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Top 10 hedge funds make $28bn

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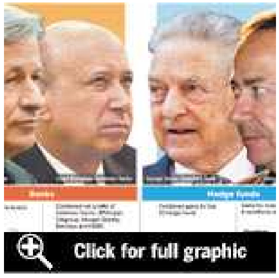
The top 10 **hedge funds** made $28bn for clients in the second half of last year, $2bn more than the net profits of **Goldman Sachs**, **JPMorgan**, **Citigroup**, **Morgan Stanley**, **Barclays** and **HSBC** combined, according to new data.

Even the biggest of the hedge funds have only a few hundred employees, while the six banks employ 1m between them. According to the data, the top 10 funds have earned a total of $182bn for investors since they were founded, with George Soros making $35bn for clients – after all fees – since he set up his Quantum Fund in 1973.



But John Paulson's Paulson & Co is closing in on Mr Soros's fund as the hedge fund to have made most money for investors, after scoring net gains of $5.8bn in the second half of 2010.

The data come from an updated analysis of how much hedge funds actually earn for their clients, calculated by LCH Investments, an investor in hedge funds run by Edmond de Rothschild Group.

This way of looking at the freewheeling money managers overcomes some of the shortcomings of standard return figures, which ignore the tendency of investors to rush into funds that have recently done well, so missing their best years, and to leave after funds have done badly, missing any recovery.

New York-based **Mr Paulson is catching up with Mr Soros**, with customers netting $32.2bn since he set up in 1994, most of it since he predicted the subprime crisis in 2007.

He followed that by betting against the banks, producing another strong year in 2008, then switched in 2009 to bet correctly on a financial recovery. Last year was marked by his heavy bet on economic recovery and on gold, prompted by the US Federal Reserve's policy of quantitative easing, which allows clients – including himself – to have their **investments denominated in gold** to reduce their exposure to the dollar.

Investment banks were frequently compared to hedge funds at the peak of the pre-crisis boom, although many fund managers protested that they were less leveraged than the banks.

Comparisons of profits between hedge funds and banks are inevitably imperfect, as the amounts of capital deployed and sources of income vary wildly, but the figures provide a sense of the scale of the funds' returns.

Huw van Steenis, analyst at Morgan Stanley, said banks were suffering as they reduced leverage, even as hedge funds were modestly gearing up.