

## Hedge Fund Market Commentary – June 2011

The ebbs and flows of investor fear were once again strongly evident in June. After falling to a mid-month loss of nearly 6%, the S&P 500 ended the month down less than 2% following a fierce rally in the last week of the month. On a fundamental basis, the economic data during the month was largely negative. As in prior months, the catalyst for volatility was concern over sovereign risk in Europe, particularly Greece. Once investors felt comfortable that another short-term solution had been found to avoid Greek default, capital flowed back into the markets. High yield bonds had their worst, and only negative, performance of the year. Spreads gapped 30 basis points on global high yield bonds, and about twice that amount on CCC-rated debt. Overall yields also increased as Treasury prices fell during the end-of-month rally in risky assets.

Exhibit 1: 2011 Market Performance

| Index                   | June  | YTD 2011 | FYTD* | Calendar 2010 | Calendar 2009 | Calendar 2008 |
|-------------------------|-------|----------|-------|---------------|---------------|---------------|
| <b>Equity</b>           |       |          |       |               |               |               |
| Dow Jones 5000          | -1.8% | 6.4%     | 32.4% | 17.5%         | 28.6%         | -37.2%        |
| S&P 500                 | -1.7% | 6.0%     | 30.7% | 15.1%         | 26.5%         | -37.0%        |
| Russell 2000            | -2.3% | 6.2%     | 37.4% | 26.9%         | 27.2%         | -33.8%        |
| MSCI EAFE               | -1.2% | 5.4%     | 30.9% | 8.2%          | 32.5%         | -43.1%        |
| MSCI Emerging Mkts      | -1.5% | 0.9%     | 27.8% | 19.0%         | 78.3%         | -53.5%        |
| DJ REIT                 | -3.4% | 10.9%    | 34.9% | 28.1%         | 28.5%         | -39.2%        |
| S&P 500 Financials      | -2.8% | -3.1%    | 12.8% | 12.1%         | 17.2%         | -56.6%        |
| <b>Fixed Income</b>     |       |          |       |               |               |               |
| Barclays Aggregate      | -0.3% | 2.7%     | 3.9%  | 6.5%          | 5.9%          | 5.2%          |
| Barclays Treasuries     | -0.3% | 2.2%     | 2.2%  | 5.9%          | -3.6%         | 20.1%         |
| Barclays TIPS           | 0.8%  | 5.8%     | 7.8%  | 6.4%          | 11.4%         | -2.4%         |
| Barclays High Yield     | -1.0% | 5.0%     | 15.6% | 15.1%         | 58.2%         | -26.2%        |
| Barclays Bank Loan      | -0.4% | 2.6%     | 9.6%  | 9.7%          | 53.8%         | -29.5%        |
| AAA ABX (Subprime)      | -4.1% | -16.7%   | -5.6% | 32.3%         | -7.8%         | -43.2%        |
| Barclays Municipals     | 0.4%  | 4.4%     | 3.5%  | 2.4%          | 12.9%         | -2.5%         |
| 3 mo.Libor              | 0.0%  | 0.1%     | 0.3%  | 0.4%          | 0.7%          | 3.1%          |
| <b>Alternative</b>      |       |          |       |               |               |               |
| DJ UBS Commodity        | -5.0% | -2.6%    | 25.9% | 16.8%         | 18.9%         | -35.7%        |
| <b>Hedge Funds</b>      |       |          |       |               |               |               |
| HFRI Fund of Funds**    | -1.5% | -0.4%    | 6.5%  | 5.7%          | 11.5%         | -21.4%        |
| HFRI Fund Weighted**    | -1.2% | 0.8%     | 11.5% | 10.3%         | 20.0%         | -19.0%        |
| Dow Jones Credit Suisse | -1.5% | 1.5%     | 11.9% | 10.9%         | 18.6%         | -19.1%        |

\* Fiscal YTD from June 30, 2010

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Hedge funds performed relatively well in June despite even more pronounced volatility than in May. The broader HFRI Fund-Weighted Index fell -1.2%, and the Dow Jones Credit Suisse Index fell -1.5%. Funds of funds were also down -1.5%, according to HFRI. Exhibit 2 reviews hedge fund performance by strategy.

## Exhibit 2: Hedge Fund Performance by Major Strategy Category

| Strategy Indexes                | June  | YTD<br>2011 | FYTD* | Calendar<br>2010 | Calendar<br>2009 | Calendar<br>2008 |
|---------------------------------|-------|-------------|-------|------------------|------------------|------------------|
| <b>Arbitrage/Relative Value</b> |       |             |       |                  |                  |                  |
| HFRI**                          | -0.1% | 3.2%        | 10.9% | 11.5%            | 25.8%            | -18.0%           |
| Dow Jones CS-Convert            | -0.8% | 3.7%        | 12.1% | 11.0%            | 47.3%            | -31.6%           |
| Dow Jones CS-Fixed Income       | -0.2% | 3.3%        | 10.1% | 12.5%            | 27.4%            | -28.8%           |
| <b>Event Driven</b>             |       |             |       |                  |                  |                  |
| HFRI                            | -1.1% | 2.9%        | 12.3% | 11.7%            | 25.0%            | -21.8%           |
| Dow Jones Credit Suisse         | -3.2% | 0.2%        | 10.9% | 12.6%            | 20.4%            | -17.7%           |
| <b>Equity Long/Short</b>        |       |             |       |                  |                  |                  |
| HFRI                            | -1.2% | 1.1%        | 14.0% | 10.5%            | 24.6%            | -26.7%           |
| Dow Jones Credit Suisse         | -1.5% | 0.7%        | 13.7% | 9.3%             | 19.5%            | -19.8%           |
| <b>Global Macro/CTA</b>         |       |             |       |                  |                  |                  |
| HFRI                            | -1.8% | -2.2%       | 6.9%  | 8.2%             | 4.3%             | 4.8%             |
| Dow Jones CS-Macro              | -0.8% | 1.7%        | 10.7% | 13.5%            | 11.6%            | -4.6%            |
| Dow Jones CS-Managed Futures    | -3.1% | -3.4%       | 8.1%  | 12.2%            | -6.6%            | 18.3%            |
| <b>Multi-Strategy</b>           |       |             |       |                  |                  |                  |
| HFRI                            | -0.6% | 1.5%        | 9.9%  | 13.4%            | 24.6%            | -20.3%           |
| Dow Jones Credit Suisse         | -0.5% | 4.6%        | 13.7% | 9.3%             | 24.6%            | -23.6%           |

\* Fiscal YTD from June 30, 2010

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Managed Futures funds were once again among the worst performers in June, returning -3.1%. Sharp reversals, like those that occurred in the last week of the month, generally create difficulty for trend-following strategies. In addition, many of these funds were performing poorly prior to the reversal, as they had been positioned long the markets going into June. Equity Long/Short funds outperformed the S&P 500, with many of them recovering deeper losses in the last week of the month, and into July as well. Within the Event Driven category, managers with higher equity exposure underperformed those with a greater credit focus. Some larger managers had especially difficult months, which partially explains the discrepancy between the HFRI reported decline of -1.1%, and the Dow Jones Credit Suisse-reported decline of -3.2% in the sector. The latter index provider uses an asset-weighted methodology for calculating its index returns, whereas HFRI uses an equal-weighted methodology.

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July 18, 2011

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