

## HedgeFund.net (HFN): Study of Hedge Fund Turnover Reveals Industry Trends

[New York, NY] April 29, 2008 – HFN recently completed an internal study of turnover rates in its database of over 8,100 hedge funds, funds of funds and CTA products. Turnover is defined as funds removed from the database due to liquidations, failure to report performance or by request of the manager. The study defined areas within hedge fund classifications which experienced abnormal levels of funds exiting the database as of April 15, 2008 relative to their classification's weight in the database and compared to the same time period one year prior. For example, if a fund type accounts for 10% of all funds in the HFN database, yet accounted for 50% of all funds removed this year compared to 15% last year, this fund type would be experiencing above average removal, or turnover rates.

HFN maintains the industry's tightest restrictions on how long funds are allowed to remain in the live database without updating monthly performance. Likely due to the difficult economic environment HFN noticed a spike in funds being removed from the live database in April and performed a study to determine if the trends in the database coincided with trends in financial markets. In addition to this study, HFN will soon release its quarterly hedge fund asset flow report detailing total asset levels and flow trends throughout the industry.

From Donald Cacciapaglia, Chairman/CEO of Channel Capital Group Inc. which owns HFN, "The size and quality of the HFN database provides us unique insight of hedge fund industry trends. Our experience with monthly performance reporting and the results of our Hedge Fund Asset Flows Report warranted a closer look at attrition rates among funds."

### Summary of results:

- Funds reporting less than \$15 million in AUM account for 21.6% of the HFN database, yet accounted for the majority of fund turnover, 46.9%, while funds reporting greater than \$250 million account for 30.2% of the database, but accounted for the smallest percentage of turnover, 9.8%. This is in line with historical trends of higher turnover for smaller funds, but counters major media stories which spotlight high profile liquidations. Compared to the same period last year, there was no material increase, in fact a decrease, in the turnover rates of large hedge funds in the database.
- Funds focusing on structured credit securities account for a small portion of the HFN database, only 0.6%, but accounted for 4.1% of the fund removals during the period. This is in line with difficulties in credit markets and highlights the relatively poor performance these funds have produced since last summer. In the last six months ending March 2008, the average structured credit focused fund is -4.29%.
- Fixed income arbitrage funds experienced elevated turnover rates compared to a year ago. These funds make up 1.9% of the HFN database and accounted for 5.2% of the turnover whereas last year they accounted for only 1.5%.
- Funds focused on convertible bond related strategies also experienced an elevated rate of removal from the HFN database. These funds account for only 1.3% of the database yet accounted for 4.1% of the turnover. The HFN Convertible Arbitrage Average is -2.92% in 2008, slightly worse than the average of all hedge funds.
- Commodity and FX focused funds have experienced lower turnover rates. These funds account for 5.3% of the HFN database, but accounted for only 2.1% of the funds removed. The HFN CTA/Managed Futures Average was +8.33% in Q1 2008, the benchmark's best Q1 on record.
- Despite above average losses in 2008, emerging market focused hedge funds have not experienced above average rates of removal from the HFN database, an indication investor's are perhaps more willing to accept elevated levels of volatility in these funds. During this period last year, emerging markets funds accounted for 5.2% of fund turnover.

### Summary of geographical trends:

- Funds with legal structures domiciled in the U.S. experienced high turnover rates. These funds are 30.4% of the HFN database, but accounted for 47.4% of removals. Funds domiciled outside of the U.S. account for 69.6% of the database yet accounted for only 52.6% of the turnover.

- Funds investing in Europe and Asia experienced low turnover rates. Hedge funds predominantly investing in Asian markets account for 8.6% of the HFN database, yet accounted for only 6.7% of turnover. Funds investing in European markets are 9.0% of the HFN database, yet accounted for only 4.6% of turnover.

- Despite the favorable trends for funds investing in broad Asian markets, the removal rate was elevated for funds focusing investments in Japan. These funds account for only 2.7% of the database, yet accounted for 4.1% of removals.

HedgeFund.net (HFN), a division of Channel Capital Group Inc, is a leading source for hedge fund news and information. Investors who meet HedgeFund.net's accreditation standards are eligible for access to an online database of more than 8,100 hedge funds, funds-of-funds and CTA/managed futures products. HFN serves a rapidly growing user base of more than 33,000 accredited investors worldwide. Registered users include a wide range of institutional investors and high net worth individuals. For more information or to register, please go to [www.HedgeFund.net](http://www.HedgeFund.net).

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