2010 Key Trends in Global Hedge Funds

Eurekahedge
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Introduction

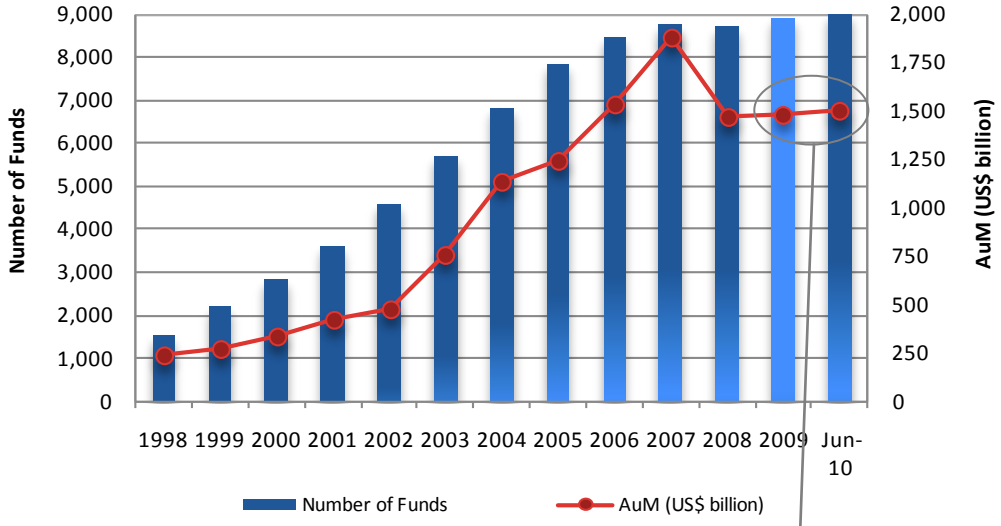
In our sixth monthly review of the global hedge fund industry, we revisit some of our previous analyses, such as strategic asset flows, distribution of new fund launches and performance comparisons, and also conduct new studies into areas such as average lifespan, survivorship and capital inflows into the different regions.

The last decade witnessed strong movements and dramatic trends in the global hedge fund sector. After seven years of exponential growth, the assets under management peaked in 2007 at US$1.95 trillion – a seven-fold increase from the start of 2000. However, the growth trend reversed in 2008 amid the credit crunch, collapse of large financial institutions, high-profile frauds and the subsequent financial crisis. The drying up of liquidity, heightened risk aversion and resultant widespread redemptions culminated in the worst yearly performance for the industry – the Eurekahedge Hedge Fund Index lost 11.2% in 2008. Additionally, performance-based losses led to further negative asset flows, which resulted in greater losses as managers were forced to sell potentially winning positions. The industry reached its nadir in March 2009, with assets under management falling to US$1.29 trillion – a drawdown of 33%.

The industry rebounded after the first quarter of 2009 and witnessed some strong inflows amid strong rallies in underlying markets. Hedge funds across all regions and strategies delivered positive returns for the year, with some indices posting record gains.

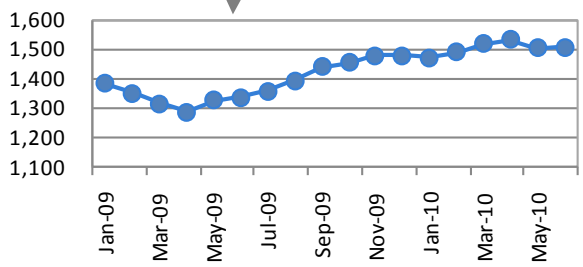
Figure 1 shows the growth in the number of funds and assets over the past decade.

Figure 1: Growth of the Global Hedge Fund Industry over the Years



Source: Eurekahedge

After delivering robust performance-based returns and attracting strong inflows in 2009, the growth in the global hedge fund industry has been marginal in the first half of 2010. High levels of volatility in the markets, as well as the European debt crisis, led to heightened investor risk aversion. As such, the inflows to the sector have not matched 2009 levels. Hedge funds have, however, outperformed the underlying markets this year and remain positive so far while most markets across the world are in the red July year-to-date.



Source: Eurekahedge

Industry Make-Up and Growth Trends

Asset Flows

After witnessing heavy losses and widespread redemptions in the July 2008–March 2009 period, the assets under management in global hedge funds reached a low of US$1.29 trillion. However, with the turnaround in the markets and investor sentiment, the assets under management in global hedge funds rebounded through the rest of 2009 to reach US$1.47 trillion by December.

The first half of 2010, however, has seen the inflows become more modest as volatility in the markets and the European debt crisis led to negative investor sentiment. The 2010 asset flows currently stand at US$12.7 billion June year-to-date.

Table 1 gives the monthly asset flows and net growth in global hedge funds while Figure 2 shows the comparative asset flows across hedge funds and funds of funds.

Table 1: Monthly Asset Flows across Global Hedge Funds

Month	Net Growth (Perf)	Net Flows	Assets at end
2007	**167.8**	**175.5**	**1886.2**
Jan-08	(34.1)	5.6	1857.6
Feb-08	24.3	12.2	1894.1
Mar-08	(31.7)	31.6	1894.0
Apr-08	17.3	(14.5)	1896.8
May-08	28.6	(2.4)	1923.0
Jun-08	(3.8)	31.9	1951.1
Jul-08	(41.4)	11.6	1921.4
Aug-08	(26.0)	(20.5)	1874.9
Sep-08	(68.7)	(42.2)	1764.0
Oct-08	(57.1)	(85.6)	1621.2
Nov-08	(5.4)	(59.3)	1556.5
Dec-08	3.5	(87.4)	1472.5
2008	**(194.5)**	**(219.1)**	**1472.5**
Jan-09	7.0	(95.0)	1384.6
Feb-09	(4.0)	(28.5)	1352.1
Mar-09	0.3	(34.9)	1317.5
Apr-09	14.0	(42.7)	1288.8
May-09	35.3	3.0	1327.0
Jun-09	(0.8)	11.8	1338.1
Jul-09	19.4	4.0	1361.5
Aug-09	12.7	20.3	1394.4
Sep-09	24.8	23.3	1442.5
Oct-09	(1.1)	14.8	1456.3
Nov-09	14.8	8.3	1479.4
Dec-09	9.0	(7.1)	1481.3
2009	**131.5**	**(122.8)**	**1472.5**
Jan-10	(2.0)	(5.2)	1474.0
Feb-10	3.1	15.9	1493.1
Mar-10	26.2	1.7	1520.9
Apr-10	12.9	(1.0)	1532.8
May-10	(26.8)	0.9	1506.9
Jun-10	(2.1)	(2.2)	1507.5

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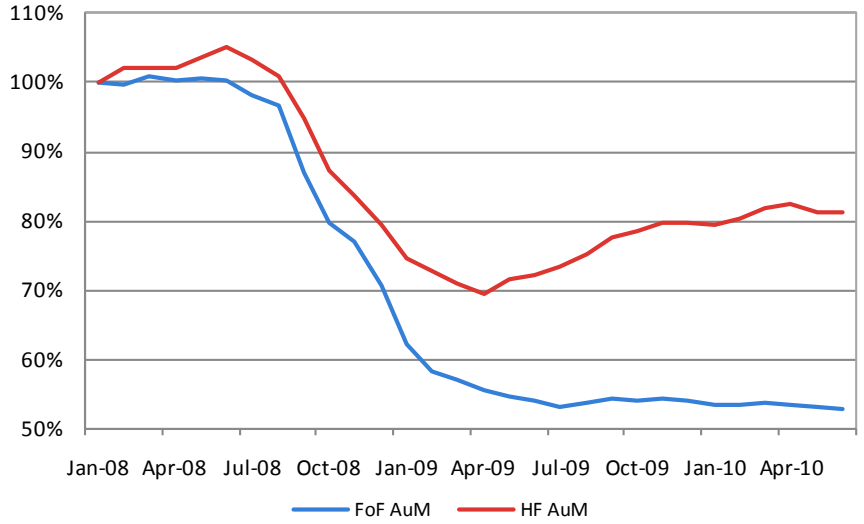
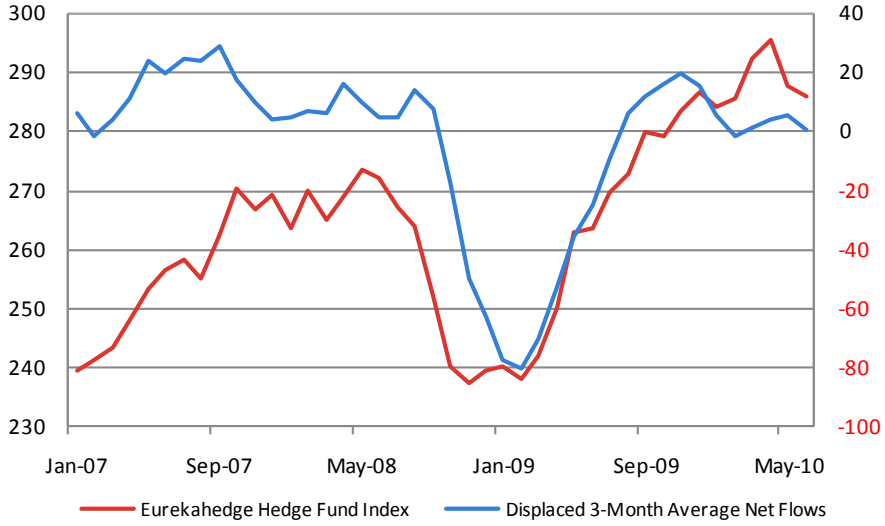
Figure 2: Asset Flows across Hedge Funds and Funds of Funds



Source: Eurekahedge

As shown in Figure 2, while the assets under management of hedge funds started growing after March 2009, the fund of funds sector continued to witness withdrawals until June 2009 and has since then remained more or less flat. Investors remained cautious about the multi-manager model after largely negative returns in 2008 and some high-profile scams such as the Madoff Ponzi scheme. With concerns over the exposure to fraudulent hedge funds, institutional and private investors are now demanding more transparency and communications from asset managers and are also directly investing in single-manager hedge funds as opposed to going through multi-managers.

Figure 3: Displaced Moving Average Net Flows vs the Eurekahedge Hedge Fund Index



Source: Eurekahedge

Table 1 shows an interesting correlation between a month's negative performance and net redemptions in the following one or two months and this is equally true for net inflows following months of strong positive performance returns. Figure 3 shows the monthly net flows displaced by three months plotted against the Eurekahedge Hedge Fund Index. This seems to suggest that investors have subscribed two to three months after periods of positive performance and redeemed two months after periods of negative performance at corresponding magnitudes to the underlying performance. Whether this truly suggests that investors are 'trend-following' or a simple statistical manipulation is open to some debate.

Regional Asset Flows

Table 2 shows the monthly asset flows across different regions. Predictably, most asset flows in terms of absolute numbers have gone to North American hedge funds since the region accounts for the largest chunk of assets in the industry (US$1 trillion) as well as being home to a large pool of hedge fund investors such as family offices, pension funds and high-net-worth individuals.

While most regions witnessed net positive asset flows through the second half of 2009, the inflows have been more mixed in 2010. North American hedge funds have seen the most capital allocations while European hedge funds have witnessed significant redemptions on the whole, largely because the debt crisis led to adverse investor sentiment. On the whole, the subscriptions to the global hedge fund industry in the first half of 2010 (US$10 billion) are substantially lower than the inflows seen in the last two quarters of 2009 (US$60.6 billion).

Table 2: Monthly Asset Flows across Regions

	Asia ex-Japan	Japan	Europe	Latin America	North America
Jan-09	(8.3)	(0.8)	(20.5)	(2.2)	(63.2)
Feb-09	(3.9)	(0.8)	(10.3)	(0.9)	(12.6)
Mar-09	(4.2)	(0.4)	(4.5)	(0.3)	(25.6)
Apr-09	(4.5)	(0.6)	(3.9)	0.6	(34.4)
May-09	(2.8)	0.2	2.6	1.9	1.1
Jun-09	(0.2)	(0.0)	4.2	0.6	7.2
Jul-09	0.5	(0.1)	2.5	1.5	(0.4)
Aug-09	1.7	0.1	5.8	1.7	10.9
Sep-09	1.0	0.2	7.5	1.3	13.3
Oct-09	2.9	(0.1)	6.1	0.8	5.1
Nov-09	0.7	0.4	2.2	0.5	4.5
Dec-09	0.6	(0.7)	(0.6)	0.3	(6.6)
2009	**(16.5)**	**(2.6)**	**(8.9)**	**5.9**	**(100.7)**
Jan-10	(0.5)	(0.1)	(2.0)	0.1	(2.6)
Feb-10	(0.80)	0.1	(1.6)	0.8	17.5
Mar-10	0.3	(0.4)	1.1	0.3	0.3
Apr-10	(0.3)	(0.1)	(1.8)	(0.3)	1.5
May-10	0.25	0.5	(5.7)	(0.6)	6.5
Jun-10	(0.4)	0.2	(3.2)	(0.2)	1.3
2010 YTD	**(1.5)**	**0.2**	**(13.2)**	**0.1**	**24.5**

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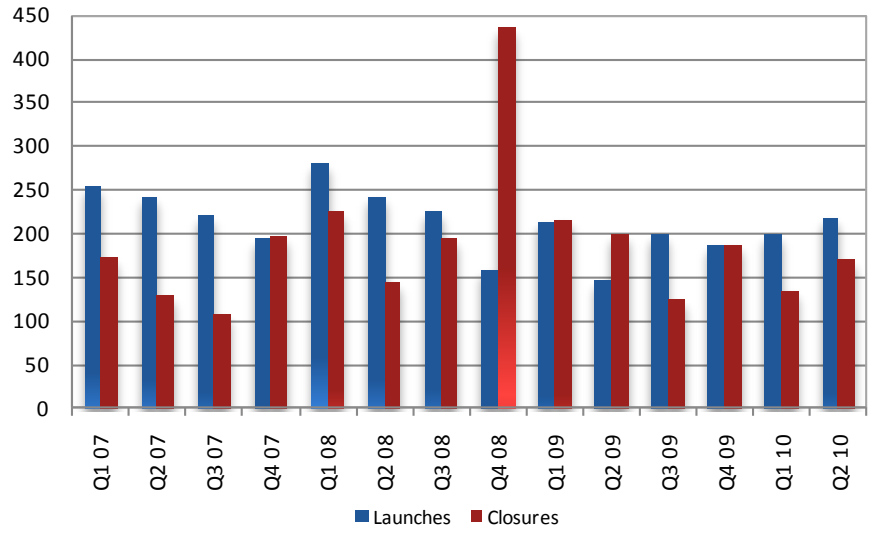
Launches and Liquidations

The global financial crisis saw a spike in the attrition across the hedge fund industry and for the first time, the number of fund closures exceeded the number of launches during the September 2008–June 2009 period. The last 12 months, however, have seen the launch-liquidation ratio even out as the industry saw a healthy number of hedge fund start-ups by managers aiming to exploit the attractive valuations and other opportunities available in the markets. Going forward, we expect the fund population to revert back to historical levels of healthy growth in 2H2010 as global markets stabilise and investors continue to seek out the consistent risk-adjusted performance delivered by hedge funds.

Figure 4: Launches and Liquidations across the Global Hedge Fund Industry

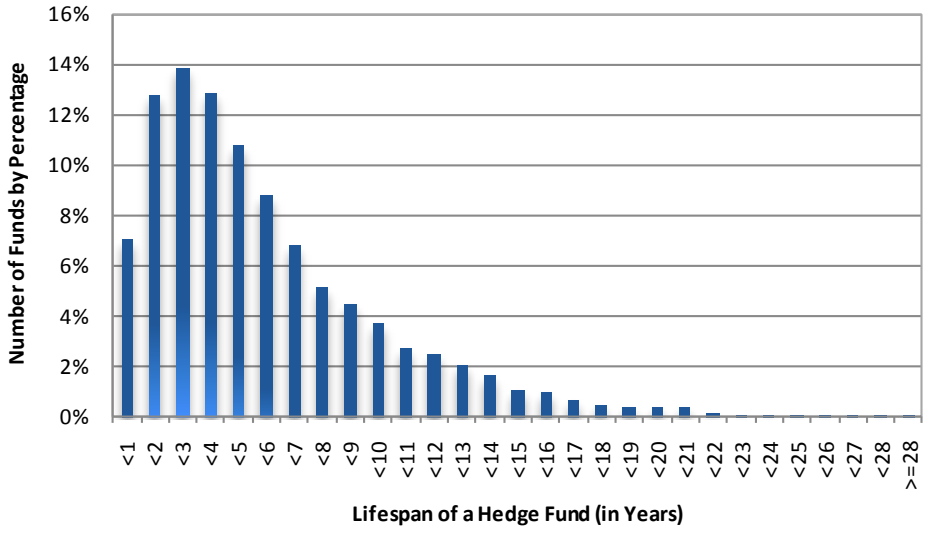


Source: Eurekahedge

Lifecycle of Hedge Funds

This section explores the trends in average age and growth of hedge funds, as well as the lifespan of liquidated funds.

Figure 5: Lifespan Distribution of a Hedge Fund



Source: Eurekahedge

Figure 5 shows the distribution of live hedge funds according to their age and as expected, this correlates to the growth in the hedge fund industry. Nearly 70% of the funds are less than 6 years, in line with the exponential growth of the sector from 2003. The average age of a hedge fund is 5.4 years, while the median age is 4.3 years.

Table 3 gives a breakdown of the first-year growth in live hedge funds launched in different years across the regions. It should be mentioned here that since this analysis has been conducted only on the live funds in the Eurekahedge database, it has an inherent significant survivorship bias; however, assuming this is equal across all regions, then the relative comparisons between regions are worth making. The figures show that most funds across the regions gained significant amounts of capital in the first year and while the growth is higher in years of excellent performance, most of the growth has been delivered by asset raising during the launch year. Furthermore, the drop in the average first-year growth in 2008 and 2009 also reflects investor sentiment, which has been less bullish (as opposed to previous years) towards the hedge fund sector after the financial crisis. Another significant observation is the exceptional growth posted by Latin American hedge funds in 2002 and Asian hedge funds in 2003-2004. These years were marked by increasing interest in emerging markets among investors, resulting in strong inflows to the relatively smaller number of funds that were operating in the regions. It should also be noted that between 2008 and 2009, Asia was the only region that saw an increase in the average growth of start-ups.

Table 3: Average Assets under Management Growth among Live Hedge Funds

	Asia	Europe	Latin America	North America	Average
2002	112.5%	71.9%	540.0%	323.2%	293.7%
2003	1057.2%	239.4%	401.7%	326.1%	342.5%
2004	792.6%	226.3%	308.0%	401.6%	376.5%
2005	106.9%	552.6%	100.7%	336.6%	358.3%
2006	474.5%	437.3%	202.3%	316.2%	347.7%
2007	97.7%	354.3%	438.0%	186.2%	236.7%
2008	42.3%	180.2%	14.3%	167.2%	165.7%
2009	65.4%	104.0%	-34.3%	133.5%	119.2%
Average	**343.7%**	**270.7%**	**246.3%**	**273.8%**	**280.0%**

Table 4 shows the average age of liquidated funds broken down by year of liquidation. The trend observed shows that on the whole, the average life of a hedge fund has increased by more than 100% in the last decade. This suggests that managers are increasingly able to develop successful strategies and hence last longer in the industry by earning performance fees, while also raising enough capital in the early years to hit their survival threshold.

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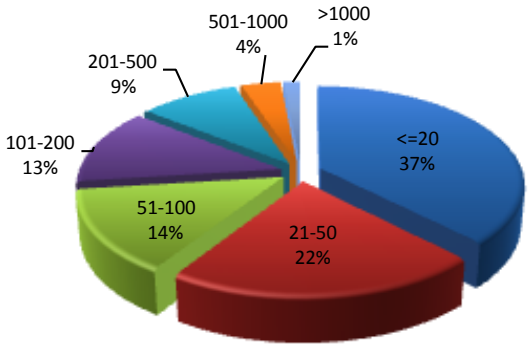
Table 4: Average Life of Dead Funds over the Years

Year of Liquidation	Average Life
2002	2.0
2003	2.7
2004	3.1
2005	3.8
2006	4.7
2007	4.7
2008	4.8
2009	5.4
2010	5.3
Average	**4.7**

Fund Size

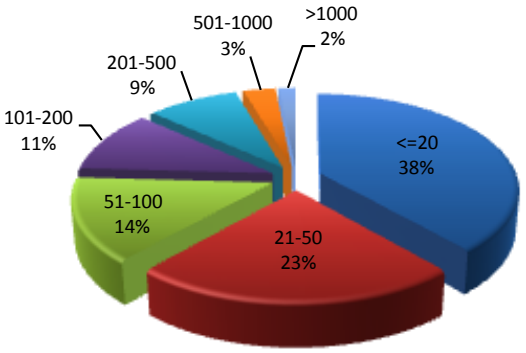
Figures 6a-6b: Breakdown of Hedge Funds by Fund Size

June 2005



Source: Eurekahedge

June 2010



Source: Eurekahedge

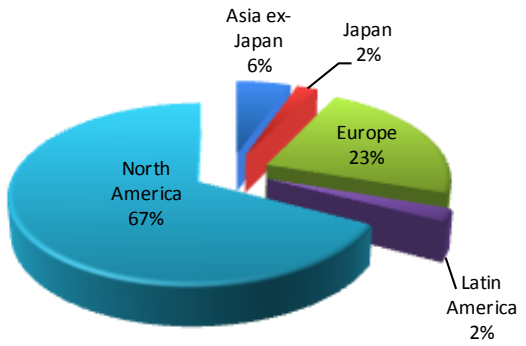
The distribution of fund sizes in the global hedge fund industry remains the same as it was in 2005 as shown in Figures 6a-6b. However, this hides the shift in fund sizes observed in the years before 2008 as the industry posted excellent growth in the 2005-2008 period and several funds grew larger to 'jump' into higher AuM bands. The financial downturn in 2008 and the accompanying withdrawals saw many funds lose significant assets and hence, the AuM breakdown in 2010 has regressed back to its 2005 levels.

Geographical Mandates

Figures 7a-7b show the changes in the distribution of hedge fund assets to different geographies. While the breakdown of the industry in terms of geographical allocations has remained similar to what it was five years ago, there is a slight but discernable increase in assets from developed to developing markets. North America, Europe and Japan have lost one percentage point each while the assets in Asia ex-Japan and Latin America have increased. This suggests that investors are allocating more assets to emerging markets, which are expected to perform better than developed markets. Furthermore, the excellent returns posted by emerging markets in recent years not only support this sentiment but would also have contributed to bringing about this change in the global hedge fund sector. It is worth mentioning here that in 2009, the Eurekahedge Asia ex-Japan Hedge Fund Index gained 38.53% – the highest yearly return on record across all hedge fund regions.

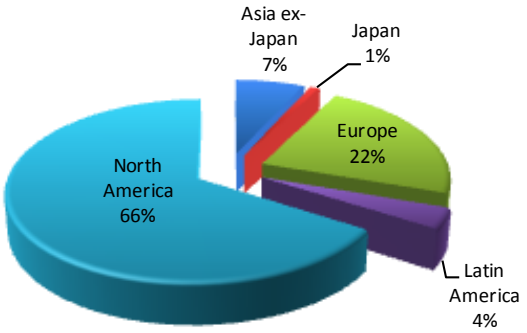
Figures 7a-7b: Changes in the Geographical Allocations of Hedge Fund Assets

June 2005



Source: Eurekahedge

June 2010

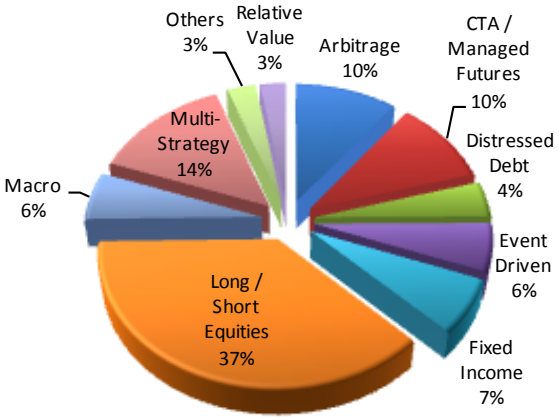


Source: Eurekahedge

Strategic Mandates

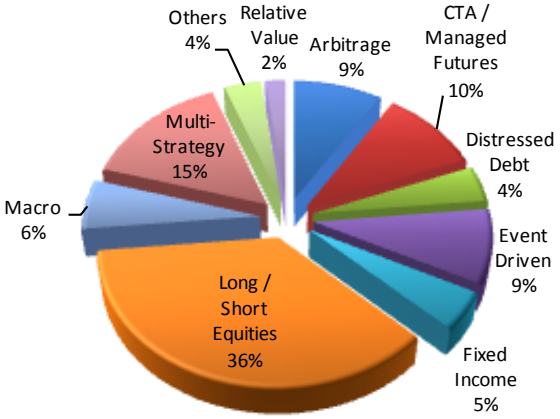
Figures 8a-8c: Changes in the Strategic Mix of Global Hedge Funds by Assets under Management

June 2005



Source: Eurekahedge

June 2008



Source: Eurekahedge

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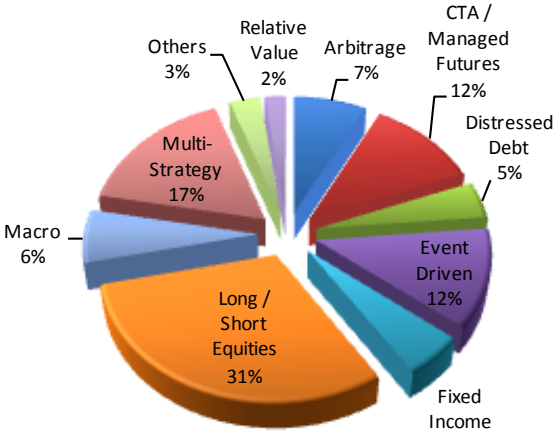

Source: Eurekahedge

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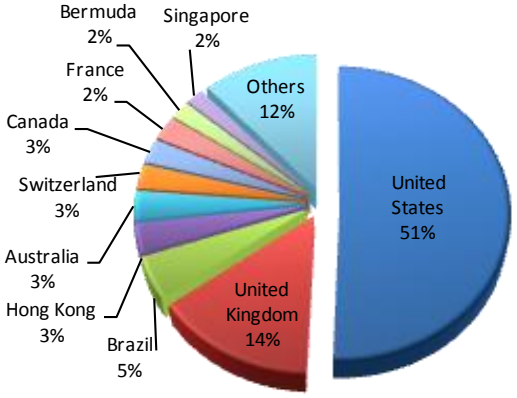
The last five years have also seen a few noteworthy changes in the strategic mandate distribution among global hedge funds. Long/short equity managers lost 6% of their share because of aggressive sell-off in the underlying markets and the volatile performance of long/short funds in 2008 and early 2009. Investors diversified their capital away from long/short equity funds and into other strategies such as multi-strategy and event driven hedge funds, which increased by 4% and 6%, respectively, during the five-year period.

On an absolute basis, event driven hedge funds saw the largest increase in assets under management by posting a 147% increase from December 2004 to December 2009. The number of opportunities for event driven managers has increased in the last two years as financial markets recovered from the crisis. Equity-focused event driven managers were able to capture gains from the increasing number of company acquisitions as well as spin-offs in 2009 due to the attractive valuations available in the market while event driven hedge fund managers focused on trading fixed income locked in gains from the increased number of debt refinancing and restructuring events in 2009. Furthermore, event driven funds tend to perform well in the early stage of a cyclical recovery; for example, event driven hedge funds stood as the second-best performing strategy in the last financial recovery in 2004 – the Eurekahedge Event Driven Hedge Fund Index was up a massive 38.63%.

Head Office Location and Fund Domicile

Figures 9a-9b: Head Office Location by Number of Funds

June 2005



Source: Eurekahedge

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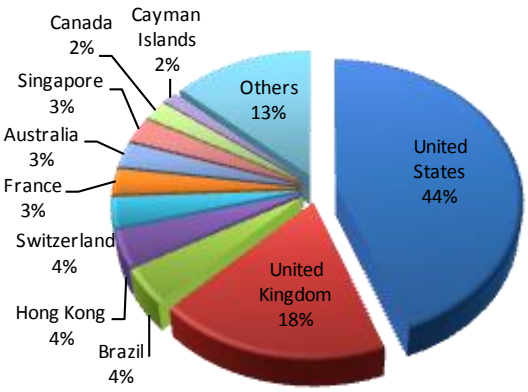
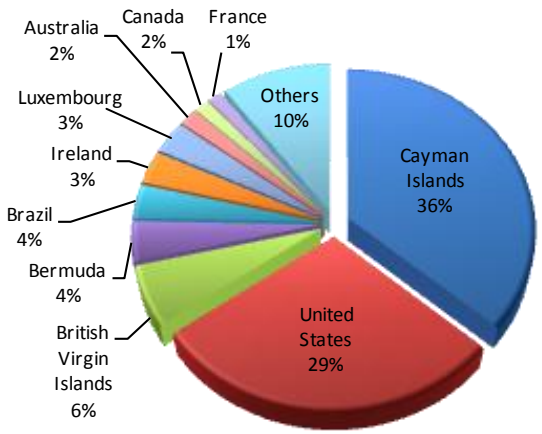


Source: Eurekahedge

Figures 9a-9b illustrate the breakdown of the hedge fund population by funds' head office locations in 2005 and 2010. The figures show that while the US continues to be the dominant hedge fund centre, it has lost 7% of its share. While most of this share has been taken over by UK-based hedge funds, other European countries, as well as the hedge fund centres in Asia, have also increased their share of the pie. The prime reason for the increase in European hedge funds is the rapid growth of UCITS III hedge funds after 2008. UCITS hedge funds are regulated structures run within an EU framework running hedge fund strategies and given the demand for greater regulation in the industry, they have become extremely popular among investors. Furthermore, since the framework also allows these funds to be marketed across different countries within the EU and to retail clients, the regulation has attracted a significant number of hedge fund management companies to launch their UCITS funds. This reason also accounts for the change in the split of hedge fund domiciles (Figure 10), with the Cayman Islands losing substantial share.

Figure 10: Fund Domiciles by Number of Funds



Source: Eurekahedge

Fees

Another significant trend in the hedge fund industry has been the change in fee structure over the last three years. Although average annual management fees have not changed significantly as they are reasonable and competitive with the fees charged by other investment vehicles such as mutual funds, the average performance fees of hedge funds have seen some changes.

Before 2008, the average performance fees remained above 19% for most part of the decade; however, it was only after the financial downturn that managers responded to calls from investors to lower their performance fees. This average fell to 17.61% in 2009 as managers vied to raise capital from sceptical investors; however, the funds launched so far in 2010 have a higher average, which suggests that managers launching new funds are confident about asset raising as well as their abilities to generate positive returns in different market conditions in the future.

Table 5: Average Hedge Fund Fees by Launch Year

Year	Performance Fees (%)	Management Fees (%)
2000	19.53	1.46
2001	19.61	1.48
2002	19.70	1.60
2003	18.61	1.53
2004	19.56	1.61
2005	19.73	1.71
2006	19.02	1.65
2007	19.32	1.74
2008	18.84	1.65
2009	17.61	1.64
2010	18.46	1.54

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Prime Brokers

Tables 6a-6b show the share of prime brokers in 2007 and 2010 based on data reported to the Eurekahedge databases by hedge funds themselves and not by prime brokers. The major change in the split of prime brokers is the decrease in the share of 'Others' as the industry has grown towards consolidation by larger financial institutions while managers have also started to avoid vulnerable banks. After the crash of two of the largest financial institutions, fund managers are now also wary of overdependence on single prime broker and there is an increasing trend of hedge funds subscribing to multiple prime brokers, bucking the earlier trend of depending on one institution only.

Tables 6a-6b: Top 10 Hedge Fund Prime Brokers in 2007 and 2009 by Assets under Management

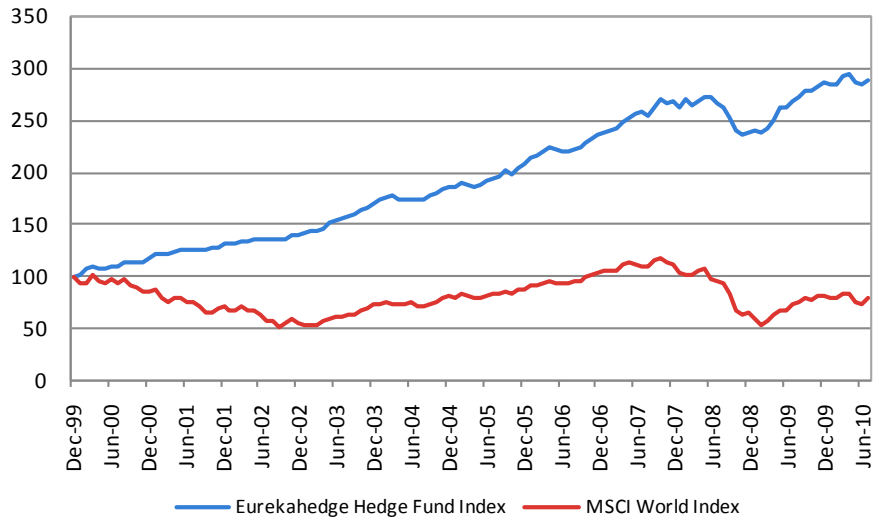
End-2007	
Prime Broker	**Market Share (%)**
Morgan Stanley	20.03%
Goldman Sachs	18.48%
Bear Stearns	14.71%
UBS	7.82%
Deutsche Bank	5.87%
Citigroup	4.18%
Credit Suisse	4.03%
Lehman Brothers	3.58%
Merrill Lynch	2.89%
Bank of America	2.45%
Others	15.96%
Grand Total	**100%**

June 2010	
Prime Broker	**Market Share (%)**
Goldman Sachs	21.44%
JP Morgan	20.83%
Morgan Stanley	17.15%
Deutsche Bank	7.66%
UBS	7.03%
Credit Suisse	5.76%
Barclays	4.49%
Citigroup	3.50%
Bank of America Merrill Lynch	3.42%
Newedge	3.35%
Others	5.36%
Grand Total	**100%**

Performance Review

Over the last decade, the global hedge fund industry has delivered some remarkable results. As shown in Figure 11, hedge funds have outperformed underlying equity markets quite significantly and consistently. In the last 10 years, the equity markets saw four negative years and six years of positive returns while the Eurekahedge Hedge Fund Index was in the red for only a year. In terms of drawdown, the MSCI World Index had at one time lost 56% of its value, whereas the average hedge fund has a maximum drawdown of 13%.

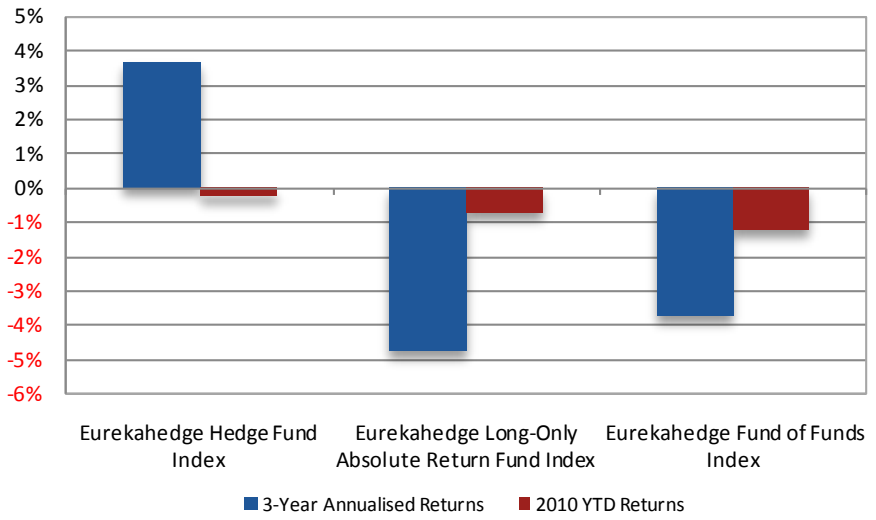
Figure 11: Performance of Hedge Funds over Stocks in the Last Decade



Sources: Eurekahedge and MSCI

In addition to the outperformance over the underlying markets, hedge funds have also delivered greater returns over other alternative investment vehicles such as funds of funds and long-only absolute return funds. Figure 12 shows the three-year annualised returns and 2010 YTD returns of hedge funds, funds of funds and absolute return funds.

Figure 12: Performance across Absolute Return Vehicles



Source: Eurekahedge

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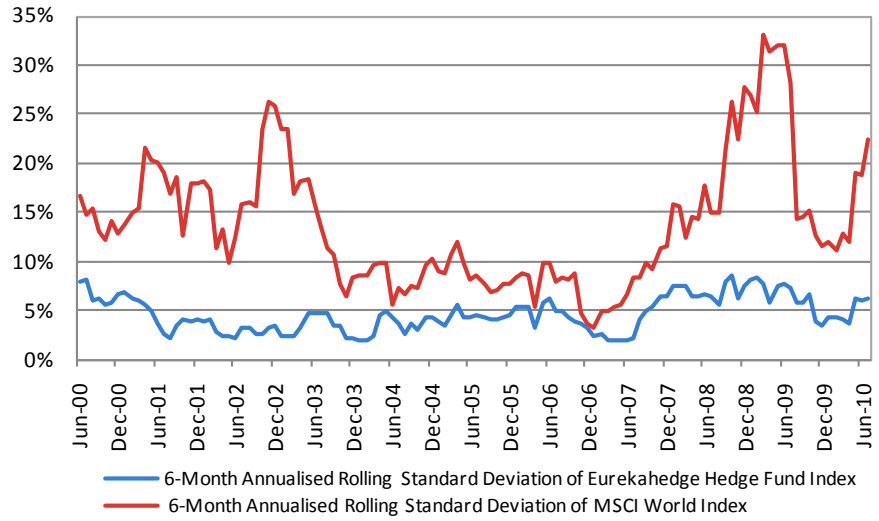
Of the three instrument types, hedge funds have been the most consistent, having achieved an annualised returns of 3.7%, surpassing the performance of long-only funds by 8.4% and fund of funds by 7.4%. In the June 2010 year-to-date measure, hedge funds continue to outperform the different vehicles as well as the underlying markets – the MSCI World Index was down -10.88% June YTD while the average hedge fund fell only 0.12% for the year.

The superior outperformance over the markets and other instruments can be attributed to the downturn protection offered by hedge fund managers and their ability to take short positions in overvalued securities and declining markets. This ability has been aptly demonstrated by hedge fund managers over the last two years. In 2008, hedge fund significantly outperformed global markets by losing only 11.14% on average as opposed to the 40-60% decline in underlying markets while long-only absolute return funds posted losses to the tune of -42.37%. This trend has continued through the first half of 2010 as the markets have witnessed significant volatility, mid-month reversals and sharp downturns; however, hedge fund performance has been marginal to slightly negative.

In addition to superior performance and downturn protection, hedge funds have also delivered their returns with the least volatility. Figure 13 shows the six-month annualised volatility of hedge funds and underlying equity markets.

Figure 13: Rolling 6-Month Annualised Volatility of Hedge Funds and Equities



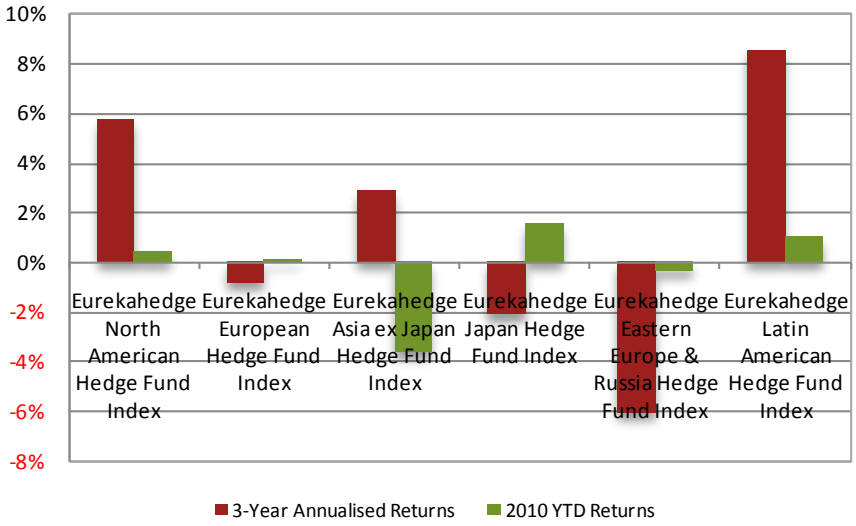
Sources: Eurekahedge and MSCI

The 10-year annualised standard deviation of a hedge fund is 5.5%, which is much lower than the 16.7% for a stock index. Most hedge funds achieve this lower volatility through excellent risk management procedures to prevent black swan events from happening. Trades are constantly and carefully monitored so that the fund does not run the risk of a large drawdown in capital in case of a large negative swing.

Looking at the past three years, the subprime crisis and the collapse of Lehman Brothers led to a substantial increase in stock market volatility. In the same manner, hedge fund volatility has also increased albeit not to the extent as equities. The heightened level of risk for hedge funds, however, has little correlation with the stock market. Statistically speaking, the correlation of the two indices is 0.47, which demonstrates that while the markets may witness significant swings, they will have little effect on the performance of hedge funds.

Geographical Mandates Performance

Figure 14: Performance across Regional Mandates



Source: Eurekahedge

Table 8: Performance across Regional Mandates

	Eurekahedge North American Hedge Fund Index	Eurekahedge European Hedge Fund Index	Eurekahedge Asia ex-Japan Hedge Fund Index	Eurekahedge Japan Hedge Fund Index	Eurekahedge Eastern Europe & Russia Hedge Fund Index	Eurekahedge Latin American Hedge Fund Index
12-Month Returns	11.33%	9.99%	11.49%	1.94%	25.84%	12.70%
2010 YTD Returns	0.49%	0.05%	-3.58%	1.59%	-0.30%	1.01%
2009 Returns	23.79%	20.20%	38.54%	7.32%	59.49%	27.51%
Maximum Drawdown (3 Years)	-12.49%	-20.89%	-30.38%	-16.64%	-58.42%	-10.34%

The regional mandates have turned in a mixed performance in 2010, with Japanese hedge fund delivering the best performance June year-to-date. The Eurekahedge Japan Long/Short Equity Index returned 1.45% at the end of June, beating the Topix by 8.8%, while managers witnessed $100 million of inflows into their funds in 2010.

Besides Japan, Latin American managers have continued their strong run through the first half of 2010. The region's hedge fund industry has posted rapid growth in recent times not only through performance but also in terms of the number of hedge fund launches, particularly in Brazil. The Eurekahedge Latin American Hedge Fund Index posted YTD gains of 1.01%, which gives it a 10.4% lead over underlying stock markets (as measured by the MSCI Latin America Index).

Most other regional hedge funds have posted marginal returns for the year so far as the European debt crisis has led to adverse market movements. However, hedge funds in all regions continue to outperform their respective underlying markets.

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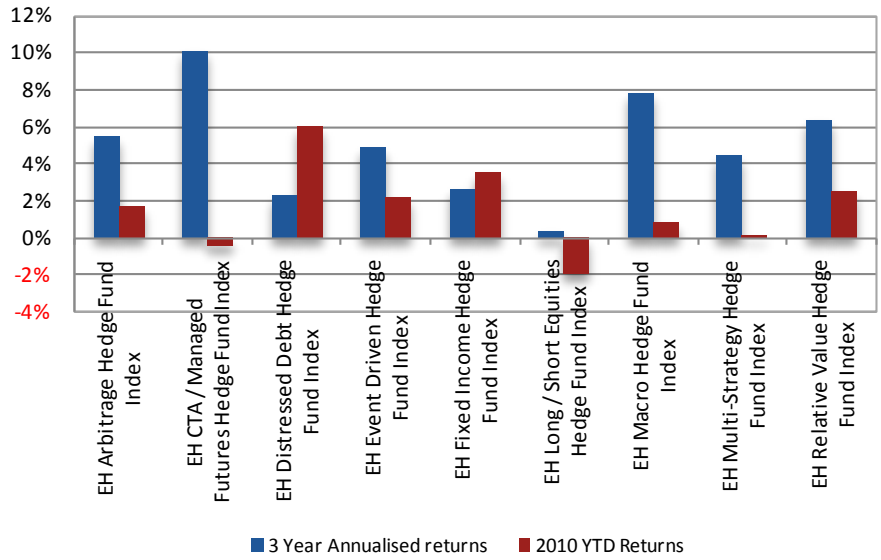
Strategic Mandates Performance

Figure 15: Performance across Strategic Mandates



Source: Eurekahedge

Table 9: Performance across Strategic Mandates

	EH Arbitrage Hedge Fund Index	EH CTA / Managed Futures Hedge Fund Index	EH Distressed Debt Hedge Fund Index	EH Event Driven Hedge Fund Index	EH Fixed Income Hedge Fund Index	EH Long / Short Equities Hedge Fund Index	EH Macro Hedge Fund Index	EH Multi-Strategy Hedge Fund Index	EH Relative Value Hedge Fund Index
12-Month Returns	11.23%	1.38%	28.86%	19.21%	13.84%	8.05%	6.52%	8.75%	13.92%
2010 YTD Returns	1.72%	-0.48%	5.99%	2.20%	3.50%	-1.93%	0.82%	0.01%	2.51%
2009 Returns	22.58%	2.86%	34.49%	39.17%	20.99%	23.62%	13.37%	21.02%	21.54%
Maximum Drawdown (3 Years)	-11.23%	-4.07%	-28.46%	-22.22%	-14.85%	-22.58%	-4.40%	-12.32%	-10.59%

In terms of strategic mandates, all hedge fund strategies have delivered positive returns in the 12-month measure, with distressed debt managers posting the highest gains. Distressed debt manager have witnessed excellent returns in recent times – in 2009, the Eurekahedge Distressed Debt Hedge Fund Index was up 34.49% as managers profited from the continued low prices of high-quality debt trading at deep discounts. Furthermore, the strategy has proved to be quite popular among investors this year and has attracted $8.7 billion in net inflows. Distress activity in the bond market has been falling since last year (the default rate for issuers by volume reached 3.5% in July from as high as 11% last year), lending to an increased appetite for high-yield bonds and an increase in net asset values. Fixed income hedge funds have also performed well in 2010 (June year-to-date). The Eurekahedge Fixed Income Hedge Fund Index is up 3.5% this year and is now only 0.78% below its previous high-water mark. Fixed income hedge funds have benefited from the quantitative easing mode set by global central banks as the low interest rate environment supported their bond portfolio values.

In the longer term, CTA/managed futures hedge funds stand as the most profitable over the last three years. CTA/managed futures was the hottest hedge fund investment theme in 2008, posting a double-digit gain of 18.3% at a time when almost all other strategies were in the red. Furthermore, CTA managers are also one of the top two performing strategies since January 2000 (distressed debt is the number one strategy performance-wise, measured from index inception). While the strategy has not matched the gains of other hedge funds in 2009 and 2010, CTA managers have proven to be one of the most resilient and rewarding fund strategies in the long term.

Table 10: Performance across Fund Size

	Eurekahedge Small Hedge Fund Index (< US$100m)	Eurekahedge Medium Hedge Fund Index (US$100m - US$500m)	Eurekahedge Large Hedge Fund Index (> US$500m)
12-Month Returns	7.89%	10.34%	11.15%
2010 YTD Returns	-0.69%	0.59%	1.13%
2009 Returns	19.20%	22.10%	20.45%
Maximum Drawdown (3 Years)	-14.70%	-12.00%	-8.66%
% Below HWM	-3.70%	-2.66%	-2.11%
Rise in NAV since inception	164.66%	240.84%	265.74%

Table 10, which shows the returns of hedge funds by size, suggest that there is a positive correlation between size and performance as large hedge funds have outperformed smaller ones in the last six months, 12 months and since inception. The net asset value of the average large hedge fund has risen 266% since inception while the average small hedge fund has returned 165% in the same period. Furthermore, larger hedge funds have also found capital raising to be easier in the post-Madoff world as institutional investors require better risk management frameworks in place before committing their investments. Installing the same risk management systems in smaller hedge funds would increase fund expenses and would eat into the fund's net income.

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