



January 2009 Hedge Fund Performance Commentary

Eurekahedge

Introduction

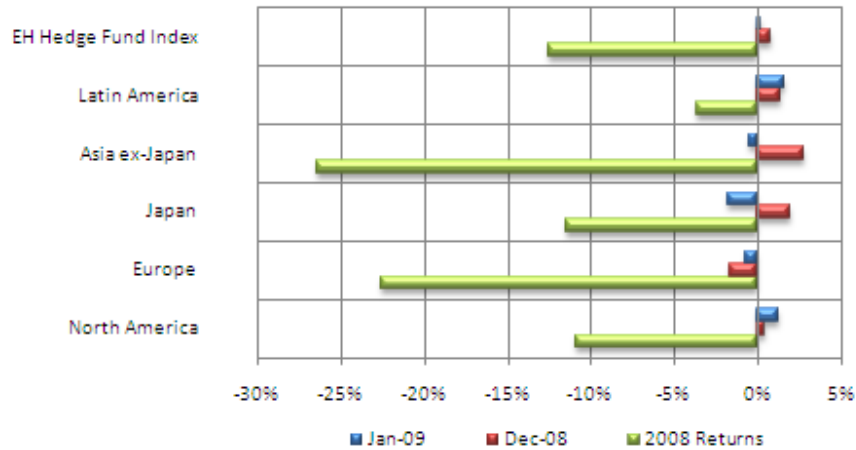
Hedge funds started the year with notable outperformance and loss mitigation, as the Eurekahedge Hedge Fund Index rose 0.2%¹ despite the MSCI World and Dow Jones-AIG Commodity indices losing 8.9% and 5.4% respectively through January. This performance was achieved against the backdrop of persistent concerns on the health of the financial sector and discouraging earnings reports for 2008, which also went some way in triggering further redemptions of US\$77 billion from the industry during the month.

In terms of regional investment mandates, Latin America and North America finished the month with healthy returns averaging 1.6% and 1.2% respectively, with managers in both markets making gains from equities, shorting energy-related commodities and from pair trades in currencies. The MSCI EM Latin America Index finished the month flat (-0.3%), while the North American index lost 8% for the month.

Other mandates – namely, Europe (including Eastern Europe & Russia), Japan and Asia ex-Japan – saw hedge funds finishing the month in negative territory, partly owing to the sharp equity market declines in their respective regions, on the back of unfavourable macroeconomic factors, among other factors.

The chart below shows the current month, previous month and 2008 returns across broad regional mandates.

Eurekahedge Performance Indices – Regions



Source: Eurekahedge

Our outlook on hedge fund performance remains positive for the months to come. We expect equities to still be volatile and range-bound over the near term, and work in favour of managers employing short-term trading strategies. Directional strategies like CTA and macro will continue to benefit from trends across the currency and commodity markets, as they have over the past year. And lastly, we expect to see a gradual decline in redemptions over the coming months, thereby permitting managers to reduce their cash levels and increase their exposure to the markets, potentially resulting in higher returns.

¹ Based on 61% of the funds reporting their January 2009 returns as at 17 February 2009.



We expect to continue seeing fund closures in the near term, as a number of managers whose funds are below their high water marks are unable to charge performance fees, rendering the funds unprofitable. Additionally, dwindling assets resulting in lower management fees, make it harder to meet operating costs. However, we should also see a number of fund start-ups in the months to come, given the large number of finance professionals and investment bankers moving out of their jobs (whether voluntarily or otherwise); a key deciding factor on this front would be whether or not they are able to raise capital in the near future.

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