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# October 2008 Asset Flows Update

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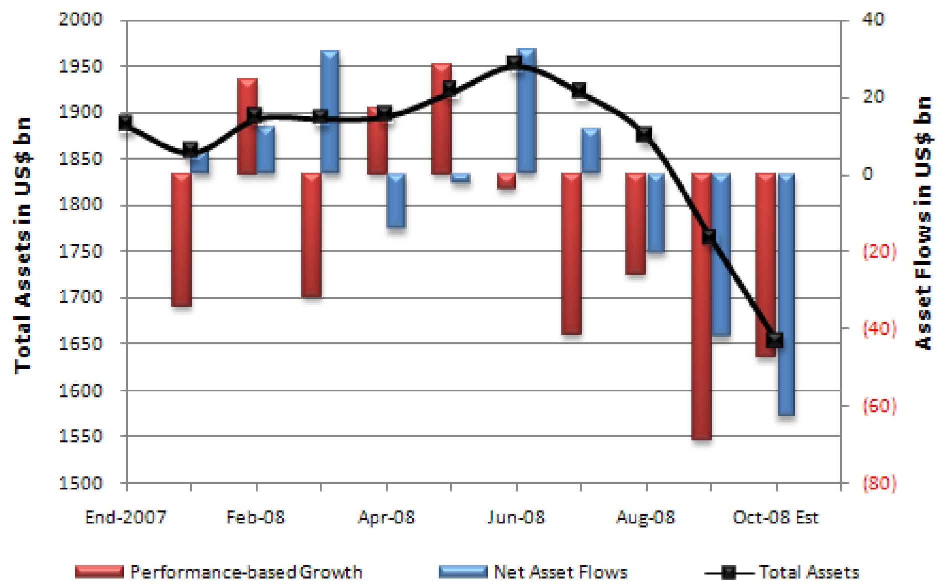
October was another harsh month for key asset classes, as global equities (MSCI World Index) and commodities (Reuters CRB Index) lost 19.1% and 18.3% respectively, amid record volatility during the month. Hedge funds, however, outperformed significantly, with the composite Eurekahedge Hedge Fund Index down only 3.9%[1] on the month. Losses in dollar terms were even lower at just 2.7% or US$47.2 billion for October, suggesting that larger-sized funds outperformed their smaller-sized counterparts. These losses, coupled with a net redemption of US$62.7 billion, amid heightened risk aversion and uncertainty among investors, shrank the size of the industry by US$110 billion, bringing hedge fund assets to US$1.65 trillion as at month-end. The monthly performance-based changes, asset flows and AuM for 2008 YTD, were as follows:

**Monthly Asset Flow Summary Data for 2008-to-date**




Source: Eurekahedge

All strategic mandates saw flat to negative asset flows, on the back of little or no alpha through most of 3Q2008 and October, amid dramatic equity declines and wide swings across the currency and commodity markets. Not surprisingly, long/short managers faced the largest redemptions (US$24 billion), while CTAs saw outflows of US$12.3 billion, as investors wrongly anticipated capital erosion due to the correction in commodity prices. While all other strategies saw single-digit redemptions (in terms of US$ billion), outflows in percentage terms were mixed, owing to the relatively smaller market shares of some strategies.

As we go into November, we believe current market conditions would prove profitable for trend-following strategies, as asset valuations are at remarkable lows across the board, and rough weather ahead for certain asset classes/sectors makes them attractive shorting targets for opportunistic long/short managers.

[1] Based on 57.1% of the funds reporting their October 2008 returns as at 17 November 2008.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