CLIFFWATER LLC

Hedge Fund Market Commentary – March 2011

Unrest in the Middle East and a devastating earthquake in Japan rattled markets in March, with the S&P 500 down as much as -5.2% before ending flat for the month. Credit markets were more stable, with the notable exception of asset-backed securities, particularly in the residential and commercial mortgage sectors. Treasuries fell despite a mid-month flight to quality, and TIPS continued their strong pace as rising commodity prices and positive economic indications increased investor sensitivity to inflation. Emerging markets had a very strong month, up 5.9%, though still up only 2% on the year due to losses in January and February.

Exhibit 1: 2011 Market Performance

Index	March	YTD 2011	FYTD*	Calendar 2010	Calendar 2009	Calendar 2008
Equity						
Dow Jones 5000	0.4%	6.4%	32.4%	17.5%	28.6%	-37.2%
S&P 500	0.0%	5.9%	30.6%	15.1%	26.5%	-37.0%
Russell 2000	2.6%	7.9%	39.6%	26.9%	27.2%	-33.8%
MSCI EAFE	-2.2%	3.5%	28.6%	8.2%	32.5%	-43.1%
MSCI Emerging Mkts	5.9%	2.0%	29.2%	19.0%	78.3%	-53.5%
DJ REIT	-1.5%	6.7%	29.8%	28.1%	28.5%	-39.2%
S&P 500 Financials	-2.6%	3.0%	19.9%	12.1%	17.2%	-56.6%
Fixed Income						
Barclays Aggregate	0.1%	0.4%	1.6%	6.5%	5.9%	5.2%
Barclays Treasuries	-0.1%	-0.2%	-0.2%	5.9%	-3.6%	20.1%
Barclays TIPS	1.0%	2.1%	4.0%	6.4%	11.4%	-2.4%
Barclays High Yield	0.3%	3.9%	14.4%	15.1%	58.2%	-26.2%
Barclays Bank Loan	0.0%	2.5%	9.5%	9.7%	53.8%	-29.5%
AAA ABX (Subprime)	-2.6%	-2.4%	10.6%	32.3%	-7.8%	-43.2%
Barclays Municipals	-0.3%	0.5%	-0.4%	2.4%	12.9%	-2.5%
3 mo.Libor	0.0%	0.1%	0.3%	0.4%	0.7%	3.1%
Alternative						
DJ UBS Commodity	2.1%	4.5%	35.0%	16.8%	18.9%	-35.7%
Hedge Funds						
HFRI Fund of Funds**	-0.1%	0.9%	8.0%	5.7%	11.5%	-21.4%
HFRI Fund Weighted**	0.0%	1.6%	12.4%	10.3%	20.0%	-19.0%
Dow Jones Credit Suisse	0.1%	2.2%	12.7%	10.9%	18.6%	-19.1%

* Fiscal YTD from June 30, 2010

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Hedge funds were flat in March with the broader HFRI Fund-Weighted Index up just one basis point, and the Dow Jones Credit Suisse Index up 0.1%. Funds of funds were down -0.1% according to HFRI. Exhibit 2 reviews hedge fund performance by strategy.

Exhibit 2: Hedge Fund Performance by Major Strategy Category

Strategy Indexes	March	YTD 2011	FYTD*	Calendar 2010	Calendar 2009	Calendar 2008
Arbitrage/Relative Value						
HFRI**	0.4%	2.5%	10.2%	11.5%	25.8%	-18.0%
Dow Jones CS-Convert	-0.6%	4.5%	12.9%	11.0%	47.3%	-31.6%
Dow Jones CS-Fixed Income	-0.3%	2.3%	9.1%	12.5%	27.4%	-28.8%
Event Driven						
HFRI	0.5%	3.5%	13.1%	11.7%	25.0%	-21.8%
Dow Jones Credit Suisse	-0.3%	3.0%	13.9%	12.6%	20.4%	-17.7%
Equity Long/Short						
HFRI	0.5%	2.2%	15.2%	10.5%	24.6%	-26.7%
Dow Jones Credit Suisse	0.3%	2.3%	15.5%	9.3%	19.5%	-19.8%
Global Macro/CTA						
HFRI	-1.3%	-0.8%	8.5%	8.2%	4.3%	4.8%
Dow Jones CS-Macro	0.2%	0.7%	9.6%	13.5%	11.6%	-4.6%
Dow Jones CS-Managed Futures	-2.8%	-1.1%	10.7%	12.2%	-6.6%	18.3%
Multi-Strategy						
HFRI	-0.2%	2.1%	10.8%	13.4%	24.6%	-20.3%
Dow Jones Credit Suisse	0.8%	4.2%	13.4%	9.3%	24.6%	-23.6%

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Most strategies had muted performance in March. Equity long/short funds were up 0.5%, led by emerging markets funds which benefitted from resurgent equity markets. Managed futures funds had the most difficult month, with some down in the mid to high single digits as the sudden changes in market direction surrounding the Japan earthquake led to realized trading losses. Funds whose risk management policies dictated a reduction in exposures during the market drawdown performed worse, as they did not benefit as much from the rebound. For example, funds with strict stop-loss policies were especially vulnerable to the sharp mid-month reversal in equity, currency and fixed income markets.

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