

## Hedge Fund Market Commentary – April 2008

April brought relief to Wall Street. Most asset classes rallied, allowing investors to recover some of their year-to-date losses. Troubled financial institutions like Washington Mutual were able to raise equity without Fed help, and capital began flowing into distressed loans. However, despite some positive signals, valuations remain tempered by obvious signs of economic slowdown. Exhibit 1 highlights the recent returns to major market indices.

Exhibit 1: 2008 Market Performance

Index	April	March	Year to Date
DJ Wilshire 5000	4.97%	-0.69%	-5.02%
MSCI EAFE	5.56%	-1.00%	-3.76%
MSCI Emerging Mkts	8.10%	-5.16%	-3.79%
DJ Wilshire REIT	6.16%	6.65%	8.43%
Lehman Aggregate	0.33%	0.34%	2.62%
Lehman Treasuries	-1.72%	0.69%	2.63%
Lehman High Yield	4.31%	-0.34%	1.16%
Lehman Bank Loan	4.14%	-0.06%	-1.66%
Lehman Municipals	1.17%	2.86%	0.55%
Libor	0.22%	0.28%	1.14%
DJ AIG Commodity	3.56%	-6.34%	13.51%
HFRF Fund Weighted <sup>1</sup>	1.64%*	-2.14%	-1.78%*

\* Initial Estimate

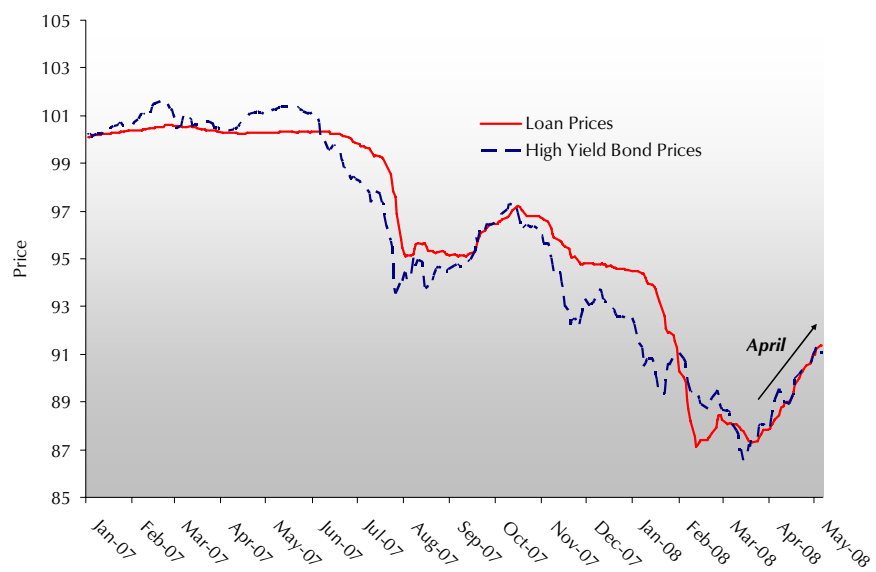
<sup>1</sup> Hedge Fund Research, Inc. ("HFR") is the source and owner of the HFR data contained or reflected in this report and all trademarks related thereto.

The credit markets benefited disproportionately from returning liquidity. The Fed's tactics to promote lending in March signaled a willingness to confront a downward spiral in investor confidence, and set a threshold for action. Bond and loan spreads narrowed as a result. Exhibit 2 shows the average price for high yield bank loans and bonds since the beginning of January, 2007. In April alone, the price of loans increased over three dollars from \$87.84 to \$90.95.

Hedge funds shared in the rewards offered by the surging markets, rising an estimated 1.64%. Among the hedge funds that enjoyed the best returns were leveraged credit funds and equity long/short funds. Not surprisingly, these hedge funds also were among the bottom performers in the first quarter of 2008. In our recent report, "Hedge Funds De-Leverage and Cut Risk," we showed how net and gross exposures have fallen as a result of the credit crisis. This may have tempered the April rebound for many funds, but even hedge funds that maintain low net exposures benefited due to a reduction in price pressure from forced selling and the resulting return to more sound fundamental valuations.

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Exhibit 2: Leveraged Bank Loan and High Yield Bond Prices: Jan 07 through April 08



Source: Lehman Brothers