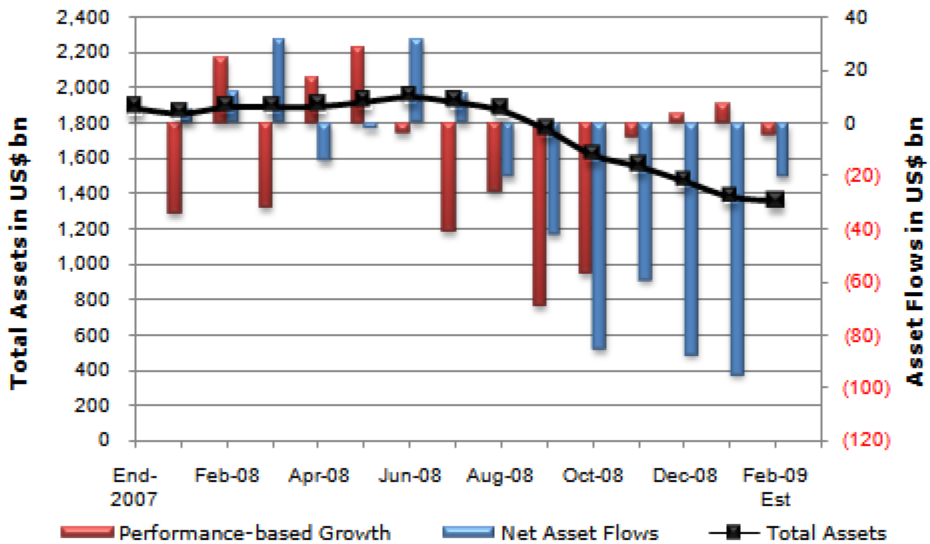
February 2009 Asset Flows Update

Eurekahedge

In another month of strong relative outperformance to the underlying markets, the composite Eurekahedge Hedge Fund Index lost 0.8%[1] in February against a 10.5% drop in the MSCI World Index and a 4% fall in the Reuters CRB Index. In terms of assets, hedge fund losses eroded 0.3% (US$4.5 billion), while redemptions for the month stood at US$20.3 billion.

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



Source: Eurekahedge

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

- Total industry assets at US$1.36 trillion as at end-February, down nearly US$600 billion from their peak in June 2008
- Net redemptions of US$20.3 billion in February compare impressively against redemptions of US$71 billion for January in the same time last month. Final net redemptions for January amount to US$95 billion
- Fresh inflows of US$4.7 billion overshadowed by redemptions of US$25 billion, while losses of US$11.5 billion eclipsed capital appreciation of US$7.1 billion

February marked the seventh consecutive month of redemptions for the hedge fund industry. However, the fact that redemptions were partly offset by over US$4 billion of inflows, and that net redemptions were less than a third of those seen in preceding months, point towards the easing of redemption pressures going forward.

Having said that, we continue to expect net redemptions over the next few months, especially out of funds with lock-ups expiring towards the end of 1Q2009, and those that had either suspended or gated their redemptions over recent months. Furthermore, we also expect the continued uncertainty in the markets along with the continuous flow of negative economic data, and the resultant risk aversion among investors to translate into redemptions in the near future, particularly among individual investors.

[1] Based on 71.4% of the funds reporting their February 2009 returns as at 16 March 2009.

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On the other hand, we expect the little positive news, economic data and market movements – such as the passing of the US$787 billion US economic stimulus package, the expected profitability of some major US banks and the resultant short-lived optimism-based rallies across global equities – to positively impact (albeit marginally) investor sentiments. This, coupled with the continued strong relative outperformance of hedge funds as compared with long-only and conventional mutual/unit-trust fund managers, leads us to believe that hedge funds will soon start attracting more capital from investors looking for healthy risk-adjusted returns, particularly over the long term.

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