

HFN Industry Overview: August 2009

On September 15, with 2,537 hedge fund products reporting performance, the HFN Hedge Fund Aggregate Index was +1.74% in August and +13.87% in 2009. The S&P 500 Total Return Index (S&P) was +3.61% in August and +14.96% YTD.

Hedge Fund Industry Highlights:

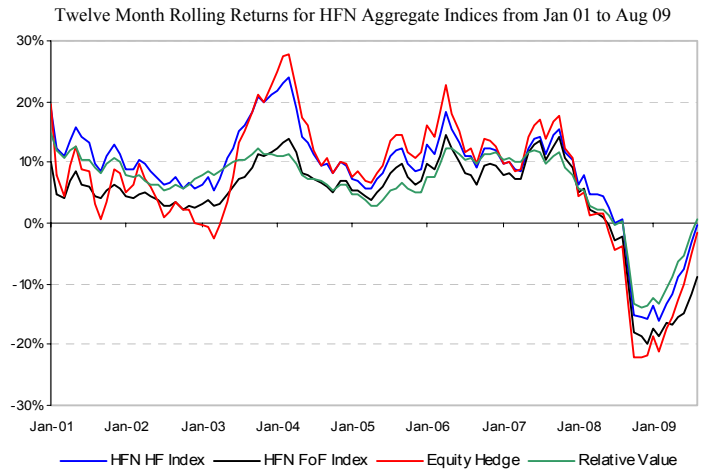
- August performance was positive for the sixth straight month; the longest streak of positive performance since July 2007, the final month of a twelve month positive run.
- Total industry assets rose 2.56% to an estimated \$1.886 trillion. Investor inflows picked up pace again in August.
- August performance was led by Finance Sector, Distressed and Mortgage related strategies. Short Bias, Technology Sector and Macro funds lagged.

NOTE: As of September 15, 2009 HFN changed the names of all benchmarks from "Average" to "Index". The methodology for calculations remains the same.

As was the case in July, positive hedge fund performance in August was driven by strong equity markets. Directional fixed income strategies continued to add to what appears will be a record year. Volatility in currency and commodity markets, most notably in the energy sector, likely contributed to slightly negative average performance from global macro managers.

Equity market (S&P 500 TR) performance overtook average hedge fund returns for 2009 in August after rising more than 40% since February. To give a sense of equity market volatility, in 2009 the HFN Hedge Fund Index has either underperformed or outperformed the S&P 500 TR by more than 500 basis points in all but three months. The average differential between the two benchmarks during these months was 730 basis points. Since the beginning of 1997, the historical average monthly differential is only 280 basis points.

September 15, 2009



HFN Aggregate Indices Performance*

	August	YTD	LTM
HFN Hedge Fund Aggregate Index	1.74%	13.87%	-0.48%
HFN Fund of Funds Aggregate Index	1.38%	6.94%	-9.03%
HFN Equity Hedge Aggregate Index	2.28%	17.28%	-1.60%
HFN Relative Value Aggregate Index	2.03%	14.46%	0.80%
S&P 500 TR	3.61%	14.96%	-18.27%

HFN Regional Benchmarks

Emerging market hedge fund performance was mixed in August after several months of broadly strong returns. The result was that average emerging market returns lagged the broad industry for the first month since February. The underperformance in that month was the final month of a string of 9 straight months of underperforming emerging market exposure.

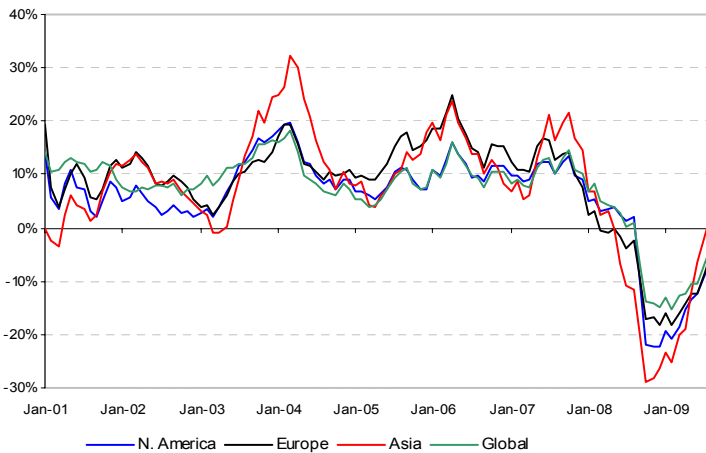
The HFN Emerging Markets Index was +1.66% in August and is +27.38% in 2009. Emerging market returns for the month were led by funds with primary exposure to Latin America's markets. While Brazilian equities appeared to provide the bulk of above average positive returns, the best August performance came from exposure to Argentine distressed securities. China was the source of the only negative average emerging market returns in August, although China funds did produce the best returns one month prior.

The chart below ranks regional benchmarks by percent returns needed to regain prior peaks, the date of those prior peaks and the benchmark's 2009 compound average monthly returns.

Regional Benchmark Peak Analysis

	% Return Needed to Peak	Date of Peak	2009 Compound Monthly Return
HFN Australia Index	0.00%	Aug-09	2.89%
HFN Brazil Index	2.31%	May-08	4.38%
HFN Latin America Index	2.75%	May-08	4.13%
HFN US Index	4.69%	May-08	1.90%
HFN Global Index	8.82%	Oct-07	1.24%
HFN North America Index	10.11%	May-08	2.43%
HFN Europe Index	11.26%	Oct-07	1.56%
HFN Asia Index	16.87%	Oct-07	2.43%
HFN Japan Index	20.01%	Jan-06	1.31%
HFN China Index	26.61%	Oct-07	3.54%
HFN Mid East/N. Africa Index	41.65%	May-08	2.57%
HFN India Index	67.49%	Dec-07	4.65%
HFN Russia Index	104.11%	May-08	3.85%
HFN Emerging Mkts Index	29.99%	Oct-07	3.52%

Twelve Month Rolling Returns for HFN Regional Indices from Jan 01 to Aug 09



Developed Market Regional Performance*

	August	YTD	LTM
HFN North America Index	1.69%	18.32%	-6.69%
HFN Europe Index	3.02%	11.44%	-4.75%
HFN Asia Index	0.83%	18.34%	2.80%
HFN U.S. Index	1.68%	14.09%	-1.96%
HFN Japan Index	1.55%	9.52%	1.00%
HFN Australia Index	5.35%	22.09%	11.43%
HFN Global Index	1.55%	9.02%	-3.86%
S&P 1200 Global	3.44%	17.95%	-18.97%

Monthly Asset Flow Estimates¹

- Total hedge fund assets at the end of August were estimated at \$1.886 trillion, an increase of 2.56%, or \$47.09 billion since July.
- Performance accounted for \$27.9 billion of the increase and investor allocations accounted for \$19.6 billion.
- The rate of organic growth (asset rise due to investor allocations) increased in August to 1.05%, nearly matching rates seen in June.

The increased rate of investor allocations in August is a very positive sign for the industry after the dip in investor allocations in July. Following the nine straight months of outflows ending in April 2009, flows turned positive in May and increased in June before declining in July. During this recent stretch, the level of redemptions remained steady which was an indication that the surge of outflows had ended and increases in inflows resulted in overall industry growth.

Sub-sector Specific Flows

- Managers located in Europe had the highest rate of inflows in August followed by Asia, then North America.
- The rate of allocations to fixed income strategies outpaced equity related strategies in August for the first time since May, but commodity related strategies had the highest broad sector inflows.
- Funds investing primarily in mortgage related securities had the highest rates of allocations among fixed income strategies and allocations to broad corporate bond strategies outpaced sovereign bond strategies for the second straight month.
- Convertible bond strategies saw a net inflow from investors for the first time in 14 months.
- Despite lagging other main sectors, equity strategies had their highest rate of post-crisis allocations.
- Investors allocated to relative value strategies at a faster rate than directional long/short for the first time since the financial crisis abated.

August Performance Review

Fixed Income (FI) Strategies

Mortgage related strategies continued to post the best fixed income focused fund returns. The average mortgage focused fund returned +3.43% in August and the HFN Mortgages Index is +37.46% YTD, by far the best HFN Strategy Specific Index in 2009. The higher end of the risk spectrum is once again producing the best returns as distressed debt specific strategies returned an average of +5.31% in August and high yield strategies were +2.86%.

Equity (EQ) Strategies

Average performance across EQ related strategies lagged fixed income funds for only the second time in the last seven months. The HFN Long/ Short Equity Index was +2.28% in August and +16.46% YTD. Average returns from EQ focused funds continued to outperform the S&P in 2009 and are on pace for their best performance in more than 5 years.

Commodity and Foreign Exchange (FX) Related Strategies

Funds focusing on foreign exchange markets had a difficult time in August. The U.S. Dollar Index had a volatile month, but ended August mostly unchanged. The average FX focused fund was -0.41% during the month, the third consecutive month in which these funds have produced average losses. For the year, the average return from FX focused funds is +1.09%.

Going Forward

With few exceptions, global equity markets in September have continued to rise. Rising industrial production in August, even ex-motor vehicles and parts sales, is an indication that, at least in the U.S., the recession may have ended.

From hedge fund investors, the high rate of increase in allocations to corporate bond related strategies versus equity strategies could imply two things, 1) there may be increasing confidence in corporate profits and 2) despite this confidence, investors may be cautious about equity market valuations following the massive run-up over the past 6 months.

Best Performing HFN Indices in August*

	August	YTD	LTM
HFN Finance Sector Index	4.70%	14.33%	7.87%
HFN Special Situations Index	4.45%	33.87%	6.32%
HFN Distressed Index	4.37%	18.42%	-8.20%
HFN Small/Micro Cap Index	3.90%	27.19%	-4.22%
HFN Mortgages Index	3.43%	37.64%	40.14%

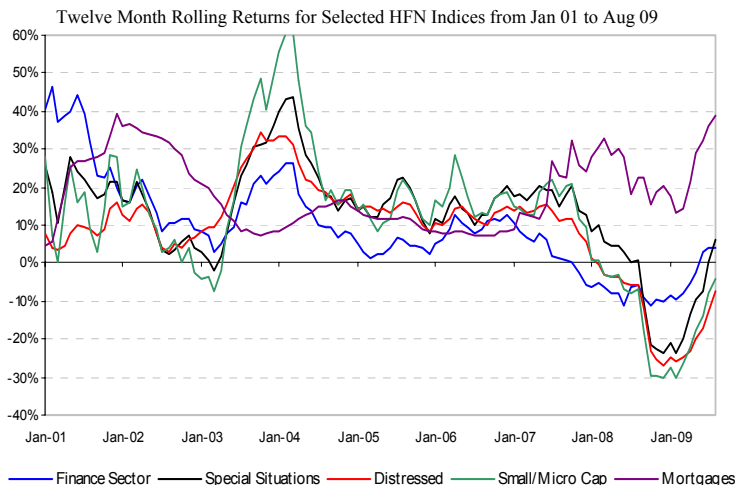


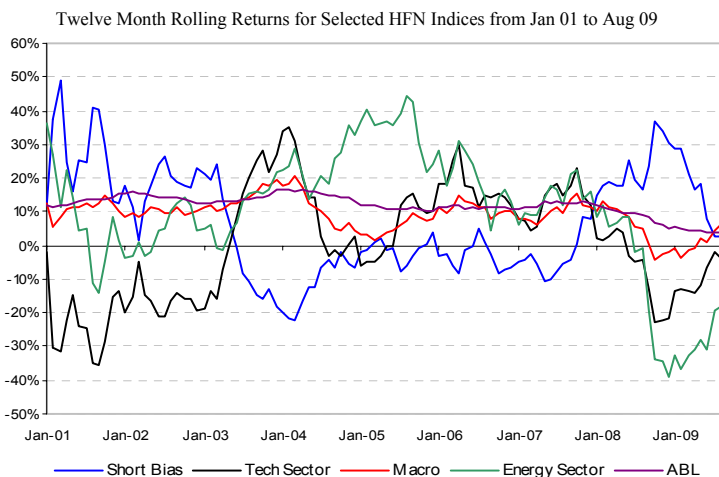
TABLE 1 & 2: Percentile ranked LTM cumulative returns, through August 2009, for the Equity and Fixed Income focused funds in the HFN database by USD AUM. Asset groups are for AUM as of September 2008

Equity Strategies				
	< 20mm	20 - 100	100 - 500	500mm+
Total Funds	696	718	540	111
10th Percentile	18.31%	18.08%	17.10%	8.93%
25th Percentile	5.65%	6.81%	5.94%	5.07%
50th Percentile	-4.43%	-2.38%	-2.01%	-0.52%
75th Percentile	-16.01%	-14.17%	-13.03%	-7.65%
90th Percentile	-27.19%	-25.21%	-28.35%	-17.97%

Fixed Income Strategies				
	< 20mm	20 - 100	100 - 500	500mm+
Total Funds	92	128	149	63
10th Percentile	25.41%	22.77%	24.83%	15.60%
25th Percentile	12.13%	9.92%	12.81%	9.78%
50th Percentile	6.08%	0.81%	0.71%	-4.01%
75th Percentile	-4.34%	-5.43%	-12.68%	-16.35%
90th Percentile	-15.20%	-18.46%	-42.24%	-30.10%

Worst Performing HFN Indices in August*

	August	YTD	LTM
HFN Short Bias Index	-1.66%	-13.93%	3.12%
HFN Technology Sector Index	-0.50%	14.05%	-3.01%
HFN Macro Index	-0.05%	7.10%	6.42%
HFN Energy Sector Index	0.17%	25.87%	-17.33%
HFN Asset Based Lending Index	0.33%	3.95%	3.59%



PLEASE SEE THE FOLLOWING PAGES FOR A SUMMARY OF AUGUST PERFORMANCE AND STATISTICS AND PEAK ANALYSIS TABLE FOR HFN HEDGE FUND BENCHMARKS

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*For details on fund components of the HFN Indices visit: www.hedgefund.net

1 – Full asset flow data across all hedge fund strategies and regions is available to subscribers of the HFN Quarterly Asset Flow Report
2 – Detailed reports on strategies and regional investment focus are updated weekly. Visit the Research section at www.hedgefund.net for an archive of reports.

Disclosure:

Past performance is not indicative of future returns

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Estimated August 2009 Returns for HFN Indices

HFN Aggregate Benchmarks	August	YTD 2009	Last 6 Months	Last 9 Months	Last 12 Months	LTM Annualized St Dev	LTM Monthly Compound Avg Return	Full Year 2008	Full Year 2007
HFN Hedge Fund Aggregate Index	1.74%	13.87%	15.39%	14.44%	-0.48%	11.59%	-0.04%	-15.75%	10.55%
HFN Fund of Funds Aggregate Index	1.38%	6.94%	6.76%	5.81%	-9.03%	9.89%	-0.79%	-19.97%	9.28%
HFN Equity Hedge Aggregate Index	2.28%	17.28%	20.16%	18.30%	-1.60%	14.84%	-0.13%	-21.87%	10.75%
HFN Relative Value Aggregate Index	2.03%	14.46%	14.44%	15.06%	0.80%	10.54%	0.07%	-13.48%	7.78%
HFN Regional Benchmarks									
HFN North America Index	1.68%	14.09%	14.94%	14.30%	-1.96%	11.58%	-0.16%	-15.29%	9.16%
HFN Europe Index	3.02%	11.44%	13.75%	10.41%	-4.75%	11.66%	-0.40%	-18.16%	7.51%
HFN Asia Index	0.83%	18.34%	22.60%	22.05%	2.80%	16.42%	0.23%	-26.16%	14.74%
HFN Latin America Index	3.66%	32.77%	32.52%	33.70%	5.41%	21.78%	0.44%	-22.96%	23.62%
HFN Middle East/North Africa Index	2.25%	19.41%	30.03%	16.68%	-21.48%	28.29%	-2.00%	-39.53%	36.35%
HFN Global Index	1.55%	9.02%	9.26%	8.69%	-3.86%	9.19%	-0.33%	-15.02%	10.00%
HFN Country Specific Benchmarks									
HFN Australia Index	5.35%	22.09%	21.77%	22.98%	11.43%	10.66%	0.91%	-9.67%	10.70%
HFN Brazil Index	1.71%	34.97%	34.64%	36.63%	7.49%	23.04%	0.60%	-22.49%	33.33%
HFN China Index	-2.30%	27.60%	28.20%	33.30%	7.61%	21.02%	0.61%	-34.57%	50.36%
HFN India Index	1.95%	37.44%	50.99%	45.47%	-5.60%	40.57%	-0.48%	-56.56%	51.79%
HFN Japan Index	1.55%	9.52%	14.58%	12.35%	1.00%	11.11%	0.08%	-15.50%	-3.53%
HFN Russia Index	0.53%	30.27%	40.52%	21.12%	-37.52%	43.86%	-3.84%	-61.20%	22.81%
HFN U.S. Index	1.68%	14.09%	14.94%	14.30%	-1.96%	11.58%	-0.16%	-15.29%	9.16%
HFN Single Strategy Benchmarks									
HFN Asset Based Lending Index	0.33%	3.95%	2.56%	3.65%	3.59%	1.50%	0.29%	5.28%	12.72%
HFN Capital Structure Arbitrage Index	2.60%	23.43%	15.19%	25.68%	10.33%	13.91%	0.82%	-18.53%	7.60%
HFN Convertible Arbitrage Index	2.73%	33.40%	25.01%	35.55%	4.77%	20.32%	0.39%	-24.40%	4.18%
HFN Country Specific Index	0.86%	23.90%	30.59%	25.57%	-4.59%	24.11%	-0.39%	-34.50%	22.41%
HFN CTA/Managed Futures Index	1.36%	1.49%	3.01%	2.41%	3.16%	5.73%	0.26%	10.98%	12.47%
HFN Distressed Index	4.37%	18.42%	19.73%	14.91%	-8.20%	16.92%	-0.71%	-27.10%	5.63%
HFN Emerging Markets Index	1.66%	27.38%	32.98%	25.58%	-11.72%	26.43%	-1.03%	-39.51%	21.71%
HFN Energy Sector Index	0.17%	25.87%	23.87%	19.88%	-17.33%	26.29%	-1.57%	-38.92%	16.00%
HFN Event Driven Index	2.51%	20.96%	20.63%	19.85%	1.87%	13.38%	0.15%	-20.48%	7.37%
HFN Finance Sector Index	4.70%	14.33%	13.90%	12.43%	7.87%	7.46%	0.63%	-10.20%	-5.86%
HFN Fixed Income (non-arbitrage) Index	1.64%	15.03%	13.43%	15.06%	2.92%	9.58%	0.24%	-13.79%	4.42%
HFN Fixed Income Arbitrage Index	2.27%	12.34%	11.27%	11.45%	-0.44%	9.47%	-0.04%	-11.76%	3.62%
HFN Healthcare Sector Index	1.55%	20.34%	24.04%	23.58%	3.91%	15.60%	0.32%	-14.99%	11.06%
HFN Long Only Index	3.26%	30.47%	39.39%	34.73%	-9.47%	30.53%	-0.83%	-40.79%	9.83%
HFN Long/Short Equity Index	2.20%	16.42%	19.03%	17.36%	-0.72%	13.77%	-0.06%	-20.47%	11.36%
HFN Macro Index	-0.05%	7.10%	7.32%	8.77%	6.42%	5.81%	0.52%	-1.71%	11.54%
HFN Market Neutral Equity Index	0.36%	3.22%	2.83%	3.87%	-0.91%	4.11%	-0.08%	-3.40%	6.38%
HFN Merger/Risk Arbitrage Index	1.26%	6.83%	6.57%	8.35%	2.86%	4.80%	0.24%	-2.89%	6.45%
HFN Mortgages Index	3.43%	37.64%	31.52%	38.49%	40.14%	9.08%	2.85%	20.41%	23.92%
HFN Multi-Strategy Index	1.84%	11.36%	13.53%	11.96%	-2.99%	10.84%	-0.25%	-16.12%	9.32%
HFN Options Strategies Index	0.74%	7.71%	4.32%	9.60%	2.55%	8.28%	0.21%	0.78%	13.96%
HFN Regulation D Index	1.34%	10.09%	10.04%	9.56%	-0.52%	7.66%	-0.04%	-6.21%	14.47%
HFN Short Bias Index	-1.66%	-13.93%	-19.70%	-15.79%	3.12%	19.01%	0.26%	30.60%	7.98%
HFN Small/Micro Cap Index	3.90%	27.19%	33.04%	26.42%	-4.22%	21.98%	-0.36%	-30.37%	9.24%
HFN Special Situations Index	4.45%	33.87%	34.71%	33.27%	6.32%	20.02%	0.51%	-23.54%	12.53%
HFN Statistical Arbitrage Index	1.19%	14.14%	12.63%	14.89%	14.68%	5.41%	1.15%	4.18%	10.47%
HFN Technology Sector Index	-0.50%	14.05%	12.72%	13.51%	-3.01%	11.57%	-0.25%	-21.44%	12.22%
HFN Value Index	3.30%	27.71%	31.17%	29.94%	-8.81%	25.87%	-0.77%	-34.89%	4.97%

Peak Analysis Table for HFN Indices as of August 2009

Aggregate Benchmarks	% Needed to Peak	Date of Peak	Compound Monthly Return 2009
HFN Hedge Fund Aggregate Index	5.32%	Oct-07	1.87%
HFN Fund of Funds Aggregate Index	17.94%	Oct-07	0.96%
HFN Equity Hedge Aggregate Index	11.74%	Oct-07	2.30%
HFN Relative Value Aggregate Index	2.19%	Oct-07	1.95%
S&P 500 TR	45.10%	Oct-07	2.01%
S&P 1200 Global	55.06%	Oct-07	2.39%
Regional/Country Specific Benchmarks	% Needed to Peak	Date of Peak	Compound Monthly Return 2009
HFN Australia Index	0.00%	Aug-09	2.89%
HFN Brazil Index	2.31%	May-08	4.38%
HFN Latin America Index	2.75%	May-08	4.13%
HFN US Index	4.69%	May-08	1.90%
HFN Global Index	8.82%	Oct-07	1.24%
HFN North America Index	10.11%	May-08	2.43%
HFN Europe Index	11.26%	Oct-07	1.56%
HFN Asia Index	16.87%	Oct-07	2.43%
HFN Japan Index	20.01%	Jan-06	1.31%
HFN China Index	26.61%	Oct-07	3.54%
HFN Middle East/North Africa Index	41.65%	May-08	2.57%
HFN India Index	67.49%	Dec-07	4.65%
HFN Russia Index	104.11%	May-08	3.85%
Strategy Specific Benchmarks	% Needed to Peak	Date of Peak	Compound Monthly Return 2009
HFN Healthcare Sector Index	0.00%	Aug-09	2.68%
HFN Merger/Risk Arbitrage Index	0.00%	Aug-09	0.95%
HFN Mortgages Index	0.00%	Aug-09	4.67%
HFN Special Situations Index	0.00%	Aug-09	4.26%
HFN Statistical Arbitrage Index	0.00%	Aug-09	1.91%
HFN Asset Based Lending Index	0.00%	Aug-09	0.56%
HFN Macro Index	0.05%	Jul-09	0.98%
HFN Options Strategies Index	0.12%	Jun-09	1.07%
HFN Capital Structure Arbitrage Index	0.15%	Oct-07	3.05%
HFN CTA/Managed Futures Index	0.63%	Jun-08	0.21%
HFN Convertible Arbitrage Index	1.16%	Oct-07	4.20%
HFN Fixed Income non-Arbitrage Index	1.73%	Oct-07	2.02%
HFN Fixed Income Arbitrage Index	1.90%	Oct-07	1.68%
HFN Short-term Trading Index	1.98%	May-09	0.06%
HFN Regulation D Index	2.13%	Jun-08	1.38%
HFN Market Neutral Equity Index	3.36%	Jun-08	0.45%
HFN Finance Sector Index	3.46%	Dec-06	1.93%
HFN Event Driven Index	6.04%	Oct-07	2.76%
HFN Multi-Strategy Index	8.27%	Oct-07	1.55%
HFN Long/Short Equity Index	10.42%	Oct-07	2.20%
HFN Technology Sector Index	18.53%	Oct-07	1.90%
HFN Distressed Index	18.66%	Oct-07	2.44%
HFN Small/Micro Cap Index	19.25%	Oct-07	3.50%
HFN Country Specific Index	23.28%	Oct-07	3.11%
HFN Value Index	24.27%	Jun-07	3.56%
HFN Short Bias Index	24.54%	Feb-09	-2.12%
HFN Emerging Markets Index	29.99%	Oct-07	3.52%
HFN Long Only Index	36.02%	Oct-07	3.87%
HFN Energy Sector Index	37.22%	Jun-08	3.34%