

Hedge Fund Market Commentary – February 2011

Global markets followed a similar pattern in February compared with January, with developed markets significantly outperforming emerging markets. Domestic small-caps also performed very well, nearly covering January's deficit to large-cap stocks. The S&P 500 return of 3.4% was aided by positive economic news in the U.S., including improving consumer confidence and strong corporate earnings. Emerging markets lost another 1.0% in January, affected in part by concerns over inflation and rising interest rates. Credit markets continued rallying, albeit at a slightly slower pace, with high yield bonds and loans up 1.3% and 0.4%, respectively. Yields on high yield bonds reached a record low of 6.76% in February, with spread tightening offsetting a slight decline in Treasury prices.

Exhibit 1: 2011 Market Performance

Index	February	YTD 2011	FYTD*	Calendar 2010	Calendar 2009	Calendar 2008
Equity						
Dow Jones 5000	3.6%	5.9%	31.9%	17.5%	28.6%	-37.2%
S&P 500	3.4%	5.9%	30.5%	15.1%	26.5%	-37.0%
Russell 2000	5.5%	5.2%	36.1%	26.9%	27.2%	-33.8%
MSCI EAFE	3.3%	5.8%	31.5%	8.2%	32.5%	-43.1%
MSCI Emerging Mkts	-1.0%	-3.7%	22.0%	19.0%	78.3%	-53.5%
DJ REIT	4.6%	8.3%	31.7%	28.1%	28.5%	-39.2%
S&P 500 Financials	2.9%	5.8%	23.1%	12.1%	17.2%	-56.6%
Fixed Income						
Barclays Aggregate	0.3%	0.4%	1.5%	6.5%	5.9%	5.2%
Barclays Treasuries	-0.1%	-0.1%	-0.1%	5.9%	-3.6%	20.1%
Barclays TIPS	0.9%	1.1%	2.9%	6.4%	11.4%	-2.4%
Barclays High Yield	1.3%	3.6%	14.1%	15.1%	58.2%	-26.2%
Barclays Bank Loan	0.4%	2.4%	9.4%	9.7%	53.8%	-29.5%
AAA ABX (Subprime)	-0.3%	0.1%	13.5%	32.3%	-7.8%	-43.2%
Barclays Municipals	1.6%	0.8%	-0.1%	2.4%	12.9%	-2.5%
3 mo.Libor	0.0%	0.1%	0.2%	0.4%	0.7%	3.1%
Alternative						
DJ UBS Commodity	1.3%	2.3%	32.2%	16.8%	18.9%	-35.7%
Hedge Funds						
HFRI Fund of Funds**	0.8%	0.9%	8.0%	5.7%	11.5%	-21.4%
HFRI Fund Weighted**	1.3%	1.8%	12.6%	10.3%	20.0%	-19.0%
Dow Jones Credit Suisse	1.4%	2.1%	12.6%	10.9%	18.6%	-19.1%

* Fiscal YTD from June 30, 2010

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Hedge funds in February improved on their prior month returns, with the broader HFRI Fund-Weighted Index up 1.3% and the Dow Jones Credit Suisse Index up 1.4%. Funds of funds were up 0.8% according to HFRI. Exhibit 2 reviews hedge fund performance by strategy.

Exhibit 2: Hedge Fund Performance by Major Strategy Category

Strategy Indexes	February	YTD 2011	FYTD*	Calendar 2010	Calendar 2009	Calendar 2008
Arbitrage/Relative Value						
HFRI**	0.9%	2.2%	9.9%	11.5%	25.8%	-18.0%
Dow Jones CS-Convert	2.9%	5.1%	13.6%	11.0%	47.3%	-31.6%
Dow Jones CS-Fixed Income	0.9%	2.6%	9.4%	12.5%	27.4%	-28.8%
Event Driven						
HFRI	1.4%	3.2%	12.6%	11.7%	25.0%	-21.8%
Dow Jones Credit Suisse	1.4%	3.3%	14.2%	12.6%	20.4%	-17.7%
Equity Long/Short						
HFRI	1.4%	1.9%	14.9%	10.5%	24.6%	-26.7%
Dow Jones Credit Suisse	1.7%	2.0%	15.2%	9.3%	19.5%	-19.8%
Global Macro/CTA						
HFRI	1.4%	0.7%	10.1%	8.2%	4.3%	4.8%
Dow Jones CS-Macro	1.3%	0.5%	9.4%	13.5%	11.6%	-4.6%
Dow Jones CS-Managed Futures	2.6%	1.8%	13.9%	12.2%	-6.6%	18.3%
Multi-Strategy						
HFRI	1.4%	2.5%	11.3%	13.4%	24.6%	-20.3%
Dow Jones Credit Suisse	1.4%	3.4%	12.5%	9.3%	24.6%	-23.6%

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All major strategies were up for the month by a similar magnitude. The outperformers included convertible arbitrage and managed futures. Funds in the latter strategy gained on a continued rally in equities and commodities, particularly the energy sector, which was up 4.7% in February. Equity long/short and event driven funds were aided by the overall markets, both in equity and credit. Global macro funds rebounded from January losses, with commodity and European rates trading some of the positive contributors for the month.

Eli Sokolov
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