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HEDGE FUND LAUNCHES FALL, LIQUIDATIONS RISE IN 3Q AS INVESTORS, MANAGERS POSITION FOR MACRO TRENDS IN 2012

Despite quarterly decline, new launches on pace for best calendar year since 2007; Fund dispersion rises by 30 percent in volatile quarter

CHICAGO (December 8, 2011) – The number of new hedge funds launches declined, while the number of liquidations rose in the volatile 3Q11, as Macro considerations surrounding the European sovereign debt crisis continued to drive financial markets and the resolution of the crisis remained unclear. According to the Market Microstructure Industry Report released today by HFR (Hedge Fund Research, Inc.), new hedge fund launches declined to 265 funds in 3Q11, a decline of 15 over the prior quarter but representing a modest increase over 3Q10. Hedge fund liquidations rose to 213 funds, an increase of 22 over the prior quarter and 45 over 3Q10. The 3Q11 liquidation total represents the highest quarterly total since 1Q10, when 240 funds liquidated, while hedge fund launches remain on pace for their highest calendar year total since nearly 1,200 funds launched in 2007.

Indicative of continued investor interest in Macro strategies, launches of new Macro funds have accelerated recently, representing nearly 35 percent of all single manager launches in both the 2nd and 3rd quarters. Through the financial market turmoil which characterized 3Q11, the HFRI Macro Index posted a uncorrelated gain of +0.15 percent in the quarter, while the HFRI Fund Weighted Composite Index declined by -6.65 percent, the fourth worst quarterly decline since 1990. The number of Macro launches nearly equaled Equity Hedge fund launches (39.6

percent) despite Macro funds representing only 21.6 percent of all hedge funds, while Equity Hedge represents nearly half of all hedge funds.

Higher Highs, Lower Lows and Shifting Landscape

Concurrent with increased volatility across all financial markets, the dispersion between the best and worst performing hedge funds expanded in 3Q11 from the low volatility levels experienced during of the first half of the year. The top performance decile of all hedge funds returned an average of +11.5 percent in 3Q while the bottom decile declined by -27.5 percent, producing a top-bottom decile dispersion of nearly 39 percentage points, doubling the 19 percent dispersion of 2Q11. Dispersion in the trailing 12 months ending 3Q increased to 52 percent from the 40 percent dispersion in the trailing 12 months ending 2Q.

Hedge funds launched in the last year are offering investors lower management and incentive fees. Average management fees for funds launched during the previous 12 months declined to 1.58 percent, a drop of 3 bps over the average management fee of funds launched in 2010. Similarly, average incentive fees of hedge funds launched during the same 12-month period declined to 17.04 percent, more than 100 bps lower than the average of funds launched in 2010. In response to both regulatory and institutional transition, hedge funds also continued to evaluate alternative service providers, including changes to prime broker, legal, accounting and administrator partners, with increased trend toward both multi and specialized service providers.

"Trends in launches and liquidations in 3Q11 clearly reflect both increased investor risk aversion and strategic preferences for 2012, with an emphasis on Macro and Relative Value Arbitrage strategies which offer exposure to the macroeconomic and convergence trends continuing to dominate financial markets," said Kenneth J. Heinz, President of HFR. "Elevated levels of equity market volatility since mid-2010 have been a consistent theme and area of concern for global investors. Investors are allocating to hedge funds which provide not only the tactical portfolio complement, but institutional risk management systems, infrastructure and transparency, which will continue to appeal to investors into the coming year."

About HFR

HFR (Hedge Fund Research, Inc.) is the global leader in the alternative investment industry. Established in 1992, HFR specializes in the areas of indexation and analysis of hedge funds. HFR Database, the most comprehensive resource available for hedge fund investors, includes fund-level detail on historical performance and assets, as well as firm characteristics on both the broadest and most

influential hedge fund managers. HFR has developed the industry's most detailed fund classification system, enabling granular and specific queries for relative performance measurement, peer group analysis and benchmarking. HFR produces over 100 indices of hedge fund performance ranging from industry-aggregate levels down to specific, niche areas of sub-strategy and regional investment focus. With performance dating back to 1990, the HFRI Fund Weighted Composite Index is the industry's most widely used standard benchmark of hedge fund performance globally. The HFR suite of Analysis Products leverages the HFR Database to provide detailed, current, comprehensive and relevant aggregate reference points on all facets of the hedge fund industry. HFR also offers consulting services for clients seeking customized top-level or more nuanced analysis. For the hedge fund industry's leading investors and hedge fund managers, **Hedge Fund Research is The Institutional Standard.**

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