

## Morningstar® Hedge Fund Database Update

The rebound in the equity markets is the top story this month, as the S&P 500 Index shot up over 10% in March and enjoyed its first monthly return in the black since December. While hedge funds did benefit from the equity recovery, gaining 2.42% on the month, widespread caution in the industry precluded strong bets and managers were typically not well positioned to take full advantage of the upswing. Year to date, hedge funds have stayed relatively flat (0.17%) while the S&P 500 is down 10.24%

All of the long-biased equity strategies were able to gain ground this month. Emerging market equity led all strategy categories with a 5.76% gain, while Europe equity (4.33%) followed close behind, and U.S. small cap equity and developed Asia equity returned 4.04% each. Global equity (3.35%), U.S. equity (3.25%) and Fund of Funds – Equity (2.1%) were also able to make gains.

Though the year-to-date growth has been tempered somewhat by continuing market volatility and sluggish equity markets in January and February, Q1 2009 has shown marked improvement over Q4 2008. While global trend was the only category with positive returns for Q4 2008, four diverse strategies gained ground in the first three months of 2009. Convertible arbitrage was the top returner with a 7.73% gain while emerging market equity (5.54%), corporate actions (1.46%), and multi-strategy funds (0.18%) also remained in the black. For more information on Q1 2009 compared to Q4 2008, please see the chart below.

As expected with the rise of the S&P 500, equity strategies are well represented in March's top performers. The Three Kingdoms Korea Fund, a developed Asia strategy managed by FPP Asset Management, led the way with a 38.6% return on the month. Two U.S. funds, PharnalInvest Fund, a U.S. small cap equity vehicle from GEM Global Equities Management, and Ensign LP, a U.S. equity fund managed by Marriott Affiliated Capital partners, also returned over 37% each.

The Morningstar Hedge Fund Database features just over 12,000 investments, including approximately 8,100 active funds and 4,000 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. One hundred thirteen funds were added to the hedge fund database in February and 267 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.

### Morningstar Hedge Fund Strategy Categories: Q4 2008 v. Q1 2009

Category	Q4 2008	Q1 2009	Category	Q4 2008	Q1 2009
Convertible Arbitrage	(11.72)	7.73	Equity Arbitrage	(2.98)	(1.04)
Emerging Market Equity	(17.24)	5.54	Fund of Funds – Multistrategy	(12.12)	(1.63)
Corporate Actions	(11.62)	1.46	Fund of Funds – Derivatives	(2.69)	(1.73)
Multi-Strategy	(7.52)	1.18	Global Non-Trend	(0.67)	(1.77)
Fund of Funds – Non-Directional	(10.6)	0.0	Fund of Funds – Equity	(11.22)	(2.03)
U.S. Equity	(13.15)	(0.22)	Fund of Funds – Debt	(11.83)	(2.22)
Debt Arbitrage	(8.52)	(0.52)	Europe Equity	(10.25)	(2.44)
Global Debt	(11.79)	(0.6)	Global Equity	(12.47)	(2.47)
Short Equity	(0.96)	(0.83)	Global Trend	10.0	(3.86)
Fund of Funds – Event	(13.48)	(0.86)	Distressed Securities	(15.71)	(4.05)
U.S. Small Cap Equity	(18.54)	(1.01)	Developed Asia Equity	(5.16)	(4.37)