

Morningstar® Hedge Fund Database Update

April performance bolstered hope for an economic recovery, as the S&P 500 Index followed last month's 10% gain with an 18.56% April return, bringing its year-to-date performance into the black at 6.42%. Though hedge funds also benefitted from the dual rally in equity and credit markets, managers remained wary of perceived economic weakness and the Morningstar 1000 Hedge Fund Index gained only 3.21% for the month (3.19% year-to-date).

This was another terrific month for equity strategies. The emerging markets category led the pack with an April return of 8.88%, but U.S. small cap equity was close behind with an 8.31% return on the month. Developed Asia equity (5.81%), U.S. equity (5.62%), global equity (4.90%), and Europe equity (3.76%) also posted significant gains. While emerging markets strategies top the year-to-date returns with a gain of 14.25%, it is certainly worth noting that all long-biased equity strategies are now in the black for 2009. For more information on equity strategies, please see the chart below.

Though equity strategies stole the spotlight for the second straight month, there was plenty of good news in the hedge fund industry as a whole. The highest performers outside the equity categories were corporate actions at 4.83% and convertible arbitrage at 4.01%, which added to a chart-topping 7.05% gain in the first quarter of 2009. Only two categories, global trend (-1.44%) loss and short equity (-1.66%), were unable to report positive performance for the month.

All fund of funds categories made gains for the month as managers took advantage of the overall economic improvement. Fund of funds-equity led the way with a return of 2.18% while fund of funds-nondirectional (1.52%) and fund of funds-events (1.48%) also posted impressive gains. Fund of funds-derivatives reported the lowest returns among multimanager categories, but still managed to stay in the black with a gain of 0.26%

The award for top performer in April goes to LaGrange Capital Management, whose distressed securities fund returned an incredible 106.93% on the month, wiping out previous 2009 losses and bringing its year-to-date return to 56.5%. The Elevated Focus LP, a U.S. equity strategy managed by Elevated Capital LLC, and the Brazil Challenger Equity Value, an emerging market equity fund from FAMA Investimentos, also performed well with respective gains of 70.33% and 48.59%.

The Morningstar Hedge Fund Database features just over 12,000 investments, including nearly 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. Two hundred seventy-two new funds were added to the hedge fund database in April and 339 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.

Long-Biased Equity Strategies vs. Overall Hedge Funds Returns					
Category	Q1 2009	April 09	Category	Q1 2009	April 09
Emerging Market Equity	5.31%	8.88%	Europe Equity	(2.47%)	3.76%
U.S. Small Cap Equity	(0.76%)	8.31%	Fund of Funds – Equity	(1.98%)	2.18%
Developed Asia Equity	(4.20%)	5.81%			
U.S. Equity	(0.18%)	5.62%	S&P 500 Index	(10.24%)	18.56%
Global Equity	(2.53%)	4.90%	Morningstar 1000 HF Index	(0.29%)	3.21%