



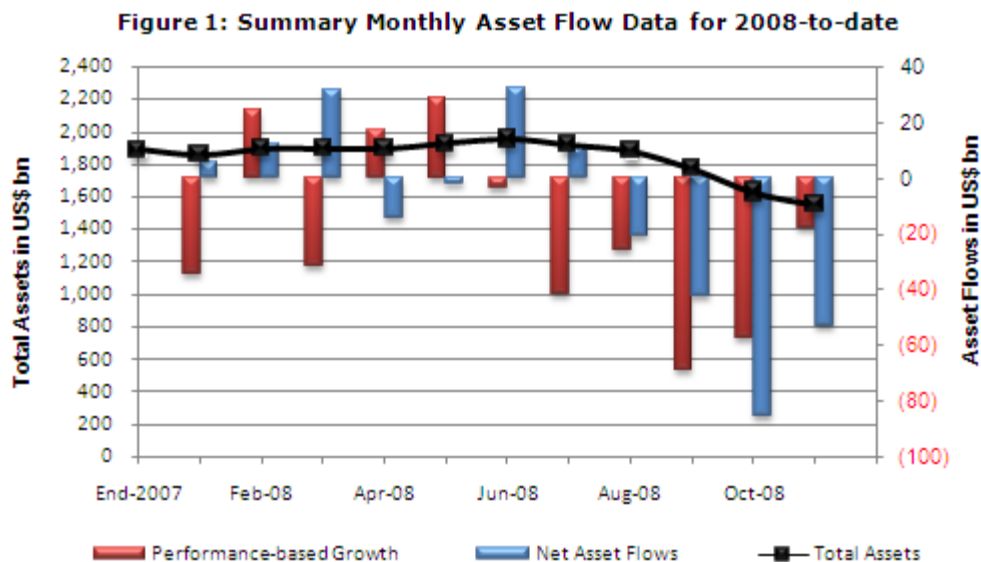
November 2008 Asset Flows Update

Eurekahedge

Hedge funds continued to take losses for the sixth straight month in November, as major economies in Europe and Asia announced recessions, and trading was characterised by distressed selling, deleveraging and an increasing disconnect between asset prices and underlying fundamentals. The composite Eurekahedge Hedge Fund Index is down 0.8%¹ for the month to date, but we expect final numbers to be closer to -2%. On the upside, month-to-month losses have been the least negative in the last five months, while net redemptions are also down from previous monthly highs. Figure 1 illustrates the monthly performance-based changes, asset flows and AuM for 2008 YTD.

An analysis of November asset flows² brings up the following points of note:

- Total industry assets down an estimated 4.4% (US\$71.5 billion) on the month, and down 20.5% from their June 2008 peak, to US\$1.55 trillion.
- Outflows eclipsed fresh inflows US\$57 billion to US\$4 billion, while US\$94 billion in performance-driven asset declines were offset by gains to the tune of US\$76 billion.
- Distressed debt was the sole strategy with fresh inflows, given unusually attractive valuations in the credit and high yield markets.
- Performance-based gains in regional allocations to Japan and Latin America, and in strategy allocations to managed futures and event-driven funds.



Source: Eurekahedge

As the year draws to a close, most managers are positioned for an environment of heightened risk aversion and volatility; leverage levels are down and cash levels are up across the board, while an increasing number of funds lock down on redemptions to avoid liquidity constraints and closing positions at a loss. Hedge funds continue to be relevant as vehicles for broad-market absolute return and preservation of capital, and current market conditions are favourable across hedge fund investment styles. We expect trend-following and

¹ Based on 59.2% of the funds reporting their November 2008 returns as at 15 December 2008.

² Based on 59.2% of funds reporting their November 2008 returns/AuM, and subject to a final revision towards end December 2008.



arbitrage strategies in the commodity and currency markets to be profitable in the near term, while opportunistic or value bets in the credit markets (and to a lesser extent, equities), promise longer-term gains.