

January 2009



Hedge funds “hanging in there” after their worst year in history

According to Hennessee Group, a provider of industry data and advisor to hedge fund investors, the hedge fund industry was down approximately 19.2% for 2008 - its worst calendar year performance in history. However, despite a disappointing year, on a relative basis, hedge funds have outperformed equity benchmarks such as the S&P 500 (which declined 38.49% in 2008) by almost 20%.

“On a relative basis, hedge funds continue to prove themselves as an attractive asset class, generating a better risk-adjusted return than traditional money management” – Lee Hennessee (managing principal Hennessee Group)

“Short selling restrictions did not result in the reduced probability of large stock price falls” – (www.hfmweek.com)

Academic research conducted by two professors at the Cass Business School, a top UK business school in London, indicates that restrictions on short sales imposed by regulators in 2008 did *not* affect stock market patterns. The research, which was jointly commissioned by the *International Securities Lending Association*, *Alternative Investment Management Association*, and the *London Banking Association*, examined daily returns on US, UK, Italian, French, and German stocks before and after short selling restrictions were imposed on market participants in the respective countries. While some changes in behavioural patterns were observed in financial sector stocks, the research concluded that short selling restrictions “*did not result in a reduced probability of large stock price falls*”.

Counterparty risk now much more critical for hedge funds - (www.hedgeweek.com)

Managing counterparty risk is a much more critical component of a hedge fund's overall business operations today than it has been in previous years, according to a white paper published by Pershing, a subsidiary of Bank of New York Mellon Corporation and Aite Group.

- More than 50% of respondents reported monitoring counterparty risk on a daily basis;
- Nearly 85% consider it an extremely important or very important business issue; and
- 96% of respondents cited managing counterparty risk as the number one factor in selecting their prime brokers.

The survey two years ago revealed that managing counterparty risk was not a primary issue for most hedge funds - only 26% of respondents considered counterparty risk important and only 22% viewed it as moderately important.

Connecticut pension funds warm up to hedge funds

Connecticut has long been the domicile of choice for most hedge funds. Surprisingly, Connecticut pension funds have generally not invested in hedge funds.

Connecticut's public pension fund Treasurer, Denise Napier recently announced however, that the \$20 billion fund would make an 8% allocation to hedge funds. Napier cited the diversification benefits of hedge funds as the reason for the allocation.