

December 2008



## **“Tough” period for hedge funds – net outflows during Q3 2008**

According to *Hedge Fund Research*, the hedge fund industry experienced a net outflow of \$210 billion during Q3 2008 due to performance losses – the largest historical quarterly decline. Despite the net outflow of assets during the third quarter, the HFRI FoF Index has outperformed the MSCI World Equity Index by a staggering 23.5% year to date, 30 November 2008.

## **Not the time to turn out the lights - institutional investors believe that diversification will remain the key driving “force” for hedge funds investment going forward**

According to *Morningstar* and *Dow Jones publication of institutional investors*, 63% of the respondents said that hedge funds would become either equally as important, or more important than stocks, bonds, and mutual funds within the next 5 years. The survey comprised 252 institutions and 1,180 financial advisors. The majority of institutional investors surveyed indicated that portfolio diversification was the key factor driving the growth in hedge funds.

*“While diversified hedge fund portfolios have comfortably outperformed most balanced, long only equity/bond portfolios this decade so far, the perception of investing in hedge funds is still often negative... the quantity of hedge fund bashing is plentiful while the dissemination of high quality hedge fund research is not”* – Alexander Ineichen (UBS Global Asset Management & well known investment author: [thehedgefundjournal.com](http://thehedgefundjournal.com))

## **UK pension funds move assets away from equities**

According to an annual survey released by the *National Association of Pension Funds* (NAPF), the percentage of pension fund assets invested in equities has decreased from 59% in 2006 to 49.9% this year. The survey received responses from 294 defined contribution funds with total assets of £450 billion. Only 3% of all respondents said they increased their exposure to equities. The survey indicated that pension funds are increasing their allocations to hedge funds, fixed income, and private equity.

*“While trustees were disappointed with hedge fund returns, slumping equity markets meant many schemes were still looking to diversify their portfolios and many were only just starting to invest in hedge funds ”* – Clay Lambiotte investment partner at Lane Clark and Peacock – Alexander Forbes’ UK consulting business: [business.scotsman.com](http://business.scotsman.com)

## **“There is a real danger that the [regulation] pendulum will swing too far the other way” - George Soros**

Last month, hedge fund luminaries including George Soros, Philip Falcone, Kenneth Griffin, John Paulson, and James Simons testified before Congress on matters pertaining to regulation, disclosure, and compensation within the hedge fund industry. On the issue of regulation, Soros said, *“there is a real danger that the [regulation] pendulum will swing too far the other way”*. According to Soros, any *“ill-considered or punitive regulations” would be a terrible mistake in the current market environment.*