



HEDGE FUND RESEARCH, INC.

## For Immediate Release

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## INVESTORS WITHDRAW RECORD CAPITAL FROM HEDGE FUNDS AS INDUSTRY CONCLUDES WORST PERFORMANCE YEAR IN HISTORY

*Two years of record growth wiped out as industry assets return to 2006 levels,  
Risk- weary investors make no distinction among the top and bottom performing funds*

*Year-end assets total \$1.4 trillion, down \$525 billion from mid-year peak*

CHICAGO, (January 21, 2009) – The hedge fund industry concluded the most tumultuous year in its history with investors withdrawing a record \$152 billion in capital in the fourth quarter of 2008, according to data released today by Hedge Fund Research, a leading hedge fund data provider.

The HFRI Fund Weighted Composite Index fell by 18.3 percent for all of 2008, only the second calendar year decline since 1990. Also during 2008, the industry experienced a period of six consecutive months of declines between June and November, interrupted only by December's 0.41 percent gain, including a concentrated, volatile two-month period in September and October in which the cumulative decline approached 13 percent. With performance down and volatility up, investors withdrew a record \$155 billion during 2008, only the second time in which the industry experienced a net outflow of investor capital over a full year period since HFR began tracking asset flows in 1990.

This capital outflow followed a record year of capital inflows in 2007, during which \$194 billion of new capital came into the industry. When combined with the negative performance-based asset flow, total capital invested in the hedge fund industry declined to \$1.4 trillion at the end of 2008, a decline of \$525 billion from the peak of

\$1.93 trillion, recorded at mid-year 2008. Investor redemptions were widespread and indiscriminate across fund strategies, regions, asset sizes and performance dynamics.

### **Record performance dispersion**

Dislocations and sustained volatility across financial markets contributed to record dispersion between individual funds and between fund strategies in 2008; while the bottom 10 percent of all funds declined an average of 62 percent, the top decile of all hedge funds gained an average of 40 percent. The HFRI Equity Hedge Index declined 26 percent for the year, performance that spurred \$55 billion in capital withdrawals from the strategy. The HFRI Macro Index gained five percent for the year, but Macro funds still experienced net redemptions of \$31 billion. The HFRI Equity Hedge: Short Bias Index gained nearly 29 percent and HFRI Macro: Systematic Diversified Index was up nearly 18% for the year. Nonetheless, both of these sub-strategies experienced investor withdrawals and fund liquidations in the second half of 2008.

“Investor risk aversion remained at historically extreme levels through year end, even as implied and realized asset volatility moderated,” said Kenneth J. Heinz, President of HFR. “The hedge fund industry has returned an average of 11.8 percent annually since 1990, and an average 15.9 percent in the 12 months following the five largest historical declines. While we expect continued asset consolidation, the combination of improving credit markets combined with an unprecedented level of global financial stimulus, are likely to be supportive of industry performance in 2009.”

### **About HFR**

Chicago-based HFR Group L.L.C., founded in 1993, is a global leader in the provision of hedge fund data, research, indexation and asset management. The HFR Group of companies includes Hedge Fund Research, Inc., and HFR Asset Management L.L.C. Hedge Fund Research produces the HFR Database, considered to be the definitive source of hedge fund performance and information. HFR also distributes the HFRI and HFRX Indices – the premier benchmarks for hedge fund industry performance.

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