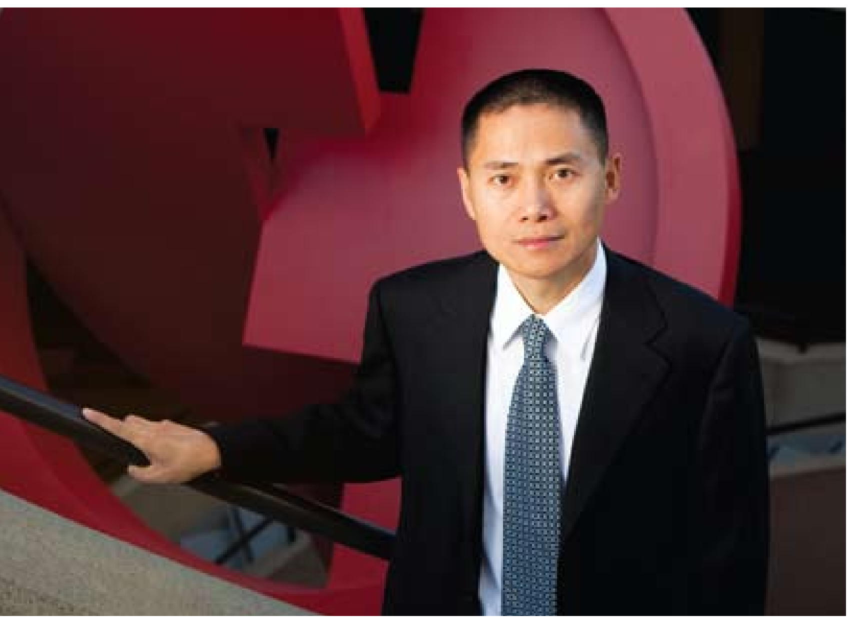
Appaloosa began scooping up bank-related securities—including common and preferred shares and junior subordinated debt. The Short Hills, New Jersey–based hedge fund firm bought into Bank of America, Citigroup, Fifth Third Bancorp and SunTrust Banks Inc. Tepper also bought the bonds of New York–based American International Group Inc., Frankfurt-based Commerzbank AG and London-based Lloyds Banking Group Plc, paying as little as a nickel on the dollar. As the stocks and bonds rose later in the year—Bank of America and Citigroup shares surged 330 percent and 223 percent from Feb. 28 through September—Appaloosa made more than $1 billion.

The bank investments helped Tepper's flagship fund, Appaloosa Investment LP I, achieve a 117.3 percent return for the nine months ended on Sept. 30, making it the best-performing hedge fund with assets over $1 billion, according to data compiled by Bloomberg. Estimated profits for the $3.03 billion fund were $195 million, after taking into account the fund's 26.7 percent drop in 2008.

Tepper's firm has $12 billion under management in four funds and separate client accounts. The funds are: the U.S. flagship Appaloosa Investment; offshore Palomino Fund Ltd., which was up 114.4 percent as of Sept. 30; and the offshore and onshore versions of the Thoroughbred fund, which rose between 83.5 and 95 percent, depending on when investors bought in. All told, Tepper's firm gained $6.5 billion through Sept. 30.

Like Tepper, many managers that scored high in Bloomberg's ranking of top-performing funds sniffed out bargains amidst the detritus of the 2008 crash. The $3 billion Redwood Capital Master Fund Ltd., run by Tepper's fellow Goldman Sachs Group Inc. junk-bond-desk alumnus Jonathan Kolatch, is No. 2, with a 69.1 percent return through Oct. 31. The $1.1 billion Tosca fund, managed by founder Martin Hughes, returned 44.2 percent and ranked No. 12. It benefited from rebounding emerging-market stocks, including China's Geely Automobile Holdings Ltd., which rose more than fourfold in 2009 through October.

The $1.34 billion Tennenbaum Opportunities V LLC fund loans money to distressed companies. It surged 58.5 percent in the first nine months of 2009, winning the No. 5 spot on the best-performing roster. (See "Lender of Last Resort," page 66.)



Changhong Zhu's PARS IV fund earned 61 percent for Bill Gross's Pimco.

MICHAEL GRECCO

WORLD'S TOP-PERFORMING LARGE HEDGE FUNDS

	FUND, MANAGER(S)	FIRM	STRATEGY	'09 RETURN	'08 RETURN
1	**Appaloosa Investment I**, David Tepper	Appaloosa Mgmt., U.S.	Global credit	**117.3%**	–26.7%
2	**Redwood Capital Master**, Jonathan Kolatch	Redwood Capital Mgmt., U.S.	Distressed	**69.1**	–33.0
3	**Glenview Institutional Partners**†, Larry Robbins	Glenview Capital Management, U.S.	Long/short	**67.1**	–49.0
4	**PARS IV**, Changhong Zhu*	Pacific Investment Mgmt., U.S.	Global credit	**61.0**	–17.0
5	**Tennenbaum Opportunities V**†, TCP Investment Committee	Tennenbaum Capital Partners, U.S.	Credit	**58.5**	–51.2
6	**Kensington Global Strategies**†, Kenneth Griffin	Citadel Investment Group, U.S.	Multistrategy	**57.0**	–55.0
7	**BlueGold Global**, Pierre Andurand, Dennis Crema	BlueGold Capital Mgmt., U.K.	Commodities	**54.6**	209.4
8	**Waterstone Market Neutral Master**, Shawn Bergerson	Waterstone Capital Mgmt., U.S.	Convertible arbitrage	**50.3**	12.0
9	**Canyon Value Realization**, Mitchell Julis, Joshua Friedman	Canyon Partners, U.S.	Credit	**49.6**	–29.0
10	**Discovery Global Opportunity**†, Robert Citrone	Discovery Capital Mgmt., U.S.	Long/short	**47.9**	–31.0
11	**Bay Resource Partners Offshore**, Thomas Claugus	GMT Capital Offshore Mgmt., U.S.	Long/short	**44.7**	–22.4
12	**Tosca**†, Martin Hughes	Toscafund Asset Mgmt., U.K.	Long/short	**44.2**	–65.0
13	**Harbinger Capital Partners**, Philip Falcone	Harbinger Capital Partners, U.S.	Multistrategy	**42.0**	–27.0
14	**BlueCrest Capital Intl.**, Michael Platt	Bluecrest Capital Mgmt., U.K.	Multistrategy	**41.3**	6.2
15	**Lansdowne Global Financials**, William de Winton	Lansdowne Partners, U.K.	Long/short	**41.0**	–13.0
16	**Medallion**, Jim Simons**	Renaissance Technologies, U.S.	Quantitative	**38.0**	80.0
17	**Brigade Leveraged Capital Structures**, Don Morgan	Brigade Capital Mgmt., U.K.	Long/short	**37.6**	–17.1
18	**Brummer & Partners Nektar**, Kerim Kaskal, Kent Janer	Nektar Asset Mgmt., Sweden	Fixed-income arbitrage	**37.2**	–6.1
19	**SR Global G–Emerging Markets**†, Richard Chenevix-Trench	Sloane Robinson Inv. Mgmt., U.K.	Emerging market	**36.5**	–29.9
20	**Stratus Double Leverage**, Marc Potters	Capital Fund Mgmt. Intl., France	Multistrategy	**36.1**	16.3

*Was expected to leave Pimco in February. **Was expected to retire at the end of 2009. †Still underwater; see accompanying chart. Returns are for the 10 months ended on Oct. 31, or are based on the latest available figures prior to that date. Includes funds with more than $1 billion under management. Sources: Bloomberg, hedge fund databases, hedge fund firms, investors

The most-profitable funds are attached to familiar names. The only fund to break the $1 billion mark for 2009 profits was East Setauket, New York–based Renaissance Technologies LLC's quantitative Medallion Fund, co-founded and managed by mathematician Jim Simons. Medallion followed its 80 percent gain in 2008 with 38 percent in the first 10 months of 2009 and earned $1.1 billion, according to Bloomberg estimates. The second-most-profitable fund was London-based Brevan Howard's Master Fund Ltd., which had estimated profits of $784.3 million.

BLUECREST

Also based in London is the third-most-profitable fund, BlueCrest Capital International Ltd., founded and managed by Michael Platt, which rang up earnings of $409.3 million. (See "Art of the Trader," page 54.)

The ranking of best-performing and most-profitable funds is based on figures taken from a variety of sources, including data compiled by Bloomberg, hedge fund research firms, investors and the fund firms themselves. To derive the profits for funds, a 20 percent performance fee was used if fee information wasn't available. Funds that lost money in 2008 had to reach their high-water mark—make up for losses—before any profits could be distributed for 2009. Tepper says his flagship fund made up for its losses by June 2009.

Appaloosa's snapback from its 2008 loss marks a broader trend: the turnaround of the hedge fund industry overall. After losing a record 19 percent on average in 2008, hedge funds racked up gains of 16.7 percent in the first 10 months of 2009, according to Chicago-based Hedge Fund Research Inc. The gain puts the industry on course for its best year since 1999.

Some fund categories beat the average by big margins. Energy funds were up 32.2 percent through October, according to HFR. Russian and Eastern European funds, down 59.4 percent in 2008, were up 47.4 percent. Convertible arbitrage funds, which lost 33.7 percent in 2008, generated 54.4 percent gains. These funds, in their simplest incarnation, buy convertible bonds and sell short, or bet against, the corresponding equity, locking in the bond's yield.

Convertible arbitrage fund Waterstone Market

UNDERWATER

The returns of these six funds weren't high enough to offset 2008 losses.

	ADDITIONAL RETURN REQUIRED TO REACH HIGH-WATER MARK
Tosca	**98.1%**
Kensington Global Strategies	**40.3**
Tennenbaum Opportunities V	**26.2**
Glenview Institutional Partners	**16.0**
SR Global G–Emerging Markets	**7.7**
Discovery Global Opportunity	**0.9**

Source: Bloomberg

Neutral Master Fund Ltd. ranked No. 8 on the best-performing list, with a 50.3 percent return. Manager Shawn Bergerson says issuers have been buying back their convertibles at a rapid clip or exchanging them for common stock. And he says big mutual fund managers such as BlackRock Inc., Fidelity Investments and Pacific Investment Management Co. have been buying into the convertible market. "The new buyers have been pushing up prices," Bergerson, 44, says. "That's good for me going forward."

After the market turmoil of 2008, when the S&P 500 plunged 38 percent, analysts predicted a nuclear winter for hedge funds in 2009. Morgan Stanley's Huw van Steenis in February forecast that hedge fund assets would likely tumble to $950 million by the end of 2009 from a peak of $1.93 trillion in mid-2008.

That didn't happen. Investors yanked $154.4 billion from hedge funds in 2008 and an additional $146.1 billion in the first half of 2009, according to HFR. By the third quarter, investors had reversed course, adding $1.1 billion. The 2008 upheaval did cull the herd. HFR estimates 1,471 funds were liquidated in 2008 and 668 more died in the first six months of 2009, leaving a total of 6,723. The research firm calculates that 67.5 percent of funds were below their high-water marks on Sept. 30, 2009.

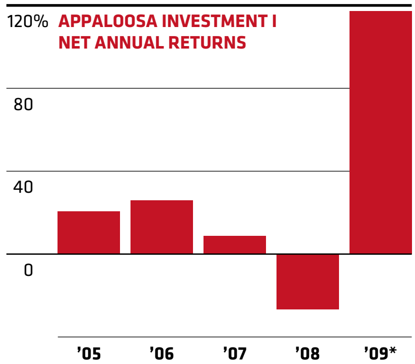
Now, managers say fresh money is flowing in from underfunded pensions. Seattle-based consulting firm Milliman Inc. estimates that large corporate pension funds as of October were only 75 percent funded, compared with 93.8 percent a year earlier. "How are they going to make that up?" asks Carrie McCabe, founder of Lasair Capital LLC, which invests in hedge funds. "They can't do it with fixed income."

Pensions that invest with Tepper are in for a wild ride. "When he sees a fat pitch, he just keeps swinging and swinging," says Alan Fournier, a former Appaloosa partner and founder of Pennant Capital Management LLC. That can mean big gains—and big losses. In three years—1998, 2002 and 2008—losses exceeded 20 percent.

More than 2,000 hedge funds have been liquidated since the beginning of 2008.

TEPPER'S BIG BET

Tepper's fund spiked after he bought cheap bank securities.



*Through Sept. 30. Source: Fund investors

FROM RUSSIA WITH OIL

WHEN OIL PRICES began rallying in 2009 off a five-year $34 low, Alexander Branis was well positioned. Branis, 32, chief investment officer of Prosperity Capital Management and manager of the firm's Russian Prosperity Fund, had several long-term bets on petroleum producers. One was OAO Bashneft, a southern Russian driller, which soared 537 percent through Dec. 10. Another was TNK-BP, BP Plc's Russian joint venture, which rose 166 percent. Those stocks helped Russian Prosperity, with $750 million in assets, to a 169 percent return for the 10 months ended on Oct. 31, making it the world's best-performing hedge fund with assets from $250 million to $1 billion, according to data compiled by Bloomberg.

Branis, who has advised the Russian government on restructuring the electricity market, also profited from investments in utilities and OAO Dixy Group, Russia's third-largest publicly traded retailer, which rose 312 percent through Dec. 10. While the main RTS index surged 120 percent in 2009 as of the same date, Branis thinks the Russian market still looks cheap. It's trading 35 percent below its level in 2007, when commodity prices were comparable to those at the end of 2009, and stocks are still playing catch-up, he says. "Russia is cheap in absolute terms and compared to other emerging markets," he says. "We hope the catch-up will continue in 2010."

STEPHANIE BAKER

Branis says Russian stocks are still cheap.

SASHA ZEMLIANICHENKO

In his 2009 wager on bank stocks and bonds, Tepper invested a peak of 30 percent of Appaloosa's assets across the financial companies' capital structures. In late 2008, Appaloosa bought bonds and preferred shares issued by Washington Mutual Inc. and Wachovia Corp. for about 20 cents on the dollar, Tepper says. After JPMorgan Chase & Co. announced it would acquire the assets of Washington Mutual and Wachovia agreed to be bought by Wells Fargo & Co., the securities soared, with the Wachovia preferreds doubling in price.

BUYING AIG

Tepper bought AIG's debt for 10 cents on the dollar in early 2009, when the insurer was still struggling to survive a near-death experience. The U.S. government agreed to acquire about 80 percent of the firm's stock in September 2008 in exchange for an $85 billion line of credit. By December 2009, Tepper's bonds were trading for 61 cents.

"When David sees the right opportunity, he goes for the jugular," says Kevin Eng, a former Appaloosa partner who is co-founder of Columbus Hill Capital Management LP. "He knows this is a risk-taking business."

From July 1, 1993, to Sept. 30, Appaloosa Investment recorded an average annual return of some 38 percent, 30.7 percent net of fees. "I don't think Warren Buffett holds a candle to him," Fournier says. Class A shares of Berkshire Hathaway Inc., of which Buffett is chief executive officer, returned 12.3 percent annualized for that period.

Sitting in Appaloosa's second-floor conference room in Short Hills, Tepper sips from a can of Diet Sunkist orange soda and talks about his recent performance. He is just under 6 feet tall (183 centimeters) and is dressed in a shirt with blue and brown stripes, jeans and white Nike sneakers. He has lived with his wife, Marlene, in the same spacious, stone-faced contemporary house in a nearby town since 1991. He owns no vacation homes. His three children either

Andurand and **Crema** bet correctly that oil had bottomed.

TOM STOCKILL

WORLD'S TOP-PERFORMING **MIDSIZE** HEDGE FUNDS

	FUND, MANAGER(S)	FIRM	STRATEGY	'09 RETURN
1	**Russian Prosperity**, Alexander Branis	Prosperity Capital Mgmt., U.K.	Emerging markets	169.1%
2	**Polo**, Claudio Andrade, Marcos Duarte	Polo Capital Internacional, Brazil	Merger arbitrage	143.7
3	**Dynamic Power Hedge**, Rohit Sehgal	Goodman & Co. Inv. Counsel, Canada	Long/short	119.3
4	**Barnegat Investments**, Bob Treue	Barnegat Fund Mgmt., U.S.	Fixed-income arbitrage	119.1
5	**Directional Mortgage Prepayments**, Don Brownstein, team	Structured Portfolio Mgmt., U.S.	Global credit	112.4
6	**Sprott Gold & Precious Minerals**, Eric Sprott, Anne Spork	Sprott Asset Mgmt., Canada	Managed futures	106.9
7	**Tarpon All Equities**, Jose Carlos Magalhaes	Tarpon Investimentos, Brazil	Emerging markets	106.1
8	**Universal Absolute Return Segregated Portfolio**, Philippe Houman, team	Universal Asset Mgmt., Switzerland	Multistrategy	99.6
9	**Nisswa**, Brian Taylor, Aaron Yeary	Pine River Capital Mgmt., U.K.	Multistrategy	92.1
10	**Nisswa Fixed Income**, Steven Kuhn, William Roth	Pine River Capital Mgmt., U.K.	Fixed-income	84.7

Returns are for the 10 months ended on Oct. 31. Includes funds with $250 million to $1 billion under management. Sources: Bloomberg, hedge fund databases, hedge fund firms, investors

Bergerson is benefiting as big mutual funds buy convertibles.

graduated from or still attend local public schools. He coached their softball, baseball and soccer teams. A sports fan, in September 2009 he bought a 5 percent stake in the Pittsburgh Steelers football team. A Steelers helmet sits on a table in the foyer of his office.

While Tepper is pleased to have done so well in 2009, he remembers the mistakes of 2008 just as vividly. "We were positioned badly and traded badly," he says. Early in the year, Tepper bet heavily on a rally in large-capitalization stocks, buying both individual equities and index futures, he says. The S&P 500 fell 19 percent in the first nine months of the year. The firm also lost money when an Appaloosa-led investment group decided to back out of a plan to provide some $2.6 billion in financing for the bankruptcy reorganization of auto parts maker Delphi Corp. Tepper said at the time the company wasn't meeting the terms of the deal. Delphi sued Appaloosa, and the two settled.

David Alan Tepper started modestly. He was born in Pittsburgh in 1957 to Harry Tepper, an accountant, and his wife, Roberta, an elementary school teacher. He grew up in a redbrick house in the neighborhood of Stanton Heights. One of his hobbies was collecting baseball cards—and impressing his friends by spouting statistics on the local Pirates and other teams. "My memory is almost photographic, not quite," Tepper says. "It drives my analysts crazy."

Nevertheless, he was an indifferent student at Pittsburgh Peabody High School, he says, and something of a class clown. He remembers being kicked out of one class and told by the teacher, "Go roam the halls and act like the animal you are."

Tepper began buying penny stocks in high school,

WORLD'S **MOST-PROFITABLE** HEDGE FUNDS

	FUND, MANAGER(S)	FIRM	STRATEGY	PROFIT, IN MILLIONS
1	**Medallion**, Jim Simons*	Renaissance Technologies, U.S.	Quantitative	$1,100.0
2	**Brevan Howard Master**, Alan Howard	Brevan Howard Asset Mgmt., U.K.	Macro	784.3
3	**BlueCrest Capital Intl.**, Michael Platt	BlueCrest Capital Mgmt., U.K.	Multistrategy	409.3
4	**King Street Capital**, O. Francis Biondi, Brian Higgins	King Street Capital Mgmt., U.S.	Event driven	398.9
5	**Lansdowne UK Equity**, Pete Davis, Stuart Roden	Lansdowne Partners, U.K.	Long/short	382.2
6	**Paulson Advantage Plus**, John Paulson	Paulson & Co., U.S.	Event driven	353.6
7	**Appaloosa Investment I**, David Tepper	Appaloosa Mgmt., U.S.	Global credit	195.0
8	**Viking Global Equities III**, Andreas Halvorsen	Viking Global Investors, U.S.	Long/short	189.5
9	**Moore Global Investments**, Louis Bacon	Moore Capital Mgmt., U.S.	Macro	168.0
10	**Tudor BVI Global**, Paul Tudor Jones	Tudor Investment, U.S.	Macro	137.6
11	**Paulson Credit Opportunities**, John Paulson	Paulson & Co., U.S.	Global credit	127.1
12	**Clive**, Christian Levett, Richard Boland	Clive Capital, U.K.	Commodities	126.5
13	**BlueGold Global**, Pierre Andurand, Denis Crema	BlueGold Capital Mgmt., U.K.	Commodities	123.1
14	**Lansdowne Global Financials**, William de Winton	Lansdowne Partners, U.K.	Long/short	118.2
15	**Millennium Intl.**, Israel Englander	Millennium Capital Mgmt., U.S.	Multistrategy	113.5
16	**Stratus Double Leverage**, Marc Potters	Capital Fund Mgmt. Intl., France	Multistrategy	107.1
17	**Canyon Value Realization**, Mitchell Julis, Joshua Friedman	Canyon Partners, U.S.	Credit	104.9
18	**Waterstone Market Neutral Master**, Shawn Bergerson	Waterstone Capital Mgmt.U.S.	Convertible arbitrage	104.2
19	**Pars IV**, Changhong Zhu**	Pacific Investment Mgmt., U.S.	Global credit	98.5
20	**BlueMountain Credit Alternatives**, Andrew Feldstein	BlueMountain Capital Mgmt., U.S.	Global credit	98.0

*Was expected to retire at the end of 2009. **Was expected to leave Pimco in February. Profits are based on returns for the 10 months ended on Oct. 31 or are based on the latest available figures prior to that date. Returns were adjusted to reflect high-water marks. Sources: Bloomberg, hedge fund databases, hedge fund firms, investors

DOUG KNUTSON

WORLD'S LARGEST HEDGE FUND FIRMS

		ASSETS UNDER MANAGEMENT, IN BILLIONS
1	**Bridgewater Associates**, Westport, Connecticut	**$41.4**
2	**JPMorgan Asset Mgmt./Highbridge**, New York	**36.0**
3	**Paulson & Co.**, New York	**30.0**
4	**D.E. Shaw Group**, New York	**28.0**
5	**Brevan Howard Asset Mgmt.**, London	**26.6**
6	**Man Group**, London	**26.2**
7	**Cerberus Capital Mgmt.**, New York	**24.0**
7	**Soros Fund Mgmt.**, New York	**24.0**
9	**Och-Ziff Capital Mgmt. Group**, New York	**22.3**
10	**Goldman Sachs Asset Mgmt.**, New York	**20.8**
11	**Baupost Group**, Boston	**20.0**
12	**Avenue Capital Group**, New York	**19.2**
13	**Angelo Gordon & Co.**, New York	**18.0**
13	**Farallon Capital Mgmt.**, San Francisco	**18.0**
15	**BlackRock**, New York	**17.0**
16	**BlueCrest Capital Mgmt.**, London	**16.7**
17	**Canyon Partners**, Los Angeles	**15.4**
18	**Lansdowne Partners**, London	**15.0**
18	**Moore Capital Mgmt.**, New York	**15.0**
18	**Renaissance Technologies**, East Setauket, New York	**15.0**

Figures are for the 10 months ended on Oct. 31 or are based on the latest available numbers.
Sources: Bloomberg, hedge fund firms, hedge fund databases, investors

Andurand and Crema's fund gained 54.6%, betting on an oil price rise.

sometimes conferring with his father on the subject. As a student at the University of Pittsburgh, he got more sophisticated, developing a system for options trading that helped pay his expenses. He graduated with a degree in economics in 1978. Later he enrolled in Carnegie Mellon University's Graduate School of Industrial Administration. At his first presentation, in front of 150 classmates and the dean of the school, Tepper explained how changing one input variable wouldn't affect the outcome of a particular equation. "I don't give a s--- what you put in here," Tepper told the class, tapping on the blackboard. After a pause, his fellow students burst out laughing. At the annual student follies, they composed a song to the tune of the Dr. Pepper advertising jingle: "I don't give a s--t. Be a Tepper. Be like Tepper."

Tepper was a star of the business school—renamed the David A. Tepper School of Business since his 2004 donation of $55 million. Dean Kenneth Dunn taught Tepper in an options class—a rarity at the time—and recalls the future billionaire hurling tough queries at him. "When he asked a question, I'd say, 'That's a great one,'" Dunn recalls. "'I'll get back to you at the next class.'"

Upon graduation in 1982, Tepper got a job in the finance office of the troubled Republic Steel Corp. in Cleveland—giving him first-hand experience at a distressed company. Two years later, he landed a credit analyst position at Keystone Funds in Boston. Then, in 1985, Goldman Sachs called, and Tepper joined its new high-yield bond desk.

"He quickly showed himself to be lead dog," says Richard Coons, a former Goldman trader who invests with Appaloosa. Tepper moved from research to trading, and by the end of 1986 he was head of the junk-bond desk. One mentor was Robert Rubin, then Goldman's fixed-income chief and later co-chairman of the bank. Rubin served as Treasury secretary in the administration of President Bill Clinton.

JUNK-BOND KING

As the 1980s junk-bond rally gathered steam, Tepper's desk became one of Goldman's most profitable. One lucrative honor, however, eluded him: partnership. At the time, Goldman partners were named in even-numbered years. Tepper was passed over in 1988 and again in 1990, probably, he says, because the high-yield bond market tanked following the bankruptcy of junk-bond firm Drexel Burnham Lambert Inc.

By 1992, junk bonds were roaring back, and Tepper's desk earned tens of millions of dollars. A partnership seemed certain. Tepper was disappointed again. "I said there's nothing I can do to make partner," he says.

Tepper quit in 1992 to start Appaloosa, together with former Goldman junk-bond salesman Jack Walton. He says he chose the name partly because his first choice, Pegasus—the winged horse of Greek mythology—was taken.

Appaloosa was launched with $57 million in assets, most of it from people Tepper met through Goldman, funds of funds and some insurers. In the last half of 1993, the firm's fund recorded a 57.6 percent net gain. By the end of 1994, Tepper was managing $300 million; the next year, $450 million; and by 1996, some $800 million.

Tepper's strategy from the beginning was to look for easy money, particularly in distressed companies

Tepper bought AIG's debt for 10 cents on the dollar.

and countries. One of his early investments was in Sault Ste. Marie, Ontario–based Algoma Steel Inc. The integrated steel maker emerged from bankruptcy in 1993. Tepper read the prospectus for what were described as preferred shares. He was surprised to find that the shares were actually first mortgage bonds whose collateral was Algoma's plants and headquarters. Tepper says he bought the bonds at 20 cents on the dollar and unloaded them within the year for 60 to 80 cents. "A lot of things are simple in investing, but people don't do the analysis," he says.

Appaloosa built its reputation on bankruptcies. Tepper likes to cut through the legal complications typical of reorganizations and snap up cheap assets. He cites Appaloosa's 2002 investment in the senior debt of Marconi Corp., which traded for less than the cash on the telecom company's balance sheet. Tepper estimates that the investment contributed more than 5 percentage points to his flagship fund's 148.8 percent gain in 2003. "It's nice when you can buy cash when it's cheaper than cash," he says.

Appaloosa's search for profits has taken Tepper far from his New Jersey base. In 1995, Argentine bonds looked like a bargain because rising bank deposits portended a strengthening economy. Tepper's purchase of the sovereign debt helped Appaloosa Investment to a 42 percent return in 1995.

In 1997, as the value of the Korean won fell by more than 50 percent, Tepper plunged into Korean currency futures and government bonds—a move that landed a photograph of a grinning Tepper on the front page of the *Korea Times*, an English-language

GOLDEN CHINA GLITTERS

IT HAS BEEN a roller-coaster two years for the Golden China fund, a hedge fund run by Shanghai-based Greenwoods Asset Management Ltd. Golden China had its only losing year in 2008, falling 55.6 percent. In 2009, the fund came roaring back, rising 136.8 percent in the 10 months ended on Oct. 31, making it the top-performing Asia hedge fund managing more than $100 million, according to data compiled by Bloomberg. The 2009 gain gave Golden China an annualized 41 percent return from its 2004 birth.

When the market was falling, investors fled. Golden China's assets fell from a high of $810 million at their October 2007 peak to $81 million in February 2009. They were $202 million on Oct. 31. "We were prepared to dig in our heels even if all the outside investors pulled out," says George Jiang, founder of Greenwoods and manager of the Golden China fund.

Golden China is a long-short fund, wagering both for and against stocks. One of the fund's winning long bets in 2009 was on Tencent Holdings Ltd., China's largest Internet company, whose QQ instant-messaging system boasts 485 million accounts. Golden China bought Tencent in early 2009 at HK$40 a share, fund documents show. On Dec. 7, it closed at HK$147.40.

Jiang, 42, worked for the Shenzhen Stock Exchange and several Chinese brokerages before starting Greenwoods. He says his biggest problem is keeping his international investors. "Most are too focused on short-term returns," he says. BEI HU

WORLD'S TOP-PERFORMING ASIAN HEDGE FUNDS

	FUND, MANAGER(S)	FIRM	ASSETS, IN MILLIONS	TOTAL RETURN
1	**Golden China**, George Jiang	Greenwoods Asset Mgmt., China	$202.0	136.8%
2	**Lynas Asia**, David Devine, Andrew Henderson	Lynas Capital, China	117.5	95.4
3	**Formosa Asia Opportunity–UG Greater China Multi-Strategy**, Richard Fan, team	UG Investment Advisers, China	373.4	61.9
4	**WF Asian Smaller Companies**, Scobie Ward, Peter Ferry	Ward Ferry Mgmt., China	260.0	53.5
5	**GAM Asian Equity Hedge**, Michael Lai	GAM Ltd., China	102.0	51.1
6	**Formosa Asia Opportunity–UG Hidden Dragon Special Opportunity**, Richard Fan, team	UG Investment Advisers, China	168.9	46.9
7	**Aviva Investors High Growth Shares**, Richard Dixon	Aviva Investors Australia, Australia	1,162.4	34.7
8	**K2 Australian Absolute Return**, Mark Newman	K2 Asset Mgmt., Australia	372.9	33.9
9	**Real Return Asian**, Ezra Sun	Veritas Asset Mgmt., U.K.	278.8	33.3
10	**Boyer Allan Pacific**, Jonathan Boyer, Nick Allan	Boyer Allan Investment Mgmt., U.K.	341.8	32.9

Returns are for the 10 months ended on Oct. 31. Includes funds with more than $100 million in assets. Source: Bloomberg daily. Appaloosa Investment finished 1997, the year the Asian financial crisis began, up 29.5 percent.

Tepper's timing isn't always perfect. In 1998, Appaloosa Investment bought Russian debt, wagering the government would not default. It did, helping to trigger a near meltdown of global financial markets and handing the fund a 1998 loss of 29.2 percent. Tepper snapped back with a 60.9 percent gain in 1999 when he bought Russian bonds post-default. In 2002 and 2003, he profited by snapping up the cratering debt of utilities such as Williams Cos.—setting up his best-ever return, 148 percent in 2003.

Low stock market volatility and a dearth of big bankruptcies worked against Tepper from 2004 to 2007, though he still managed 20-plus percent annual returns from 2004 to 2006.

Tepper runs a surprisingly small operation. Just 11 professionals work at the firm. There are no investment committees. "The daily meeting is every second of every day of the year," he says with a laugh. "There's no place to hide at Appaloosa."

Not all managers that placed high in the Bloomberg ranking were dumpster-diving value investors like Tepper. BlueGold Capital Management LLP co-founders Pierre Andurand and Dennis Crema trade oil. Their BlueGold Global Fund LP is ranked No. 7, with a 54.6 return for the first 10 months of 2009, according to Bloomberg data.

Andurand and Crema started BlueGold in February 2008, when rising oil demand in emerging markets and a lack of capacity were sending crude higher. The two, who once worked together in the London office of Geneva-based energy trader Vitol Group, bought crude futures and call options. By the end of June 2008, the fund was up 158 percent as crude prices spiked to more than $140 a barrel.

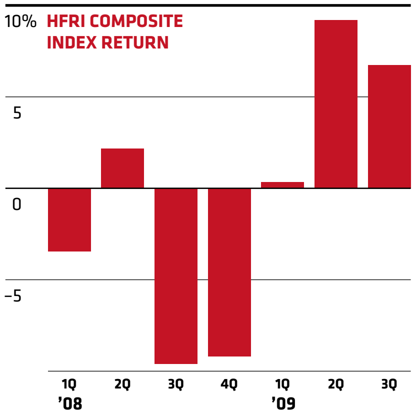
Then, as the economic slowdown accelerated, oil prices tumbled: BlueGold lost 19 percent in July 2008 alone. The fund went to cash while CEO Crema and Chief Investment Officer Andurand plunged into market analysis. "Oil demand destruction was upon us," says Crema, 49, who once worked on an oil tanker. BlueGold shorted both Brent and West Texas Intermediate in September and finished 2008 with a 209.4 percent gain.

By the end of February 2009, Andurand and Crema thought that the worst of the oil sell-off was over. The fund bought futures and options on West Texas crude—and scored its 54.6 percent return as prices rose and then stabilized above $70. "The key is about being able to adapt," says Andurand, 33, who kickboxes before work. "We never get stuck with a position we don't like."

Changhong Zhu shares credit with Pimco co–investment chief Bill Gross for his fund's high 2009 return. Zhu oversaw PARS IV, one of a group of hedge funds run by Newport Beach, California–based Pimco. PARS

TURNAROUND

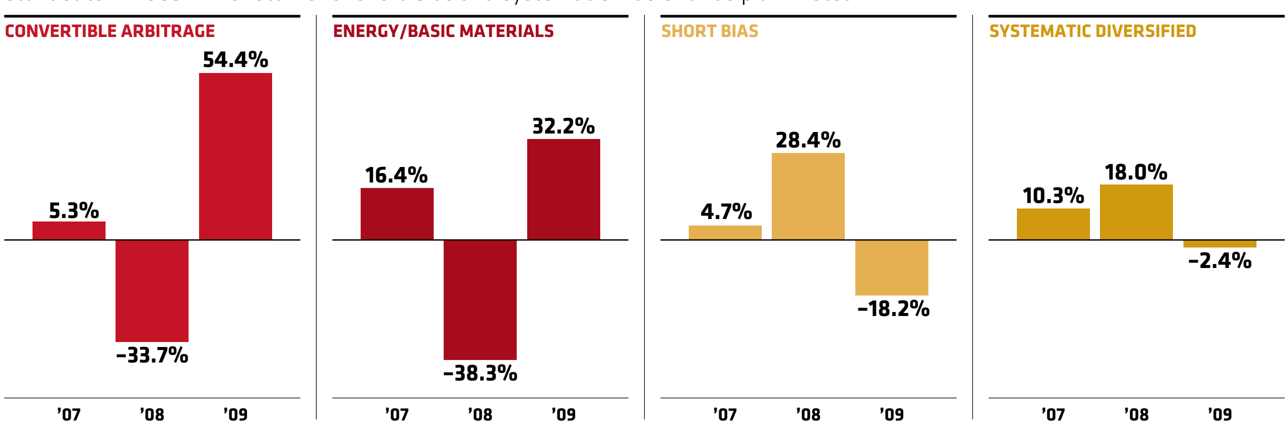
The hedge fund rally in 2009 was led by energy and convertible arbitrage.



Source: Hedge Fund Research

TRADING PLACES

The worst-performing strategies in 2008, convertible arbitrage and energy, became standouts in 2009 while returns for short-bias and systematic macro funds plummeted.



Source: Hedge Fund Research

$55 million: ***the amount Tepper gave Carnegie Mellon's business school.***

IV is No. 4 among the best-performing funds, with a 61 percent 2009 return through October, according to Bloomberg data.

Pimco's PARS funds use leverage and short selling to hedge unwanted risk and ratchet up performance of Pimco's better-known mutual funds. "We're not supposed to generate returns that are that great, given our diversification," says Zhu, 40, a native of China's Anhui province who has a Ph.D. in physics from the University of Chicago. PARS IV lost 17 percent in 2008 after Zhu made a wrong-way bet that the prices of credit-default swaps and the corporate bonds they protected would converge. Instead, they went in opposite directions. In 2009, Zhu followed the advice of Gross and other colleagues and bought beaten-down nonagency mortgage bonds. Like Tepper, Zhu also made money buying bank holding company bonds and preferred shares of Bank of America, Citigroup and JPMorgan Chase. "*Crisis* in Chinese means both danger and opportunity," Zhu says. "I never knew what that meant until this happened." Zhu is scheduled to leave Pimco at the end of February to serve as chief investment officer of a Chinese sovereign wealth fund.

Seizing opportunity out of chaos is the philosophy that has guided David Tepper for years. And his investors know it. Even in the midst of the 2008 meltdown, Appaloosa got relatively few redemption orders, Tepper says. In any case, all investors agree to three-year lockups, and Tepper can limit withdrawals to 25 percent of the requested amount.

Still, Tepper says he doesn't want to gather assets simply for the sake of reaping more fees—a surefire prescription for undermining returns. Five times in the fund firm's history he has returned investors' capital when Appaloosa had trouble putting it to work. If there isn't a $20 bill on the floor to pick up, Appaloosa isn't interested. **B**

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HOW WE CRUNCHED THE NUMBERS

OUR RANKINGS OF hedge funds are based on data compiled by Bloomberg and information supplied by research firms, fund companies and investors. This year, we have three lists of top performers: funds with assets greater than $1 billion, funds with assets of $250 million to $1 billion and funds specializing in Asia with at least $100 million under management. The figures are for the 10 months ended on Oct. 31, 2009, or are the latest figures available for a prior date. For a menu of hedge fund news and data, type HFND <Go>.

Our ranking of the most-profitable funds took 2008 performance numbers into account. We recorded total returns for the 10 months ended on Oct. 31. For the many funds that had negative returns in 2008, we determined whether they had exceeded their high-water marks in 2009, since managers get paid only when the value of their funds is greater than its previous highest value. If they did, the percentage points by which they exceeded this mark were used to calculate profits. As of Oct. 31, several funds that appear on our list of top-performing large funds had not yet reached their high-water marks. See our table of funds that are still underwater.

The returns we obtained were net of fees. We derived gross returns for each fund by dividing the net figure by 100 percent minus the sum of the management and incentive fees. If a fund didn't report its fees, we used the average of all the funds in our universe: a 2 percent management fee and a 20 percent incentive fee. Using the gross returns, we were able to reconstruct approximately what the assets were at the start of the year. (Since we didn't have inflows or outflows, the asset numbers don't take asset flows into account.) We subtracted original assets from current assets and multiplied the result by each fund's performance fee to derive the profits. Management fees aren't included; we assume they're used for the day-to-day operations of funds.

Hedge funds typically keep a low profile. We didn't have fund assets or returns from several of the biggest hedge fund firms by assets (see page 46), such as JPMorgan Asset Management and D.E. Shaw. For a handful of other firms, we had returns on only one or two funds. Although we attempted to get returns for the onshore version of all funds, we used offshore funds if that was all that was available. In several cases, onshore and offshore funds may be combined.

The numbers were difficult to verify. Unless the information was compiled by Bloomberg or the hedge fund firm itself, we tried to verify it with other sources, including investors and other fund databases.

LAURIE MEISLER