



HEDGE FUND RESEARCH, INC.

## FINAL – FOR IMMEDIATE RELEASE

### Contacts:

#### Hedge Fund Research

Kenneth Heinz  
Chicago/312.628.0315  
[kheinz@hfr.com](mailto:kheinz@hfr.com)

#### MacMillan Communications

Mike MacMillan/Chris Sullivan  
New York/212.473.4442  
[mike@macmillancom.com](mailto:mike@macmillancom.com)

#### Par Excellence PR

Henrietta Hirst/Meglen Petkova  
London/ +44 20 7395 6804  
[henrietta@parexcellencepr.com](mailto:henrietta@parexcellencepr.com)

## HEDGE FUND INFLOWS STEADY IN SECOND QUARTER AS CONSOLIDATION IN TOP FIRMS CONTINUES

*Industry posts narrow loss for 1H10;  
Investors focus on structure, legislation and transparency*

CHICAGO, (July 20, 2010) – Investors continued to allocate new capital to hedge funds in the second quarter of 2010, with the industry experiencing a net inflow of \$9.5 billion according to figures released today by Hedge Fund Research (HFR), the leading provider of hedge fund industry data. Volatility returned to global capital markets in 2Q10 with the HFRI Fund Weighted Composite Index posting a decline of -2.5 percent, offsetting 1Q10 gains. Total hedge fund industry capital ended the most recent quarter at \$1.65 trillion, down from \$1.67 trillion the prior quarter.

Following strong performance in 2009, hedge funds declined by -0.21 percent in 1H10, as gains in credit sensitive strategies such as Arbitrage and Event Driven were offset by losses in Equity Hedge and Macro funds. Capital inflows over 1H10 totaled \$23.2 Billion, a figure approximately 20 percent of the record inflows in 1H07.

### **Large funds remain in favor; Fund of Funds outflows moderate**

Continuing a recent trend, investors exhibited a clear preference for the industry's most established firms in 2Q10, with \$8.8 billion of the \$9.5 billion total net inflow allocated to firms with greater than \$5 billion in assets under management (AUM), which manage approximately sixty percent of total industry capital. This preference is also

reflected in the mid-quarter announced merger between two of the industry's largest firms, Man Group and GLG Partners. Following outflows over the past two years, Fund of Funds experienced a continued, albeit moderated, outflow of \$2 billion in the second quarter. Only 31 percent of Fund of Funds experienced inflows in 2Q10, compared to 59 percent of all single manager funds.

### **Intra-industry performance correlation declines**

As global equity market correlation has increased in recent months, intra-industry hedge fund strategy performance correlation has declined; with the HFRI Relative Value Arbitrage and Event Driven Indices gaining +3.64 and +2.26 percent, respectively, for 1H10, while the HFRI Equity Hedge and Macro Indices declined by -1.71 and -1.16 percent. In the past five years, Relative Value and Event Driven have had correlations of +0.72 and +0.81 to equity markets, respectively.

“The current environment in the hedge fund industry continues to be dominated by investor preference for robust fund infrastructure, encompassing enhanced liquidity and transparency,” said Ken Heinz, President of Hedge Fund Research, Inc. “Investors have exhibited strong interest in products such as UCITS III-compliant funds and separately managed accounts, as well as in the larger funds in the industry. Further growth in transparent investment vehicles and greater clarity on global financial reform legislation will continue to shape the landscape of the alternative investment industry for the next decade.”

### **About HFR**

**Hedge Fund Research, Inc. (HFR)** is the global leader in the alternative investment industry. Established in 1992, HFR specializes in the areas of indexation and analysis of hedge funds. HFR Database, the most comprehensive resource available for hedge fund investors, includes fund-level detail on historical performance and assets, as well as firm characteristics on both the broadest and most influential hedge fund managers. HFR has developed the industry's most detailed fund classification system, enabling granular and specific queries for relative performance measurement, peer group analysis and benchmarking. HFR produces over 100 indices of hedge fund performance ranging from industry-aggregate levels down to specific, niche areas of sub-strategy and regional investment focus. With performance dating back to 1990, the HFRI Fund Weighted Composite Index is the industry's most widely used standard benchmark of hedge fund performance globally. The HFR suite of Analysis Products leverages the HFR Database to provide detailed, current, comprehensive and relevant aggregate reference points on all facets of the hedge fund industry. HFR also offers consulting services for clients seeking customized top-level or more nuanced analysis. **For the hedge fund industry's leading investors and hedge fund managers, Hedge Fund Research is The Institutional Standard.**