



HEDGE FUND RESEARCH, INC.

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**HEDGE FUND INDUSTRY ASSETS SURGE
AS PERFORMANCE LEADS INDUSTRY RECOVERY**

*As risk aversion recedes, investor withdrawals fall by approximately 60 percent from 1Q;
broad-based 2Q performance gains paced by Emerging Markets,
Arbitrage and Energy funds*

CHICAGO, (July 21, 2009) – Assets invested in the hedge fund industry increased by \$100 billion in the second quarter of 2009, ending at \$1.43 trillion, according to figures released today by Hedge Fund Research, Inc., a leading provider of hedge fund industry data. This marks the first quarterly increase in assets since 2Q 08, when total industry capital peaked at \$1.93 trillion.

The recent asset growth was fueled by performance gains during the quarter, as the HFRI Fund Weighted Composite Index returned 9.13 percent, the industry's best quarterly gain since the fourth quarter of 1999. The strong performance was led by strategies focusing on Emerging Markets, Convertible Arbitrage and Energy/Basic Materials. These three areas were among the weakest performers in 2008, underscoring the dramatic shift in market dynamics that has taken place thus far this year.

Even as performance improved, investors continued to withdraw capital from the industry, albeit at a much slower pace. Investors redeemed \$42.8 billion from hedge funds in the second quarter, approximately 60 percent less than the \$103 billion that was redeemed in 1Q 09 and an even more significant drop from the \$152 billion that was withdrawn in 4Q 08.

Funds of Hedge Funds continued to experience a higher percentage of capital redemptions than single-manager strategies, as investors withdrew \$33 billion from Funds of Hedge Funds in the second quarter. Total capital invested in hedge funds via Funds of Hedge Funds currently stands at \$530 billion, 37 percent of the industry's total capital and well below the \$825 billion which were invested through Funds of Funds at their peak level in mid-2008.

Other items of note in the recently released HFR Global Hedge Fund Industry Report:

- Continuing to reflect a challenging environment for new funds, the number of hedge funds, including both single-manager and funds of funds, remained approximately flat during the quarter at just over 8,900.
- Despite recent performance gains, the industry remains below the high-watermark set in October 2007; the HFRI Fund Weighted Composite Index still requires an additional gain of 14.7 percent to reach its previous peak.
- The equally-weighted HFRI Fund Weighted Composite Index posted a gain of 9.46 percent through June, while an asset-weighted version of that index returned 9.06 percent. This indicates that, on average, funds with a lower asset base have outperformed larger funds in 1H 09. This is a reversal from 2008, when the asset-weighted version of HFRI posted a decline of 14.96 percent, versus a 19.03 percent decline in the equally-weighted version.
- The performance of the HFRI Fund Weighted Composite is now available hedged into four foreign currencies, including Euro, British Pound Sterling, Swiss Franc and Japanese Yen.

“Reflecting the diverse drivers of hedge fund industry performance, recent gains have occurred in an environment in which developed equity markets have been essentially flat”, said Kenneth J. Heinz, President of Hedge Fund Research Inc.

“Improved liquidity in credit markets contributed to narrowing some of the pricing dislocations that were created near the end of 2008, and the combination of improved

credit markets, gains in emerging markets, and decreased risk aversion have driven broad-based gains 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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