

Hedge Fund Market Commentary – February 2010

February was a strong month for most markets, with prices rebounding in the second half of the month after a downturn which began in January. The losses which started in mid-January were precipitated by concerns over a Greek default and the potential disruption to the financial system and the Euro which could result. European equity markets were particularly affected, and are significantly underperforming domestic equities so far in 2010. Credit markets were also temporarily disrupted by the panic over Greece, with the high yield issuance dropping sharply coincident with significant outflows from high yield mutual funds. As concerns over Greece have abated, issuance has returned to record levels. High yield bonds are now up 1.4% for the year, and high yield loans are up 2.4%.

Exhibit 1: 2010 Market Performance

Index	February	YTD 2010	FYTD*	Calendar 2009	Calendar 2008
Equity					
Dow Jones 5000	3.4%	-0.1%	23.0%	28.6%	-37.2%
S&P 500	3.1%	-0.6%	21.8%	26.5%	-37.0%
Russell 2000	4.5%	0.7%	24.7%	27.2%	-33.8%
MSCI EAFE	-0.7%	-5.1%	16.0%	32.5%	-43.1%
MSCI Emerging Mkts	0.4%	-5.3%	24.4%	78.3%	-53.5%
DJ REIT	5.7%	-0.4%	47.3%	28.5%	-39.2%
S&P 500 Financials	3.5%	2.1%	23.9%	17.2%	-56.6%
Fixed Income					
Barclays Aggregate	0.4%	1.9%	5.9%	5.9%	5.2%
Barclays Treasuries	0.4%	2.0%	2.8%	-3.6%	20.1%
Barclays TIPS	-1.2%	0.4%	5.3%	11.4%	-2.4%
Barclays High Yield	0.2%	1.4%	23.0%	58.2%	-26.2%
Barclays Bank Loan	0.4%	2.4%	17.0%	53.8%	-29.5%
AAA ABX (Subprime)	-0.9%	3.0%	41.8%	-7.8%	-43.2%
Barclays Municipals	1.0%	1.5%	7.7%	12.9%	-2.5%
3 mo.Libor	0.0%	0.0%	0.2%	0.7%	3.1%
Alternative					
DJ UBS Commodity	3.7%	-3.8%	9.3%	18.9%	-35.7%
Hedge Funds					
HFRI Fund of Funds**	0.1%	-0.2%	5.7%	11.5%	-21.4%
HFRI Fund Weighted**	0.5%	-0.2%	9.3%	20.0%	-19.0%
CS/Tremont	0.9%	1.0%	11.8%	18.6%	-19.1%

* Fiscal YTD from June 30, 2009

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Hedge funds posted modestly positive returns in February after a slightly negative January. Both the HFRI Fund Weighted Index and HFRI Fund of Funds Index are down -0.2% for 2010, while the CS/Tremont Index is up 1.0%.

Exhibit 2 shows the performance of different hedge fund strategies, as defined by HFRI and CS/Tremont. The best performing strategies in 2010 have been those with more credit exposure, including event driven and relative value strategies. Equity long/short funds have exhibited greater volatility, and are flat to slightly negative for the year. Performance for global macro funds

has been mixed so far in 2010, with generally low volatility and a lack of clear direction in global rates and currencies. One exception has been the Euro curve, which has exhibited high volatility, aiding those managers on the correct side of the trade.

Exhibit 2: Hedge Fund Performance by Major Strategy Category

Strategy Indexes	February	YTD 2010	FYTD*	Calendar 2009	Calendar 2008
Arbitrage/Relative Value					
HFRI**	0.2%	1.8%	13.6%	25.8%	-18.0%
CS/Tremont-Convert	0.6%	1.6%	20.8%	47.3%	-31.6%
CS/Tremont-Fixed Income	-0.1%	1.9%	16.2%	27.4%	-28.8%
Event Driven					
HFRI	-0.1%	0.6%	14.3%	25.0%	-21.8%
CS/Tremont	0.5%	1.9%	15.0%	20.4%	-17.7%
Equity Long/Short					
HFRI	0.6%	-0.6%	10.5%	24.6%	-26.7%
CS/Tremont	1.6%	0.1%	10.5%	19.5%	-19.8%
Global Macro/CTA					
HFRI	0.8%	-1.0%	1.8%	4.3%	4.8%
CS/Tremont-Macro	1.3%	2.3%	10.4%	11.6%	-4.6%
CS/Tremont-Managed Future	2.0%	-1.9%	-1.0%	-6.6%	18.3%
Multi-Strategy					
HFRI	0.5%	2.8%	14.1%	24.6%	-20.3%
CS/Tremont	0.6%	1.2%	12.3%	24.6%	-23.6%

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