

Morningstar[®] Hedge Fund Database Update

Hedge fund performance remained relatively flat in February--funds easily outperformed the equity markets, but continued volatility in the market coupled with liquidity concerns resulting from both selling pressure and redemptions precluded returns in the black. The Morningstar 1000 Hedge Fund Index followed January's small loss of 1.01% with a February loss of 1.21% while the S&P 500 dropped an additional 11.54% in February to bring its year-to-date returns to -18.6%.

For the second straight month, convertible arbitrage led all strategy categories with a February gain of 0.94%, bringing its year-to-date gain to 2.77%. Emerging-markets equities followed behind with 0.36% return, a welcome change after a dismal 39% loss in 2008 and a 1.42% loss in January. Short equity rounded out the positive returns with a 0.34% gain while debt arbitrage (-0.06%) and fund of funds – nondirectional (-0.07%) followed close behind.

While equity markets continued to fall in February, their performance was more predictable than in 2008. Thus, equity managers were better able to position portfolios to avoid a repeat of last year's big losses. Developed Asia equity was the worst performer among all strategy categories with a loss of 4.07%, while U.S. small-cap equity (-3.94%), global equity (-3.03%), and U.S. equity (-2.78%) also posted significant losses. Europe equity (-2.29%) and fund of funds – equity (-1.41%) were unable to make gains, but these categories did avoid the large losses seen in the broader equity markets. For more information on the equity strategy categories, please see the chart below.

Top performers for the month included The Dejima Fund Limited, a developed Asia equity strategy managed by Stratton Street Capital that significantly outperformed its category with a February gain of 69.44%. Pacific Asset Management's Fixed Income and Currency Fund, a debt arbitrage strategy, was in a very distant second place with a monthly return of 28.45%. Two global non-trend funds, Acer Finance's Acer Strategie Acc and Swiss Life Asset Management's Puissance K Acc also returned over 25%.

The Morningstar Hedge Fund Database features almost 12,000 investments, including approximately 8,100 active funds and 3,800 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 twelve new funds were added to the hedge fund database in February and 277 funds were obsoleted. Funds are removed from Morningstar's database if the fund liquidates, if the managers wish to stop reporting returns, or if the fund fails to report for six months.

Equity Hedge Fund Strategies							
Category	Feb 09	Jan 09	Q4 2008	Category	Feb 09	Jan 09	Q4 2008
Short Equity	.34%	1.42%	(.96%)	Developed Asia Equity	(4.07%)	(3.19%)	(5.16%)
U.S. Equity	(2.78%)	.16%	(13.15%)	Europe Equity	(2.29%)	(4.35%)	(10.25%)
U.S. Small Cap Equity	(3.94%)	(.88%)	(18.54%)	Fund of Funds – Equity	(1.41%)	(2.18%)	(11.22%)
Global Equity	(3.03%)	(2.4%)	(12.47%)				
				S&P 500	(11.54%)	(7.98%)	(27.11%)