

## Relief for Hedge Funds in January

by Nadia Papagiannis, CFA | 02-26-09 | 04:00 PM

As stocks and government bonds got clobbered in January, hedge funds held up relatively well. The Morningstar 1000 Hedge Fund Index declined only 1.2% and the currency-hedged Morningstar with MSCI Hedge Fund Composite Asset-Weighted Index rose 1.2%, against the MSCI World Index's 8.9% drop and the BarCap Global Aggregate Index's 3.3% decline.

Relative-value trading became profitable in January, especially in bonds, as increased liquidity from global fiscal and monetary actions and new debt issues led to narrowing spreads. The Morningstar with MSCI Relative Value Hedge Fund Index increased 2.2% in January, while the Morningstar Debt Arbitrage Hedge Fund Index rose 0.6%.

Also benefiting from narrowing spreads, convertible bonds continued their December rebound. The Morningstar Convertible Arbitrage Index rose 1.0% in January. Large allocations to convertible arbitrage strategies also drove up the Morningstar Multistrategy Hedge Fund Index, which increased 1.1%.

Increased liquidity also prompted a surge in January U.S. merger and acquisition volume, even though the number of announced deals dwindled. Funds in the Morningstar Corporate Actions Hedge Fund Index, which aim to profit from such deals, rose 0.7%.

News of high unemployment and economic contraction battered U.S. and European stocks, but the Morningstar US Equity Hedge Fund Index ended the month up 0.4%. The currency-hedged Morningstar with MSCI Europe Hedge Fund Index also rose 0.5% while the Morningstar Europe Equity Hedge Fund Index declined 3.7%. Some European hedge funds made local currency gains, but the U.S. dollar appreciated against the euro.

Emerging markets also suffered, as investors fled from Eastern European and Russian stocks, although Latin American stocks held steady. The Morningstar with MSCI Emerging Market Hedge Fund Index dropped 0.4% in January.

The rise in the U.S. dollar created profits for some price-trend-following and global-macro non-trend funds in January, but volatility across equity, government bond, and commodity markets throughout the month led to trading losses. The Morningstar Global Non-Trend Hedge Fund Index rose 0.1% while the Morningstar Global Trend Hedge Fund Index declined 1.6%.

Investors continued to pull out of hedge funds, withdrawing \$26 billion in December 2008 and \$70 billion for the year. Europe- and U.S.-equity hedge funds saw the largest redemptions, losing \$14.8 and \$18.3 billion respectively in 2008.

### Morningstar Hedge Fund Index Returns ( % )

	Jan 2009
Morningstar 1000 HF PR USD	-1.17
Morningstar Hedge Fund of Funds PR USD	-1.19
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<b>Morningstar Hedge Fund Category Indexes</b>	
Morningstar Convertible Arbitrage HF PR USD	1.02
Morningstar Corporate Actions HF PR USD	0.67

Morningstar Debt Arbitrage HF PR USD	0.60
Morningstar Distressed Securities HF PR USD	0.33
Morningstar Dvlp Asia Equity HF PR USD	-1.67
Morningstar Emerging Markets Equity HF PR USD	-4.82
Morningstar Equity Arbitrage HF PR USD	-0.79
Morningstar Europe Equity HF PR USD	-3.71
Morningstar Global Debt HF PR USD	-0.81
Morningstar Global Equity HF PR USD	-2.21
Morningstar Global Non Trend HF PR USD	0.14
Morningstar Global Trend HF PR USD	-1.57
Morningstar Multistrategy HF PR USD	1.14
Morningstar Short Equity HF PR USD	1.73
Morningstar US Equity HF PR USD	0.39
Morningstar US Small Cap Eqty HF PR USD	-1.19
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<b>Morningstar Broad Hedge Fund Cat Indexes</b>	
Morningstar Arbitrage HF PR USD	0.38
Morningstar Equity HF PR USD	-2.04
Morningstar Event HF PR USD	1.15
Morningstar Global Derivatives HF PR USD	-0.78
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<b>Select Morningstar HF Indexes with MSCI</b>	
Morningstar Composite Asset wtd HF w/MSCI	1.15
Morningstar Composite Equal wtd HF w/MSCI	0.43
Morningstar Emerging Markets HF w/MSCI	-0.44

Morningstar Relative Value HF w/MSCI	2.15
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**Market Indexes**

MSCI AC Asia USD	-6.34
MSCI EM USD	-6.62
MSCI Europe USD	-11.16
MSCI World USD	-8.85
S&P 500 TR	-8.43
BarCap Global Aggregate TR USD	-3.27
BarCap Gbl Agg Govt TR USD	-4.00

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All returns are in U.S. dollar terms. For the Morningstar Hedge Fund Indexes, returns are based on hedge funds that reported performance as of Feb. 23, 2009. For the Morningstar Hedge Fund Indexes with MSCI, returns are based on hedge funds that reported performance as of Feb. 17, 2009.