

June 2009



Markets continue to be strong in April – risks remain high, as fundamentals stay weak

Global equity markets continued their strong performance during the month of April due to the better tone in the real economy and improvement in the credibility of the various rescue packages. The MSCI World Index finished the month up 11.22% in US\$ terms. Global bonds “recovered” from last month and posted a small positive return of 0.9% as represented by the Lehman Aggregative Global Bond Index. LIBOR rates have fallen sharply as have credit spreads in the corporate bond market.

Hedge funds were marginally up for the month of April, bringing the year-to-date returns to 1.13% as represented by the HFRI FoHF Composite Index – global equities and bonds remained negative for the year to date. The hedge fund industry remains defensively positioned with low directionality towards the broader equity markets and is of the view that there is no clear indication of a sustained recovery. Further stabilisation in both economic and corporate profit indicators is much needed.

Investors remain positive on hedge funds - net inflows in April 2009

In the month of April, gross hedge fund inflows were \$15 billion, up from \$12 billion in March and \$4 billion in February according to *EurekaHedge*. The *EurekaHedge* database covers 20,400 funds representing \$4.5 trillion in assets.

Sound Practices Guide for Funds of Funds

AIMA has issued *The Guide to Sound Practices for Funds of Hedge Funds Managers*, developed in conjunction with some of the world’s leading funds of hedge funds practitioners. The guide addresses

areas such as risk management, due diligence, disclosure to investors, valuations, management of conflicts of interest and other operational issues.

The Steering Group that compiled the guide, were cognizant of the fact that a “one size fits all” approach was inappropriate and wanted to ensure the guide would be a practical business tool for funds of hedge funds managers. They aimed to provide relevant and insightful information for investors, regulators and policy makers, as well as hedge fund service providers.

UCITS – a new avenue for hedge funds?

In the face of regulatory pressures and a tough allocations environment, alternative investment managers are showing interest in UCITS III fund products.

UCITS III funds are similar to mutual funds, but give management companies in Europe the opportunity to expand the range of activities, which they are allowed to undertake such as permitted shorting, the use of derivatives and leverage up to 200%. UCITS funds also offer daily liquidity and use custodians to hold fund assets rather than prime brokers. The UCITS structure therefore addresses investors’ demands for improved liquidity and transparency, while eliminating counterparty risk.

Managers are confident that the superior risk-adjusted returns of hedge funds, will assist funds to continue attracting institutional money and the UCITS route may enhance the appeal of hedge funds to European and American institutional investors.