CLIFFWATER LLC

Hedge Fund Market Commentary – November 2009

Markets rebounded strongly in November, with the S&P 500 Index returning 5.6% for the month. With continued positive returns in November, the high yield bond and loan markets are now up 57% and 52%, respectively, for the year. Despite the massive losses in 2008, high yield investors have earned positive returns over the 23 month period beginning at the start of 2008. The same is not true of equity investors. An investment in the S&P 500 over the same period would still be down over 20%. A broader overview of recent performance across markets is shown in Exhibit 1.

Exhibit 1: 2009 Market Performance

Index	November	YTD 2009	FYTD*	Calendar 2008
Equity				
Dow Jones 5000	5.6%	25.0%	19.7%	-37.2%
S&P 500	6.0%	24.1%	20.3%	-37.0%
Russell 2000	3.1%	17.7%	14.7%	-33.8%
MSCI EAFE	2.0%	30.6%	20.4%	-43.1%
MSCI Emerging Mkts	4.3%	71.5%	26.4%	-53.5%
DJ REIT	6.9%	20.1%	38.2%	-39.2%
S&P 500 Financials	4.4%	19.1%	23.3%	-56.6%
Fixed Income				
Barclays Aggregate	-0.9%	6.7%	4.7%	5.2%
Barclays Treasuries	-1.6%	-2.6%	1.8%	20.1%
Barclays TIPS	-1.6%	12.1%	5.5%	-2.4%
Barclays High Yield	2.3%	56.7%	20.1%	-26.2%
Barclays Bank Loan	1.8%	52.0%	12.9%	-29.5%
AAA ABX (Subprime)	-5.9%	-19.4%	20.5%	-43.2%
Barclays Municipals	0.5%	13.1%	6.3%	-2.5%
3 mo.Libor	0.1%	1.0%	0.4%	3.1%
Alternative				
DJ UBS Commodity	3.5%	16.6%	11.5%	-35.7%
Hedge Funds				
HFRI Fund of Funds**	0.9%	10.7%	5.2%	-21.4%
HFRI Fund Weighted**	1.7%	18.7%	8.4%	-19.0%
CS/Tremont	2.1%	17.5%	9.7%	-19.1%

* Fiscal YTD from June 30, 2009

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Hedge fund performance was strong in November. The HFRI Fund Weighted Index was up 1.7%, while the HFRI Fund-of-Funds Index was up 0.9%, aided by the resurgent equity and credit markets. For the calendar year-to-date, the HFRI Fund Weighted Index is up 18.7% and the HFRI Fund-of-Funds Index is up 10.7%.

Exhibit 2 shows the performance of different hedge fund strategies, as defined by HFRI and CS/Tremont. Unlike in October, global macro and equity long/short funds were among the stronger performers in November. Macro funds benefited greatly from the jump in gold prices, which surged on perceived weakness in the dollar.

Exhibit 2: Hedge Fund Performance by Major Strategy Category

Strategy Indexes	November	YTD 2009	FYTD*	Calendar 2008
Arbitrage/Relative Value				
HFRI**	0.8%	23.6%	9.6%	-18.0%
CS/Tremont-Convert	0.8%	44.1%	16.3%	-31.6%
CS/Tremont-Fixed Income	1.7%	26.4%	13.1%	-28.8%
Event Driven				
HFRI	1.2%	22.1%	11.1%	-21.8%
CS/Tremont	2.2%	17.7%	10.4%	-17.7%
Equity Long/Short				
HFRI	1.6%	22.2%	9.0%	-26.7%
CS/Tremont	1.9%	17.5%	8.6%	-19.8%
Global Macro/CTA				
HFRI	2.6%	6.1%	4.7%	4.8%
CS/Tremont-Macro	3.5%	13.2%	9.4%	-4.6%
CS/Tremont-Managed Future	4.9%	-1.7%	6.2%	18.3%
Multi-Strategy				
HFRI	0.2%	22.1%	8.8%	-20.3%
CS/Tremont	1.0%	23.2%	9.7%	-23.6%

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For equity long/short funds, November represents the continuation of a recent trend. Since September 2008, equity long/short funds have been up in each month the S&P 500 Index was up, and down in every month the S&P 500 Index was down. Despite this high directional correlation, the index of long/short equity funds has outperformed the market, returning -1.56% (annualized) versus a negative -9.6% return for the S&P 500 Index, with a substantially lower standard deviation of 15.5%, against 28.1% for the S&P 500 Index.

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