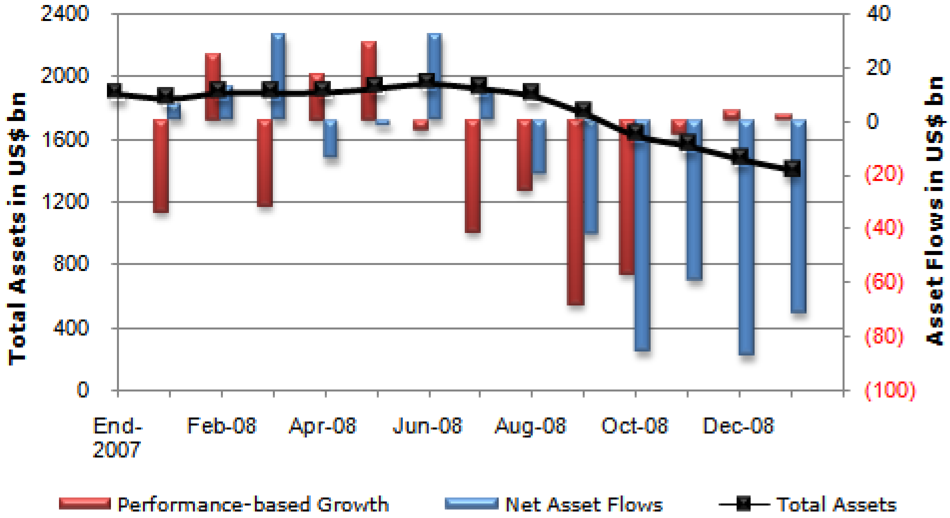
January 2009 Asset Flows Update

Eurekahedge

January was a positive month for hedge funds, as managers outperformed the underlying equity markets and most strategies finished the month in the black; the Eurekahedge Hedge Fund Index returned 0.2%[1]. This translated into US$2 billion net performance-based increase in assets during the month, which was, however, negated by net redemptions of US$71 billion[2] through January.

Figure 1: Summary Monthly Asset Flow Data for 2008-to-date



Source: Eurekahedge

Below are the highlights on asset flows for the month of January:

- Total industry assets down an estimated 4.7% (US$69.3 billion) on the month, and down 28.1% from their June 2008 peak, to US$1.4 trillion
- Outflows of US$77 billion eclipsed fresh inflows of US$6 billion, while US$10 billion in performance-driven asset gains were offset by losses to the tune of US$8 billion
- Largest performance-based gains in absolute terms across North America in terms of regional mandates and in strategy allocations to macro and multi-strategy managers
- Fixed income was the only strategy that saw a net increase in assets (US$170 million) during the month

January marked the sixth consecutive month of redemptions from the hedge fund industry, with over US$360 billion of net outflows seen since August 2008. We expect to see more redemptions over the coming months owing to the following factors:

a) Economic uncertainty across underlying markets
b) Continued risk aversion among investors
c) A redemption notification period of (or exceeding) one month for a majority of the funds, hence a lag of a month or more between redemptions being filed and them completely taking effect

---

[1] Based on 65% of the funds reporting their January 2009 returns as at 18 February 2009.
[2] Estimate based on 65% of AuM reported, and subject to a final revision towards mid-March.

d) Institutional investors tending to shore up their balance sheets for the quarter ending March 2009, hence withdrawing their investments

However, we also expect some fresh allocations into hedge funds, and foresee gradual inflows to surpass redemptions over the first half of 2009. This is primarily because the bulk of the panic-driven redemptions have subsided, and also because we expect investors to turn to hedge funds for absolute risk-adjusted returns and for their ability to consistently outperform their long-only counterparts (the Eurekahedge Long-only Absolute Return Fund Index shed 3.3% in January, while hedge funds finished in the black).