



HEDGE FUND RESEARCH, INC.

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HEDGE FUNDS END 2010 WITH RECORD QUARTERLY ASSET INCREASE

*Investors favor Macro, Arbitrage funds as industry nears pre-crisis asset level;
Increasing risk tolerance and falling volatility influence investor allocations*

CHICAGO, (January 19, 2011) – The hedge fund industry concluded 2010 with the largest quarterly increase in assets in its history, according to data released today by Hedge Fund Research (HFR), the leading provider of hedge fund industry data. Total industry assets grew to \$1.917 trillion, reflecting a quarterly increase of nearly \$149 billion, topping the previous record increase of \$140 billion in 2Q07.

The year-end figure approaches the historical asset peak of \$1.93 trillion set in 2Q08 and represents an asset increase of 44 percent since 1Q09. Hedge funds as represented by the broad-based HFRI Fund Weighted Composite Index posted a gain of 10.5 percent, but full-year gains were concentrated into year end, with the HFRI gaining over 5.5 percent in 4Q10.

Investors continued to increase allocations to the hedge fund industry, committing \$13.1 Billion net new capital to hedge funds in 4Q. This figure follows \$19 billion of new capital from the prior quarter and brings full-year 2010 net inflows to \$55.5 billion, the highest annual total since 2007. In contrast to prior years, falling volatility contributed to a more narrow performance dispersion among hedge fund strategies, with Relative Value Arbitrage gaining +11.7 percent, while Macro strategies posted a gain of +8.6 percent, bounding gains of +11.5 and +10.6 percent for Event-Driven and Equity Hedge strategies, respectively.

Investors exhibited a clear preference for Macro strategies in 4Q, allocating \$6.6 Billion of new capital to Macro funds, while Equity Hedge experienced a small net redemption of \$620 Million. For the full year, \$21.5 billion in new inflows went to Relative Value strategies, with Macro and Event Driven adding \$17.3 billion and \$14.0 billion. Equity Hedge, the largest strategy area by assets, experienced an increase of \$2.6 billion for 2010. Investors allocated \$1.8 billion to Funds of Hedge Funds (FOFs) in 4Q10, the second consecutive quarter of inflows for FOFs.

Increasing investor risk tolerance also contributed to a moderation in the concentration of quarterly allocations to the industry's largest firms. While more than 80 percent of net new assets were allocated to firms with more than \$5 billion in AUM for the entire year, only 51.6 percent of inflows went to the industry's largest firms in 4Q.

“The second half of 2010 was a historic time in the hedge fund industry, characterized by powerful and pervasive trends shaping the institutional landscape of the hedge fund industry”, said Kenneth J. Heinz, President of Hedge Fund Research (HFR). “As the industry is positioned to surpass its previous asset peak, global investors are focused on the dynamics of inflation protection, strategic specialization, enhanced liquidity, improved structure and transparency for accessing hedge fund performance in coming years.”

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.***