

What is Calmar Ratio?

<u>Compound Annualized Rate of Return</u>
<u>Maximum Drawdown (Absolute Value)</u>

The Calmar Ratio is an important statistic used to measure return vs. drawdown risk. It enables an investor to see the potential opportunity gain vs. opportunity loss of investing with a particular manager.

The Calmar Ratio is calculated by taking a fund's *Compound Annualized Rate of Return (typically over the last 3 years)* divided by the fund's *Maximum Drawdown*.

	Annualized Rate of Return	ABS* Maximum Drawdown	Calmar Ratio	Projected Maximum	Projected Minimum
Fund One	30%	5%	6	\$1,300,000	\$950,000
Fund Two	50%	25%	2	\$1,500,000	\$750,000

*ABS is the Absolute Value.

As noted in the above table, if an investor were to invest \$1,000,000 with Fund One, the upside of his investment could result in a gain of \$300,000 (30%) and the downside could result in a loss of \$50,000 (5%). If an investor were to invest the same initial investment of \$1,000,000 in Fund Two, the upside of his investment could produce a profit of \$500,000 (50%) and on the flip side could result in a loss of \$250,000 (25%). While Fund Two has the potential to achieve a particularly higher return than Fund One, it does so assuming five times the downside risk.

Fund Two has a significantly better return than Fund One. However, when considering the level of risk taken to achieve this return, as illustrated by each fund's maximum drawdown, Fund One appears to be the more sensible risk-adjusted investment.

Calmar Ratio is one of many statistics used to measure return vs. risk. Be mindful that as an investor trying to choose a fund with an appropriate risk-reward profile that meets your investment objective, the Calmar Ratio should be analyzed in conjunction with other risk measurements, such as Sharpe Ratio, Sortino Ratio, Downside Deviation, etc.

Please feel free to visit the Glossary section at www.hedgeworks.com for further discussion of various hedge fund related statistics.

***These will be discussed in future issues and are available in the glossary section at www.hedgeworks.com.