

Hedge Fund Market Commentary – June 2009

The major stock and bond markets were largely flat in June, stemming a two month rally. An exception was high yield bonds and loans, which were up 2.9% and 4.6%, respectively, during the month. Unexpected weakness in June job and consumer spending reports likely dampened investor sentiment. Exhibit 1 shows recent asset class returns through June 30.

Exhibit 1: 2009 Market Performance

Index	June	YTD 2009	FYTD*	Calendar 2008
Equity				
Wilshire 5000	0.4%	4.4%	-26.4%	-37.2%
S&P 500	0.2%	3.2%	-26.2%	-37.0%
Russell 2000	1.5%	2.7%	-25.0%	-33.8%
MSCI EAFE	-0.5%	8.4%	-8.1%	-43.1%
MSCI Emerging Mkts	-1.3%	35.7%	-28.4%	-53.5%
DJ Wilshire REIT	-3.5%	-13.1%	-37.7%	-39.2%
S&P 500 Financials	-2.1%	-3.4%	-40.3%	-56.6%
Fixed Income				
Barclays Aggregate	0.6%	1.9%	6.1%	5.2%
Barclays Treasuries	-0.2%	-4.3%	12.4%	20.1%
Barclays TIPS	0.5%	6.2%	-1.1%	-2.4%
Barclays High Yield	2.9%	29.1%	-3.4%	-26.2%
Barclays Bank Loan	4.6%	33.5%	-5.4%	-29.5%
AAA ABX (Subprime)	-2.4%	-15.6%	-52.4%	-43.2%
Barclays Municipals	-0.9%	6.4%	3.8%	-2.5%
3 mo.Libor	0.1%	0.6%	2.0%	3.1%
Alternative				
DJ UBS Commodity	-1.9%	4.6%	-47.1%	-35.7%
HFRI Fund of Funds**	0.4%	5.3%	-15.2%	-21.4%
HFRI Fund Weighted**	0.1%	9.4%	-10.2%	-19.0%

* Fiscal YTD from June 30, 2008

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Hedge fund performance moderated along with the broader markets. The HFRI Fund of Funds Index, which is viewed as more representative of institutional portfolios, rose 0.4% for the month, while the HFRI Fund Weighted Index return, an equal weighting of approximately two thousand hedge funds, was up 0.1%. Hedge funds demonstrated strong performance relative to stocks and bonds during the first half of the year. The HFRI Fund of Funds Index was up 5.5% for the first six months while the HFRI Fund Weighted Index returned 9.4%. The 3.9% difference in six month returns between these two commonly used hedge fund indices is unusually large and is largely explained by the higher allocation to equity long/short hedge funds, which performed well, within the HFRI Fund Weighted Index compared to the HFRI Fund of Funds Index.

Many hedge fund trends seen in 2008 have since reversed in 2009. For example, besides hedge funds that are dedicated short sellers, global macro funds were the best performing hedge fund strategy in 2008, up 5% versus -21% for hedge funds overall. But global macro funds are lagging in 2009, up just 1% versus 5% for hedge funds overall. Two of the best performing strategies in

2009 have been multistrategy and credit (or relative value) hedge funds, both up 13% for the first six months. Also impressive is the performance of equity long/short hedge funds. They are up 12% as a group in 2009 while the S&P 500 Index is up 4%. We believe that many hedge funds quickly restructured their portfolios at the end of 2008 and have since been able to take full advantage of the investment opportunities presented at the beginning of this year.

Eli Sokolov
July 13, 2009

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