

Morningstar® Hedge Fund Database Update

Despite hope for an upward trend after nominal gains in December, the beginning of the new year yielded mixed results. The Morningstar 1000 Hedge Fund Index lost 1.17% on the month, but it did beat the S&P 500, which fell nearly 8%. Although neither index is on pace to match its dreadful fourth-quarter returns (10.6% drop for hedge funds and a 27.1% loss for the S&P 500), it seems safe to say that the glimmer of hope at the end of 2008 was premature.

Equity strategies were hit hard in January as the equity markets continued to decline. Europe equity finished last in the category averages with a loss of 4.39% while developed Asia equity (-3.1%) and global equity (-2.86%) also reported returns well in the red. Conversely, short equity strategies performed better over the same period with a gain of 1.42% while U.S. equity (0.1%) and U.S. small cap equity (-0.5%) managed to at least stay steady.

Convertible arbitrage strategies benefitted from some improvement in the credit markets and led the way in January with a gain of 1.99%. As mentioned above, short equity followed closely behind, and corporate actions (0.35%), multi-strategy (0.14%), and U.S. equity were the only other categories to report positive returns for the month. For more information on returns by strategy, please see the chart below.

Results were better on the individual fund level. Despite pressures from increased redemption demand, limited financing, and the prospect of tougher regulation, 57% of the hedge funds in the Morningstar database were able to report positive returns for January and a few select funds did very well. KAMEF Ltd, a U.S. equity fund managed by Kayne Anderson Capital Advisors, returned 27.79% in January while two other U.S. equity strategies, Christofferson Robb & Company's CRC Financials Opportunity Fund Ltd (26.43%) and Thunder Capital Management's Thunder Gold Partners (25.51%) were also able to post impressive returns to start 2009.

The Morningstar Hedge Fund Database features about 11,500 investments, including nearly 8,100 active funds and over 3,000 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. Two hundred forty-eight new funds were added to the database in January and 468 funds were removed. Funds are removed from Morningstar's database if the fund liquidates, if the manager wishes to stop reporting, or if the fund fails to report for six months.

Morningstar Single-Strategy Hedge Fund Categories					
Morningstar Category	January 2009 Performance	Q4 2008 Results	Morningstar Category	January 2009 Performance	Q4 2008 Results
Convertible Arbitrage	1.99%	(11.72%)	Emerging Market Equity	(1.39%)	(17.24%)
Short Equity	1.42%	(0.96%)	Global Non-Trend	(1.44%)	(0.67%)
Corporate Actions	0.35%	(11.62%)	Equity Arbitrage	(1.75%)	(2.98%)
Multi-Strategy	0.14%	(7.52%)	Global Trend	(2.16%)	10%
U.S. Equity	0.1%	(13.15%)	Global Debt	(2.3%)	(11.79%)
U.S. Small Cap Equity	(0.53%)	(18.54%)	Global Equity	(2.86%)	(12.47%)
Debt Arbitrage	(0.81%)	(8.52%)	Developed Asia Equity	(3.1%)	(5.16%)
Distressed Securities	(1.11%)	(15.71%)	Europe Equity	(4.39%)	(10.25%)
Morningstar 1000 HF	(1.17%)	(10.62%)	S&P 500	(7.98%)	(27.11%)