

Morningstar® Hedge Fund Database Update

The Morningstar 1000 Hedge Fund Index lost 2.53% in November. Although still in the red, this return was a large improvement over its worst-ever 9.8% loss in October and kept the year-to-date return mostly steady at -23.69%. The S&P 500 also improved upon a dreadful October (-21.2%) with a smaller November loss of 9.8%.

Global trend funds once again led the pack with a November gain of 1.7%, bringing the category’s year-to-date return to an impressive 15.03%. Global non-trend and short equity funds were the only other categories in the black for the month at 0.38% and 0.33% respectively. U.S. small cap equity brought up the rear with a 6.56% November loss, dropping its year-to-date return to -27.9%. Only emerging market equity’s woeful 40.2% loss on the year is worse.

This month, the approximately 3,700 fund of funds in the Morningstar database were categorized into seven new fund of funds categories, including:

- Fund of Funds – Debt
- Fund of Funds – Global Derivatives
- Fund of Funds – Equity
- Fund of Funds – Event
- Fund of Funds – Multi-Strategy
- Fund of Funds – Nondirectional
- Fund of Funds – Other

Approximately 2,000 of these fund of funds have at least 38 consecutive months of performance data and have thus been given a star rating as of the end of November, 2008. This doubles the number of Morningstar rated hedge funds to approximately 4,000.

Although all fund of funds categories were in the red for the month, global derivatives topped the list with a 0.17% loss while event brought up the rear with a loss of 4.17%. The largest hedge fund category, fund of funds – multi-strategy with just under 900 funds, lost 3.02% for November. Please see the chart below for more information on the new fund of funds categories.

The Sextant Capital Management funds continue to outperform their peers, as Sextant Strategic Hybrid 2 Hedge, Sextant Strategic Global Water and Sextant Strategic Opportunities posted November returns between 13% and 14% to increase their year-to-date returns to well over 100%. Two developed Asia equity funds, Stratton Street’s Japan Synthetic Warrant Fund and H3 Global Advisors’ H3 Australian Equities, were also impressive with respective November returns of 52.11% and 36.21%.

The Morningstar Hedge Fund Database features about 11,500 investments, including over 8,400 active funds and 3,100 dead funds for research purposes. Up to 300 data points, including information on investment strategy, portfolio holdings, and hedging techniques, are used to sort each fund into a strategy category for peer group analysis purposes. One hundred and seventy-six new funds were added to the database in November and 192 were moved from active to obsolete status due to liquidation or delinquency in reporting.

New Morningstar Hedge Fund of Funds Categories					
Category	# Funds Reporting Nov Returns	Category Average for November	Category	# Funds Reporting Nov Returns	Category Average for November
Fund of Fund – Global Derivatives	179	-1.7%	Fund of Funds - Debt	128	-2.81%
Funds of Funds - Equity	646	-2.58%	Funds of Funds – Multi-Strategy	874	-3.02%
Fund of Funds - Other	261	-2.6%	Fund of Funds - Event	128	-4.17%
Fund of Funds - Nondirectional	73	-2.63%			