

PROFILE

HeadStart Fund of Funds

Double digit returns, volatility and diversification benefits

Hamlin Lovell

HeadStart Advisers' HeadStart Fund of Funds has won *The Hedge Fund Journal* Performance Award 2025 for Highest Absolute Return over 5 years ending in December 2024, in the Fund of Funds strategy category.

Since 2020, the fund has averaged mid-teens net returns with three calendar years in excess of 20%, including 2022 when it beat the average fund of hedge funds by about 25 percentage points. The strategy has lived through four major bear markets: the TMT bubble of 1999, the GFC of 2008, Covid in 2020 and the rate rise panic in 2022. Some multi-manager vehicles are optimized to minimize volatility while HeadStart retains the mentality of a 1990s hedge fund manager seeking double digit returns. HeadStart have averaged roughly half the volatility of the S&P 500 through a full cycle, but importantly performance has averaged flat or up during down months for the S&P 500.

The post-Covid normalization of market volatility, dispersion and interest rates, which also allow bad companies to fail, have greatly improved the opportunity set for alpha-oriented managers. Conversely,

Fig.1 Performance vs. Other Fund of Funds Since 2009

Source: Headstart

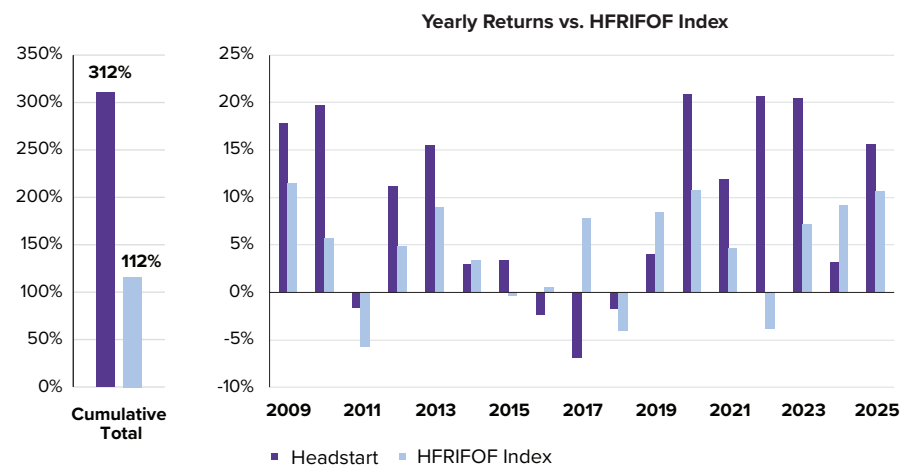
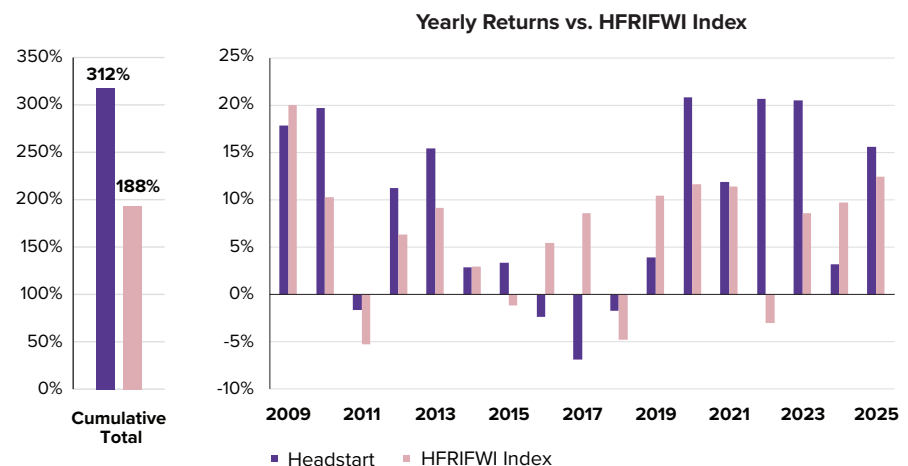


Fig.2 Performance vs. Other Direct Hedge Funds Since 2009

Source: Headstart



during the QE era of financial repression the artificial suppression of volatility cramped the style of many hedge fund managers. “It was tough for managers to watch shorts double and double again but our managers maintained hedges between 2016 and 2019 that generally paid off. Our convexity hedges aim to cut off the left tail,” says Chief Investment Officer, Najy Nasser. The aim is for all-weather returns, to profit under all markets, but returns could vary from high single digits in more challenging conditions to low double digits, mid-teens or more in conducive conditions.

Longevity

Despite subdued returns in the Zero Interest Rate Policy (ZIRP) decade post-GFC, HeadStart has still made over 500% net of fees since inception in 1999. The team has also demonstrated impressive longevity: Nasser joined in 1997, launched the flagship fund in 1999, and has worked with partner Henry Watkinson, who joined in 2002, for more than 23 years. Both started their careers as traders at sell-side banks, before moving into manager selection and due diligence.

HeadStart has also built strong multi-year relationships with several hedge fund managers and has often been able to access capacity by replacing redemptions in closed funds. Average holding periods have exceeded 5 years, and turnover has averaged 15-20% per year, though it does vary between years and managers. One of HeadStart’s managers is an industry legend who has been in the portfolio for over 20 years; and a structured credit manager has been invested with since 2003. Equally HeadStart has a keen eye and appetite for early-stage managers who can demonstrate alpha generation on both sides of their book. “We find that hedge fund indices can be dominated by a lot of larger hedge funds who may be less well hedged and cannot take full advantage of short opportunities,” argues Nasser.

“Our convexity hedges aim to cut off the left tail.”

NAJY NASSER

Variable bias equity and hedged credit managers

In equity long/short some managers seem to have a hard-wired bias to being net long, while dedicated pure play short sellers rarely profit over a full cycle. HeadStart’s preference is for managers that have a variable bias often within a blended range of plus 30% to minus 30%. “They should also be able to short across market caps, because we think that the opportunity set is less interesting for shorting only mega caps,” says Nasser.

Credit allocations illustrate a disciplined and eclectic approach. “All of our credit managers are hedged, but we have different types of long/short credit, volatility, convexity and multi-strategy approaches. Our correlation analysis shows that they range from negatively correlated to mildly correlated,” says Watkinson.

The portfolio is diversified and well balanced, but sizing of positions has been additive to performance. “In 2022, 18 of the 29 positions ended the year positive but the portfolio was top heavy with the winners,” says Watkinson.

In-house due diligence and independent governance

The team carries out investment and operational due diligence in-house and there is another layer of third-party oversight of due diligence. Additionally, from the outset, HeadStart itself has been overseen by a completely independent

board of directors, long before this became industry standard best practice. “We have three independent directors who have extensive experience in the hedge fund and finance business,” says Nasser. The firm also has robust operational routines for any money movement. “One of our investors used an ODD consultant who pronounced our cash controls as institutional quality,” says Nasser.

Early 2026 outlook

HeadStart’s current market outlook is somewhat circumspect, with many indicators including economic data, Dow Jones transports, 2 versus 30-year Treasury spreads, bond market volatility and hedge funds’ net long exposure indicating a possible market top. “1999, 2007 and now early 2026 are all rather similar. We had the TMT bubble, the credit bubble and now the AI bubble. Valuations and sentiment indicators for certain parts of the market are at the higher end of their long-term ranges, and we think many risks are underpriced. That said, we are not aiming to predict the exact timing or magnitude of a sell-off,” says Nasser. Nonetheless, the portfolio has continued its hallmark performance pattern and performed well during the sell-offs seen around the Trump “Liberation Day” sell-off in early April 2025 when the fund was up and again in the fourth quarter of 2025. Importantly it has also hung onto a good proportion of gains after market rebounds. In 2025 the fund returned 15.61% net for investors.

There is plenty of capacity to grow assets. “Our capacity is really a function of our underlying funds’ capacity, and we can scale up to at least USD 500 million, which we ran before 2008,” says Nasser. Assets at the time of going to press are around USD 177 million. The business model is simple in just having one comingled Cayman structure and no managed accounts. [THEFJ](#)