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CAMBRIDGE ASSOCIATES LLC

ASIAN HEDGE FUNDS:
An Update on Funds and Managers in the Region

2009

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C O N T E N T S

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ABSTRACT

1. Cambridge Associates believes that Asian hedge funds should serve as an extension of an investor's existing equity exposure to the region. Even though Asia has made significant strides in broadening and deepening the region's markets, inefficiencies still persist. This creates an opportunity for skilled and experienced hedge funds to earn attractive risk-adjusted returns by capturing most of the upside while dampening volatility on the downside.

2. Although difficult markets in 2008 forced some funds to close, there were 801 hedge funds dedicated to investing in Asia at the end of 2008, compared to 350 such funds at the end of 2003. As of the close of 2008, Asian hedge funds made up roughly 9.4% of the 8,500 hedge funds operating worldwide, versus just 6.1% in 2003. The total capital invested in Asian hedge funds, meanwhile, quadrupled from US$27 billion in 2003 to US$110 billion in 2007, before receding back to US$79 billion at the end of 2008. This represented about 5.4% of the total estimated global pool of US$1.47 trillion, compared with 3.6% in 2003.

3. As a group, Asian hedge fund managers (represented by the Eurekahedge Asian Hedge Fund Index) strongly outperformed both the comparative regional (MSCI All Country [AC] Asia Pacific Index) and global market (MSCI AC World Index) indices by more than 20, 10, and 4 percentage points over the respective one-, three-, and five-year periods ending at the close of 2008, while exhibiting far less volatility. Performance data prior to 2004 is of limited use, as the sample size of managers is relatively small.

4. Similar to hedge funds investing outside of Asia, long/short (or long-biased) is the most popular equity strategy in Asia, even though its share of total invested assets shrank from 75% in 2003 to 56% in 2008. As a reflection of the maturing Asian hedge fund landscape, as markets evolve and a broader array of investment opportunities become available, managers are increasingly adopting strategies more commonly found elsewhere, such as multi-strategy and event-driven strategies, which together account for 26% of assets under management today, compared to only 4.3% in 2003.

5. Despite the increase in the number and market capitalization of stocks listed in Asia, hedge fund managers investing in Asia encounter hurdles that managers investing in the United States and developed Europe face less often. For example, single-stock shorts are still either prohibited or commercially impractical in many Asian countries. Single-stock short inventories shrank significantly in the latter half of 2008, both in the number of names and in size. Another challenge not faced by managers in developed markets is the lack of depth or number of companies in any one industry and country. As a result, investors determining relative valuations usually are forced to compare companies in the same industry across different countries. This means taking on additional risks, such as political and currency risks. Furthermore, despite improvements over the past five years, market liquidity and trading volumes are much thinner in Asia than in the West, especially for companies with smaller market capitalizations. During times of market stress, markets freeze as

trading volumes slow to a trickle and liquidity dries up. Many hedge fund managers, as well as other investors, were trapped in 2008 when liquidity vanished.

6. Depending on each investor's risk preferences, sensitivity to fees, and desired focus on alpha or beta, investors need to discuss whether the best way to invest in the Asian opportunity is through a traditional (and less expensive) long-only vehicle, a global hedge fund with exposure to Asia, or an Asian hedge fund. For smaller clients interested in gaining exposure to Asian hedge funds, the best approach is to either invest via global hedge fund managers that have a portion of assets invested in the region, or to add one to two direct Asian managers as part of a diversified hedge fund portfolio. For clients with a larger capacity in their portfolio for Asia-dedicated hedge funds, Cambridge Associates recommends adopting two to five multi-country Asian hedge fund managers rather than single-country Asian hedge fund managers (with the exception of Japan).

7. Several cautionary details need to be considered, such as the frequent inexperience of investment teams, unstable client bases, and the possible misalignment of interests between hedge fund managers and their clients. These risks convey the paramount importance of meticulous manager selection. Although the number of Asian hedge funds has increased dramatically since 2003, we believe there are only a handful of exceptional managers with the organizational stability and experience to take full advantage of the investment opportunities we expect to unfold over the next few years.

SUMMARY

A Period of Rapid Growth

Since the publication of Cambridge Associates' 2003 *Asian Hedge Funds* report, the Asian hedge fund industry has grown rapidly. Although difficult markets in 2008 forced some funds to close, hedge fund data provider Eurekahedge reported 801 hedge funds dedicated to investing in Asia at the end of 2008, compared to 350 such funds at the end of 2003 (Exhibit 1).[1] At the close of 2008, Asian hedge funds made up roughly 9.4% of the 8,500 hedge funds operating worldwide, versus 6.1% in 2003. The total capital invested in Asian hedge funds, meanwhile, quadrupled from US$27 billion in 2003 to US$110 billion in 2007, before receding back to US$79 billion at the end of 2008. This represented about 5.4% of the total estimated global pool of US$1.47 trillion, compared with 3.6% in 2003. Evidence also suggests that many globally oriented hedge funds are dedicating more resources and capital to the region than ever before, in some cases setting up satellite offices in Asia. Although the recent financial crisis has led to the scaling back of operations in Asia by some hedge funds and the closure of others, these appear to be temporary disruptions to the long-term growth of the Asian hedge fund industry. Indeed, the pace of new fund launches has gained momentum in the second half of 2009.

The meteoric economic expansion in Asia has largely driven the Asian hedge fund industry's growth. With the jump in both local and foreign economic activity in the region, the capital markets in many countries became larger and more liquid, and hedging instruments became more widely available and cost effective, although accessibility is still not as straightforward as in the United States. At the same time, the strong performance of Asian markets over the past few years (notwithstanding recent setbacks) encouraged investors to ramp up hedge fund allocations with the goal of return enhancement as well as for traditional risk diversification reasons. As has been the case elsewhere, high management and incentive fees have lured many former long-only managers and proprietary-desk traders in Asia to the hedge fund industry.

Assuming that US$100 million in assets under management (AUM) is the breakeven point to cover overhead and operational expenses, approximately 155 Asian hedge funds in the Cambridge Associates Asian hedge fund universe (or about 27% of the universe) had reached critical mass by 2008, about three times as many as in 2003. Likewise, the number of Asian hedge funds that manage over US$1 billion in AUM increased from just three funds in 2003 to 13 in 2008 (Exhibit 2), although the number of such funds peaked at 26 in 2007. Still, this figure pales in comparison to the 178 North American and 48 European hedge funds with AUM greater than US$1 billion at the end of 2008.

[1] Eurekahedge is the most widely cited hedge fund data provider, especially for Asian hedge funds, and provides the most robust universe of performance. However, Eurekahedge applies a broad definition when including funds in its Asian hedge funds database. At the end of 2008 the database listed over 1,600 hedge funds, including funds based in Asian countries (regardless of whether those hedge funds had an Asian, global, or broad emerging markets mandate), funds based outside of Asia that had Asian investment mandates, and the multiple share classes offered by some funds. Hence for part of the analysis provided in this paper we have refined Eurekahedge's database to create a universe we refer to in this paper as the "Cambridge Associates Asian hedge fund universe" that includes only the flagship product of funds (i.e., multiple share classes are eliminated to avoid double counting) whose mandate is to invest 90% or more in Asia, regardless of where the hedge fund manager's office is based. For the period ending December 31, 2008, the Cambridge Associates Asian hedge fund universe was composed of 567 funds, 376 of which were domiciled in Asia and 191 of which were domiciled outside Asia.

Performance Since 2003

The most recent economic boom in Asia began as the region gradually recovered from the after-effects of the Severe Acute Respiratory Syndrome (SARS) outbreak in 2003, a trying time for many businesses because consumers significantly cut back their spending and economies felt the effects of fewer tourists and international trade. As SARS subsided, markets in Asia began to pick up steam around 2005 and prospered until late 2007, reflecting increased domestic and international demand for Asian goods and services. As a group, Asian hedge fund managers (represented by the Eurekahedge Asian Hedge Fund Index[2]) strongly outperformed both the comparative regional (MSCI All Country [AC] Asia Pacific Index[3]) and global market indices (MSCI AC World Index) by more than 20, 10, and 4 percentage points over the respective one-, three-, and five-year periods ending at the close of 2008, while exhibiting far less volatility (Exhibit 3). Relative performance was particularly strong in Greater China during the latest three- and five-year periods.

Compared to hedge funds investing in other regions of the world, the 6.9% annualized return of Asian hedge funds over the last five years is in the middle of the pack—lagging behind Latin American hedge funds (14.3%) and emerging markets as a whole (10.8%), but outperforming North American (6.3%) and European (4.5%) hedge funds (Exhibit 4).[4] Asian equity indices similarly outperformed North American and European equity indices, but lagged behind Latin American equity and emerging markets equity indices over the last five years. However, Asian hedge fund returns were the second most volatile over the same time period, trailing only emerging markets hedge funds. In 2008, Asian hedge funds performed slightly better than emerging markets and European hedge funds, but much worse than Latin American and North American hedge funds.

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[2] Only the flagship product of Asian hedge funds that report monthly returns is included in the compilation of Eurekahedge's Asian Hedge Fund Index. The index comprised 386 funds as of the first half of 2009, including funds domiciled in 12 Asian countries: Australia, China, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, New Zealand, Singapore, Taiwan, and Thailand. Even though the 386 Asian-focused funds constituting the Eurekahedge Asian Hedge Fund Index are denominated in seven different currencies (including US$, JP¥, and AU$), a majority are US$-denominated (77%). Eurekahedge believes that irrespective of the currency denomination of the funds included in its database, taking a simple average (instead of asset-weighted average) of the net performance of all the constituent funds provides a sufficient overview of the average performance of hedge funds. While it is therefore inaccurate to state that the various indices provided by Eurekahedge are US$-denominated, we believe that comparing the performance of Eurekahedge indices to US$ returns of the MSCI indices provides an indicative overview of the hedge fund industry's relative performance.

[3] The MSCI AC Asia Pacific Index is the most comparable equity market index for Asian hedge funds. This index includes 14 Asian countries, two more than the Eurekahedge Asian Hedge Fund Index, which excludes Pakistan and the Philippines.

[4] Besides Asia, Eurekahedge also collects data from hedge fund managers with North American, European, Latin American, and emerging markets investment mandates. Like the Eurekahedge Asian Hedge Fund Index, the other regional indices include only flagship funds invested in those respective regions. The Eurekahedge Hedge Fund Index referred to in this report is a composite index of all these regional funds, and is used as a proxy for "global" hedge funds.

In line with the global trend from 2004 to 2008, larger Asian hedge funds outperformed their smaller counterparts during this five-year period by about a cumulative *57 percentage points* (Exhibit 5)![5] Nevertheless, smaller Asian hedge funds still outperformed the broader MSCI AC Asia Pacific and MSCI AC World indices. In Asia, as in other markets, outperformance by larger firms is likely due to the fact that they tend to have the resources to hire professionals to focus on operations, marketing, and investor relations, allowing investment professionals to dedicate most of their time to managing portfolios. More importantly, we also presume that larger hedge funds are able to attract and retain higher-quality investment talent. By comparison, smaller funds with more limited resources are handicapped despite their (presumed) greater nimbleness at investing. This resource differential may become more pronounced in Asia since many investors pulled money in response to the sharp drawdowns experienced in the region. Given that most investors tend to find more appeal in firms with a deeper bench of resources, smaller funds will likely face greater difficulty raising capital and generating sufficient revenue to support their investment analysts. The inability to remunerate good analysts satisfactorily may force a smaller firm to hire less experienced investment staff, thus hampering the firm's ability to find attractive investments.

With respect to performance data, it is important to note that data from hedge fund index providers (e.g., Credit Suisse/Tremont, Eurekahedge, HFRI) often diverge due to disparities in universe size and differing methodologies when collecting information and calculating returns. In addition, hedge fund indices suffer from a high degree of survivorship and recognition biases, and as a result, returns are overstated while risk is understated.[6] Many hedge funds have failed because they were unable to reach critical mass. Pre-2004 performance statistics are particularly problematic as the sample size for analyzing certain segments based on geography, strategy, or size is small. Nevertheless, the aggregate data points above offer some general guidance.

Asian Hedge Funds Fizzled in 2008

Given the particularly dismal results of Asian hedge funds in 2008, many investors have wondered why Asian hedge funds performed worse than their U.S. and European counterparts. Several factors contributed to such underperformance.

- Asian equity markets, which primarily comprise developing countries, tend to exhibit greater volatility than the more developed U.S. and European equity markets. Thus, just as Asian markets outperformed the United States and Europe on the upswing leading up to the financial crisis (and similarly in 2009's market rally), they not surprisingly underperformed during the downturn.

[5] Note, however, that Eurekahedge defines large, medium, and small hedge funds differently for Asian hedge funds than it does with respect to global hedge funds. For example, a large global hedge fund is defined as having assets greater than US$500 million while a large Asian hedge fund is categorized as having assets of more than US$250 million.

[6] Eurekahedge has tried to eliminate the effects of survivorship bias from its database and indices by keeping track of "obsolete funds" since the launch of its indices in January 2000, as well as adding historical data for any previously undiscovered funds to its database and indices.

- Hedge fund managers in Asia were generally younger and less experienced than their counterparts in the United States and United Kingdom. A majority of Asian hedge fund managers had recently set up shop without the necessary stock-picking talent or experience in risk management and/or shorting. Lured by the prospect of earning higher incentive fees as the Asian bull run took off, they employed directional strategies that performed well, fueling further inflows and keeping hedge fund attrition low. When markets suddenly turned on them, these managers did not have the experience necessary to protect capital.

- Because investments in Asia were considered risky, investors in Asian hedge funds—which consisted primarily of Western funds-of-funds—began redeeming their money in reaction to the deteriorating conditions in their home countries. Even though the Asian markets held their own through late 2007, Western investors, needing to reduce risk and increase liquidity and cash in their portfolios, often looked first to cut exposures to Asia. The resulting outflows caused stock market volatility to spike and investor losses to mount.

- Unlike in the United States and United Kingdom, where hedge fund managers pursue a more diverse set of strategies, the most popular hedge fund strategies in Asia were those that were most vulnerable to a crash in the equity markets: long-biased and equity long/short. Due to little or no hedging, these managers saw their performance tumble with the Asian stock markets, which initially did worse than the U.S. and European stock markets.

- Since funds-of-funds primarily compete against each other based on performance, many U.S. and European funds-of-funds began adding exposures to Asia as a beta play to juice up their returns during the market run-up. However, when the financial crisis entered full swing, this exposure to Asia proved to have a negative side. Poor performance combined with investors' liquidity needs drove investors to submit redemption requests to funds-of-funds, which then applied pressure to the underlying managers. As a result, hedge fund managers (especially the inexperienced ones) abandoned their portfolio positions in the midst of market turmoil to focus on increasing their cash holdings. The performance of many funds took a hit as many managers were forced to sell their more liquid, blue-chip stocks to meet redemptions, leaving them with less liquid positions that most likely suffered significant write-downs.

- Long/short Asian hedge funds faced additional problems on the regulatory side. Given an already smaller supply of shortable stocks available in Asia compared to the West, the sudden establishment of shorting bans by Australian, South Korean, and Taiwanese regulators in September 2008 disrupted the operations and performance of several long/short hedge funds. Levered managers were severely hurt by margin calls and the disappearance of credit, in addition to facing the same problems that non-levered managers encountered. Inexperienced managers that had been expecting a walk in the park earning hedge fund fees were incapable of handling the compounding problems of plunging stock markets, unpredictable governmental interventions, shorting bans, frantic withdrawal requests, shrinking AUM, and nervous employees.

While investors are rightly disappointed that Asian hedge funds did not better protect their capital, Asian hedge fund indices broken down by geographic focus did outperform their respective stock market indices in 2008. For the region as a whole, the Eurekahedge Asian Hedge Fund Index return of -21.0% was more than 20 percentage points better than the -41.6% return of the MSCI AC Asia Pacific Index. Even though Asian hedge funds initially continued to outperform broad market indices until the end of April 2009 (but have lagged the market since), the total AUM of Asian hedge funds fell from US$79 billion at year-end 2008 to US$59 billion at the end of July 2009 as a result of performance and redemptions.[7]

Changing Regional Investment Focus

Hedge funds naturally seek markets with the largest opportunity set—i.e., those where managers have the best ability to deploy capital without breaching liquidity or concentration restraints. Because Japan's Tokyo Stock Exchange (TSE) was by far the largest stock exchange in Asia in 2003 (accounting for over 45% of the Asian stock market's capitalization), it should come as no surprise that Japan-focused hedge funds made up 42% of Asian hedge fund AUM at the time.[8] However, the investable universe in the rest of Asia has since expanded significantly, due to a number of factors including the increased number of public companies, higher liquidity, relaxed governmental regulations regarding foreign ownership, and the privatization of government-owned companies.

According to the World Federation of Exchanges, the 20,819 companies listed in Asia in 2008 (a 16% increase from 2003) had a cumulative market capitalization (market cap) of approximately US$10.0 trillion, up from US$6.5 trillion five years earlier (a 54% change). Because the market cap of listed firms barely rose in Europe, Africa, and the Middle East—and actually declined in the Americas—Asia sharply increased its weighting in the global markets during this time, from 21% to 30% (Exhibit 6).

As foreign and domestic investors flooded Asian markets with capital and markets around the region expanded—and as Japanese equity returns disappointed, especially in 2006 and 2007—the relative appeal of non-Japan-focused funds increased. Even smaller developing Asian markets such as Pakistan and the Philippines have now gained the attention of some money managers that see pockets of interesting investments. Looking at the Cambridge Associates Asian hedge fund universe, at the end of 2008, Japanese-focused hedge funds[9] made up 20.5% of the Asian hedge fund industry's assets, versus 41.9% five years earlier, while the percentage of Asian hedge funds with other country-specific funds has risen from 4.4% to 20.8% (Exhibit 7). One of the catalysts that contributed to the increase in the number of single-country-focused funds in Asia in the last five years has been the expansion in constituent market caps and trading

[7] To illustrate investors' continued pullback from investing in Asia, on a percentage basis, the 25% drop in AUM of Asian hedge funds from the end of December 2008 to July 2009 is significantly more than the 8.2% decline in AUM of the global hedge fund industry, which fell to US$1.35 trillion from US$1.47 trillion over the same time period. This was in line with 2008, when the AUM of Asian hedge funds dropped 28% versus the industry as a whole, which fell 11%.
[8] Please see our 2003 report *Asian Hedge Funds*. To put this figure into context, the approximately US$11.5 billion managed by Japan-focused hedge funds in 2003 was equal to only 0.4% of the TSE's equity market cap.
[9] The AUM of Japanese-focused funds in 2008 was approximately US$16.2 billion, or 0.5% of the TSE's equity market cap.

volume of the local stock exchanges, experienced especially by the Shanghai and Bombay Stock Exchanges (Exhibit 8).

Besides Japan, other markets such as Australia, Greater China, and India have become popular targets for single-country hedge funds in recent years. However, there are currently no single-country hedge funds in Eurekahedge's database that are solely dedicated to investing in Indonesia, Malaysia, or Singapore due to a variety of factors such as limited investment opportunities, lack of shorting instruments, comparatively illiquid markets, and erratic return streams that mark smaller Asian markets. Nonetheless, based upon the argument that language and cultural barriers, lack of research coverage, and complex regulations in Asia make stock-picking skills a rare commodity, investment managers (across all asset classes) believe they are entitled to charge premium fees for seeking to extract alpha from the region. It is not uncommon to see hedge fund managers, even those with long-biased strategies, charge 2% management and 20% incentive fees. In the aftermath of the 2008 financial crisis, we have only seen a handful of Asian hedge funds lower their fees, usually offering a slight reduction in exchange for a longer lock-up. Meanwhile, we continue to observe new hedge fund launches in 2009 with a 2% and 20% fee structure.

Challenges Hedge Funds Face in Asia

Despite the increase in the number and market cap of stocks listed in Asia, hedge fund managers investing in the region encounter hurdles that managers investing in the United States and developed Europe face far less often. For example, single-stock shorts are still either prohibited or commercially impractical in China, India, Indonesia, Malaysia, Pakistan, the Philippines, and Vietnam. Rather than just rely on the limited supply of single-stock shorts—which shrank significantly in the latter half of 2008, both in the number of names and in size—managers also tap into the American Depository Receipts (ADR) and Global Depository Receipts (GDR) markets; when ADRs and GDRs are unavailable, managers apply blanket index futures or synthetic hedges as an imperfect hedge. Whether using physical or synthetic shorts, the cost of borrowing from prime brokers can vary widely depending on the particular company being shorted and the stock market on which the company trades. Shorting costs range from 30 basis points (bps) to about 300 bps in deeper and more developed markets such as Japan and Hong Kong, but range from 50 bps to 600 bps in less developed markets such as Taiwan or Indonesia. Borrowing costs have, on average, increased marginally in both developed and emerging markets since the onset of the financial crisis because of higher funding and collateral costs.

The small number of companies in any one industry and country is another challenge for Asian hedge fund managers. As a result, investors determining relative valuations are usually forced to compare companies in the same industry across different countries. For example, a long/short manager interested in going long an Indonesian oil palm producer might be forced to look at Malaysian oil palm producers for a countertrade (to take a short position). This means taking on additional risks, such as political and currency risks. Furthermore, market liquidity and trading volumes are much thinner in Asia than in the West (despite improvements over the past five years), especially for companies with smaller market caps, making cross-border positions even riskier during times of market stress: markets freeze as trading volumes slow to a trickle and liquidity dries up. GFIA, a hedge fund consulting firm, estimates that liquidity in Asia contracted by a factor of 10 in 2008, trapping many hedge fund managers.

Changing Investment Strategies

Similar to hedge funds investing outside of Asia, long/short (or long-biased) is the most popular equity strategy in Asia, even though its share of total invested assets shrank from 75% in 2003 to 56% in 2008 (Exhibit 9). As a reflection of the maturing Asian hedge fund landscape, as markets evolve and a broader array of investment opportunities become available, managers are increasingly adopting strategies more commonly found elsewhere, such as multi-strategy and event-driven strategies, which together account for 26% of AUM today, compared to only 4.3% in 2003. The robust merger & acquisition activities that took place within Asia during the recent bull years help explain the inflows into event-driven funds. The shareholder activism strategy that some funds have attempted in Japan has also drawn interest from larger investors (and the media). Nevertheless, we do not believe that the breakdown of funds by strategy has meaningfully changed since the end of 2008 despite the market rally in the first three quarters of 2009.

Asian Hedge Fund Managers Are Based Worldwide

London used to have the highest number of managers investing in the region, but the city’s domination has gradually diminished as funds increasingly have started setting up shop in Asia. According to the Cambridge Associates Asian hedge fund universe, at the end of 2008, 27.5% of Asian hedge funds were based in Hong Kong, 16% in Singapore, 16% in the United Kingdom, 13% in the United States, 12% in Australia, 5.5% in Japan, and the remaining 10% in other parts of the world. These figures refer to the location of the manager’s headquarters (usually where the portfolio manager resides) and therefore do not necessarily reflect fund activity or presence within the region. These figures also do not take into account the multiple satellite offices that Asian hedge fund managers may have set up in Asia (several of which were forced to close in 2008 for cost reasons). According to GFIA, Asian hedge funds run within Asia tend to have slightly stronger aggregate performance compared to those funds run outside of the region. However, because of the closer proximity to larger pools of capital, Asian hedge funds based in the United States and United Kingdom still tend to have more AUM than those based in Asia.

Within Asia, the battle between Hong Kong and Singapore to attract and retain hedge fund managers continues. Hong Kong boasts a larger and more established hedge fund community and remains the city of choice for Asian hedge funds (as well as global hedge fund players with an interest in Asia). Hong Kong has also benefited from its close proximity to the rapidly growing Chinese and North Asian markets. On the other hand, Singapore’s more aggressive tax incentives, cost subsidies, and capital introduction support have helped the country attract smaller and newer ventures, thereby narrowing the gap between the two cities. A growing number of managers have also relocated to Singapore because of lifestyle preferences (e.g., a desire to avoid Hong Kong’s worsening pollution problem).

Australia, too, has been a popular location for Asian hedge fund managers to set up shop, in part because its hedge fund–related regulations are much less stringent than those of Hong Kong, Japan, and Singapore. According to Nomura's *2009 Capital Raising Guide to Australia*, the same set of laws applies to both long-only funds and hedge funds. Hence there are no specific requirements concerning minimum subscription amounts per investor, minimum AUM, or specific disclosures about the risks associated with investing in hedge funds. In addition, managers desire to be close to the multi-billion-dollar Australian Superannuation Fund industry, where specific Australian-only or Asian hedge fund investing mandates may come their way. Australia's financial and natural resources sectors also can be a magnet for capital. Finally, some believe Australia offers a better lifestyle than other locations, but with a close-enough proximity to Asia.

Although Japan-dedicated funds, as noted earlier, account for about one-fifth of the Cambridge Associates Asian hedge fund universe's assets, only 5.5% of Asian hedge funds are domiciled there. This is the result of Japan's unfriendly tax regime, onerous startup regulations, expensive office rents, and high cost of living, all of which have led many managers to establish a manager-advisor structure. Under this structure, the investment advisor (usually the portfolio manager) is located in Tokyo while the "manager" (usually the trader and operations manager) sets up office elsewhere, Singapore being a popular choice.

The number of advisory, management, and satellite offices located in Hong Kong, Singapore, and Tokyo make these three cities a top priority for investors visiting Asia. Those willing to spend more time on the road might also wish to visit Mumbai, Shanghai, and Sydney, as these cities have emerged as small hubs for single-country strategies. Other cities such as Bangkok, Beijing, Kuala Lumpur, Seoul, and Taipei remain destinations only for visitors with ample time in the region.

Starting Up, Shutting Down

About half of the funds in the Cambridge Associates Asian hedge fund universe have been in existence for less than four years (Exhibit 10). Prior to 2004, when hedge funds in Asia were still uncommon, managers typically focused on establishing a track record with their own money before raising capital from others. The bull market of recent years increased manager wealth through performance fees, providing many with the resources to invest meaningful sums of personal capital in their funds. This appealed to investors who saw a greater alignment of interests. Meanwhile, strong industry performance results (including double- or even triple-digit returns) on the part of several managers during the hypergrowth years in Asia from late 2005 to 2007, as well as low barriers to entry, led aspiring hedge fund managers to set up their own funds.

Although the barriers to entry remain relatively low today, the environment has become more challenging for Asian hedge funds looking to launch. Startup costs have risen, the increased number of funds has created more competition, prime brokers are more selective, and investors are more discerning. For the Cambridge Associates Asian hedge fund universe, roughly half of all the Asian hedge funds shuttered since 2000 did not celebrate their third anniversary (Exhibit 11). Prior to 2008, most funds shut down due to their inability to reach a sufficient size (many of the failed funds were unable to raise more than US$15 million in commitments). In 2008, however, the weak performance and unprecedented redemption requests from investors destabilized many managers, forcing them to close; the number of Asian hedge fund closures (like that of global hedge funds) exceeded the number of fund launches for the first time ever.

From Cambridge Associates' discussions with various Asian hedge fund managers and prime brokers, the fund-raising environment in the first eight months of 2009 has been challenging for both existing and new managers. Most funds that were closed prior to the financial crises opened up to accept new capital after 2008; only a handful managed to remain soft-closed throughout the turmoil. While raising assets in excess of US$100 million was very common for new funds in the past, most managers launching in 2009 have so far only managed to raise between US$10 million and US$75 million. Those few that have attracted in excess of US$100 million generally owe their fund-raising prowess to the fact that they previously held key positions at reputable hedge fund firms or on the proprietary desks of banks. Should market conditions improve, however, we believe fund raising will be less of a challenge going forward.

Issues to Keep in Mind When Investing in Asian Hedge Funds

In meeting and evaluating Asian hedge fund managers, Cambridge Associates has observed a number of recurring issues.

- **Multi-Product Platforms.** There are many intelligent, knowledgeable, and experienced portfolio managers (and investment analysts) of Asian hedge funds who are great investors. Notwithstanding the rise in the number of hedge funds, many investors, not wanting the headache of running a back office and seeking a reduction in personal risk, have flocked to firms that seek to build a platform of several funds and strategies. Such managers need not commit a large stake of their personal wealth and time, given that a larger organization theoretically will be more stable with revenue generated from multiple products. Accordingly, manager incentives are not as aligned with those of clients as we might like. At the same time, the compensation structure in multi-product firms is usually tilted in favor of the company instead of the portfolio manager. This may lower the motivation of more ambitious portfolio managers and teams, increasing the chances of premature departures.

- **Product Proliferation.** After the launch of a first fund (such as an Asia ex Japan long/short fund), Asian hedge fund managers often launch subsequent strategies (such as an Asian small to mid cap or Greater China long/short fund) by bringing in other portfolio managers to run them. This occurs even if the initial fund has yet to gain sufficient traction. As a result, greater attention could be diverted to the fund that is either the largest or performing the best while the others may get neglected. Although the trend of product proliferation is common in the United States and Europe, the frequency of firms launching new funds appears (on the basis of anecdotal evidence) to be more rapid in Asia.

- **Inexperienced Investment Team.** Most portfolio managers lack a track record over a sufficient time period and have either learned to invest long in bull markets or short in bear markets. Moreover, many hedge fund professionals have come over from the long-only industry and brokerage houses, seduced by the prospect of high compensation. Investment professionals from the long-only side often have minimal to no shorting experience, while those from brokerage houses tend to have trading mindsets instead of fundamental research backgrounds.

- **High Fees.** Although the typical 1.5% management and 20% incentive fee structure is similar to that of the West, many Asian hedge funds took the liberty to charge the higher 2% management and 20% incentive fee structure, thinking that investors would be willing to pay more for their investments in "riskier" regions where more manager skill may be needed. Even straightforward long-biased and long/short hedge fund managers took advantage of premium fees, rationalizing that investors are paying for the skill to look into under-researched companies. Many of these levered long-biased single-country funds either have seen assets shrink considerably or have disappeared altogether. Despite the shakeout in the hedge fund industry in 2008, the downward pressure on hedge fund fees Cambridge Associates expects has yet to work its way into Asia. Thus far, we have only witnessed a couple of funds that have lowered management fees below 1.5% and incentive fees below 20%, in return for a longer lock-up. Most fees remain at 1.5% and 20%, and several funds continue to launch with 2% and 20% fees. That being said, we expect that investors' lack of tolerance for expensive (but lackluster) 2% and 20% funds will gradually eradicate them.[10]

- **Weak Client Base.** Most Asian hedge funds are supported by client bases dominated by funds-of-funds and high-net-worth clients, which tend to be shorter-term investors that show less resilience in times of volatility. In 2008 these short-term investors were looking for immediate liquidity and sent an extraordinary number of redemption requests to Asian hedge fund managers. While this also happened in the United States, the problem was more prevalent in Asia because Asian hedge funds had relatively loose terms, such as monthly liquidity with no gating provisions. Managers did not manage their portfolios optimally in the face of these requests, one of the reasons for the weaker performance of Asian hedge funds in 2008 compared to their U.S. counterparts.

After the market crash in 2008, additional factors need to be considered during the due diligence process.

- **Under High-Water Mark.** GFIA estimated in January 2009 in its *Asian Hedge Funds Note* that as many as 80% of Asian hedge fund managers were below their high-water mark at the end of 2008, and about 35% of them were more than 30% below this level; according to GFIA the percentage of funds below their high-water mark had not improved at the end of May 2009, hovering at 83%. We believe that GFIA's figure is an extreme estimate because a prime broker we spoke to approximated the number of funds still below their high-water mark at about 60% at the end of June 2009. Hedge

[10] Please see our February 2009 report *Restoring Balance to GP/LP Relationships*, which discusses how the current environment provides institutional investors a unique opportunity to bring their alternative asset fund manager relationships into better alignment, as well as the terms we consider reasonable for hedge fund strategies.

fund managers operating below their high-water mark earn a lower revenue stream that may impact their ability to retain talent and their desire to continue managing their funds.

- **Matching Capital Flows.** Many hedge fund managers had monthly or quarterly redemption periods but were investing in more illiquid investments that they thought had better long-term return potential. The illiquidity mismatch issue became pronounced once liquidity dried up and investors began redeeming from funds. A handful of managers chose to put their illiquid investments in side pockets because of the substantial markdowns that the markets would have required of them in the event of sale. Therefore, investors should be careful to ensure that new inflows into a fund are not offsetting redemptions parked in side pockets. Should redemptions continue, new investors might find themselves in an even more illiquid portfolio. Fortunately, redemption pressures have eased for now as markets have improved, allowing several Asian hedge fund managers to either pay out all redemption requests or receive better valuations for their illiquid holdings.

- **Changing Liquidity Terms.** During the height of the financial crisis of 2008, many hedge fund managers were faced with severe illiquidity issues, forcing some managers to put up gates to regulate the outflow of capital (though some unfairly used the gate). Given investor anger at not being able to redeem money, managers are reassessing their liquidity terms. Based on the conversations Cambridge Associates has had with managers and prime brokers, we have noticed two diverging trends emerge: some managers have loosened their quarterly liquidity terms to permit monthly redemptions, while others have implemented (or increased) their lock-ups to between one and three years. We advise clients to evaluate liquidity terms carefully within the context of other managers that are pursuing the same strategy.

- **Regulations.** Unlike the United States or United Kingdom, where government regulations are usually fixed and enforced, governing bodies in certain Asian markets are sometimes corrupt and unpredictable. In particular, during political, economic, and market crises, investors looking to invest in single-country hedge funds (or insufficiently geographical-diverse funds) in Asia may be subject to sudden rule changes that may cause a spike in volatility or otherwise significantly impact the hedge fund's ability to effectively hedge or liquidate the portfolio.

Potential Role of Asian Hedge Funds in a Hedge Fund Program

Despite the issues highlighted above, Cambridge Associates believes that Asian hedge funds should serve as an extension of an investor's equity portfolio with a highly select group of funds likely to offer a better risk-reward profile than long-only Asia-focused managers. Issues that were more prevalent in the earlier years, such as weak risk management controls, lack of back office support, and poor transparency, have also greatly improved. Although Asian markets suffered larger losses than did U.S. and European markets in 2008, we agree with the consensus that Asia will be the first region to recover. Medium- and longer-term growth prospects for the region remain robust, although the pace might be more subdued compared to the market boom from 2005 to 2007. We also view the shutting down of some Asian hedge funds as a necessary and beneficial step in weeding out weaker and longer-biased players. Going forward, funds will be more focused on risk management and hedging, as opposed to just riding the beta wave. The elimination of poorly performing managers, as well as the disappearance of capital from bank proprietary trading desks (for now), means less capital will be chasing deals.

Superior managers that survive this downturn will have shown their ability to invest in different market cycles and will be able to take advantage of extremely attractive investments that were sold by distressed sellers or were simply oversold and undervalued. Depending on each investor's risk preferences, sensitivity to fees, and desired focus on alpha or beta, investors need to discuss whether the best way to invest in the Asian opportunity is through a traditional (and less expensive) long-only vehicle, a global hedge fund with exposure to Asia, or an Asian hedge fund. When considering Asian hedge fund allocations, Cambridge Associates expects superior hedge fund managers to outperform long-only managers net of fees on a risk-adjusted basis. The Asian hedge fund should exhibit less volatility than the Asian markets, but can reasonably have more volatility than other hedge fund strategies.

For smaller clients interested in gaining exposure to Asian hedge funds, the best approach is either to invest via global hedge fund managers that have a portion of assets invested in the region, or to add one to two direct Asian managers as part of a diversified hedge fund portfolio. We do not suggest an allocation to Asia-dedicated funds-of-funds because of the double layer of fees. For clients with a larger capacity in their portfolio for Asia-dedicated hedge funds, Cambridge Associates recommends adopting two to five multi-country Asian hedge fund managers rather than single-country Asian hedge fund managers (with the exception of Japan). This is because Asia including Japan and Asia ex Japan managers are able to access a far broader opportunity set, which allows them the flexibility to allocate tactically across countries and economies as trends go in and out of favor.

The risk of investing with managers of single-country funds (with the exception of Japan) is that the manager will only have limited world-class businesses in various industries to choose from due to the lack of depth in most Asian markets. Although the single-country manager may be better poised to bet on the local market and economic cycles, this type of fund is also more susceptible to the respective markets' volatility. When credit was cheap, several single-country long-biased hedge fund managers even took on leverage, hoping to profit from price movements in a select number of companies. Japan is an exception for investors considering a single-country allocation because of the country's huge and well-established domestic stock exchanges (primarily the TSE) and a large universe of publicly listed companies.

As with hedge fund investments in other regions, manager selection is critical. We advocate searching for managers that, at the very least, have:

a) displayed a consistent strategy, philosophy, and return stream that will perform well in different market cycles;
b) adopted robust risk management systems that are strictly adhered to;

c) an investment team with low staff turnover and prior experience working at a hedge fund investing in the region;
d) a substantial portion of the personal capital of the portfolio managers invested in the fund;
e) a stable and high-quality client base; and
f) exceeded or are close to breakeven AUM (greater than about US$100 million).

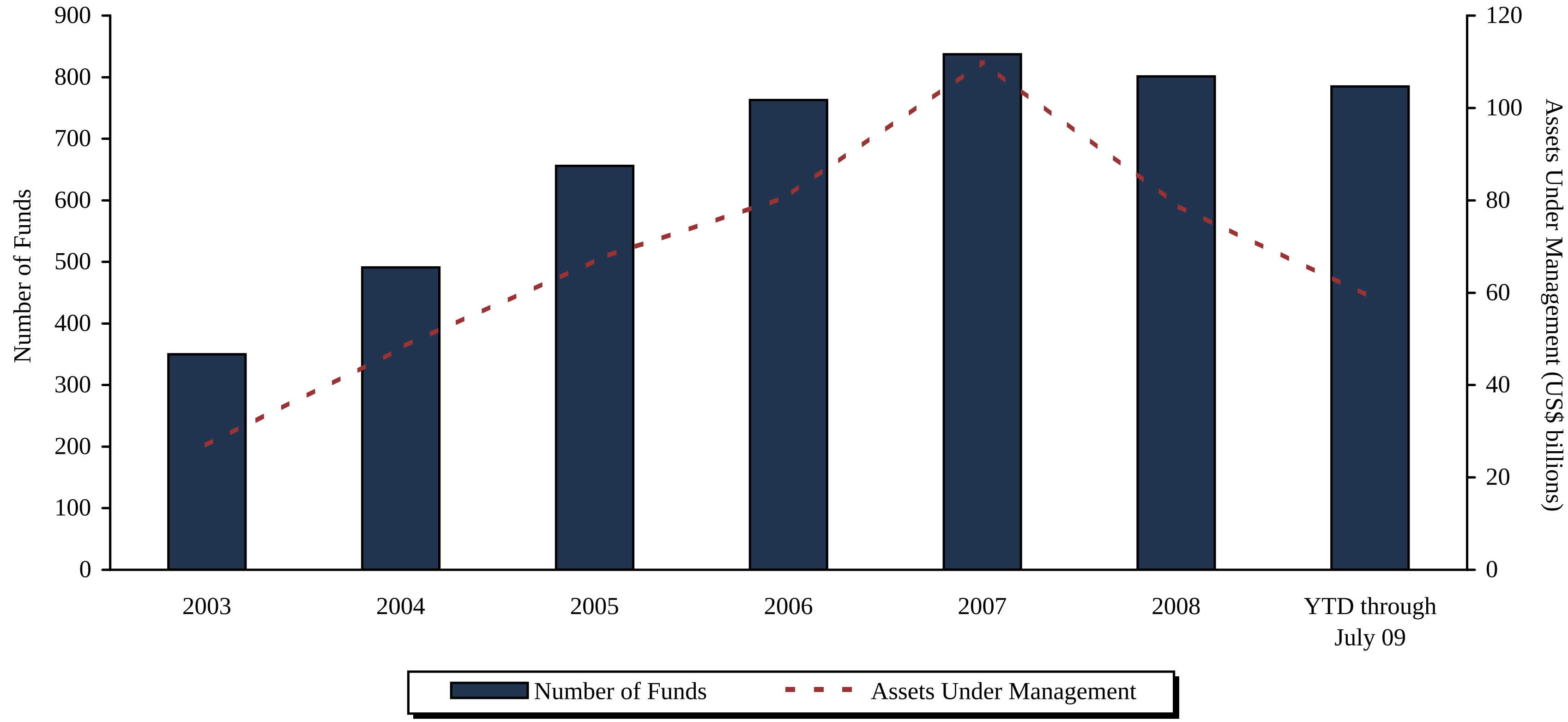
Conclusion

Cambridge Associates believes that Asian hedge funds should serve as an extension of an investor's existing equity exposure to the region. Over the past five years, Asia has experienced impressive economic growth that has caught the attention of the world. Even though the region has made significant strides in broadening and deepening its markets, inefficiencies still persist. This creates an opportunity for skilled and experienced hedge funds to earn attractive risk-adjusted returns by capturing most of the upside while dampening volatility on the downside. However, several cautionary details need to be considered, such as the frequent inexperience of investment teams, unstable client bases, and the possible misalignment of interests between hedge fund managers and their clients. These risks convey the paramount importance of meticulous manager selection. Although the number of Asian hedge funds has increased dramatically since Cambridge Associates' *Asian Hedge Funds* report in 2003, we believe there are only a handful of exceptional managers with the organizational stability and experience to take full advantage of the investment opportunities we expect to unfold over the next few years.

EXHIBITS

Exhibit 1

GROWTH IN THE NUMBER OF ASIA-FOCUSED HEDGE FUNDS AND TOTAL ASSETS UNDER MANAGEMENT



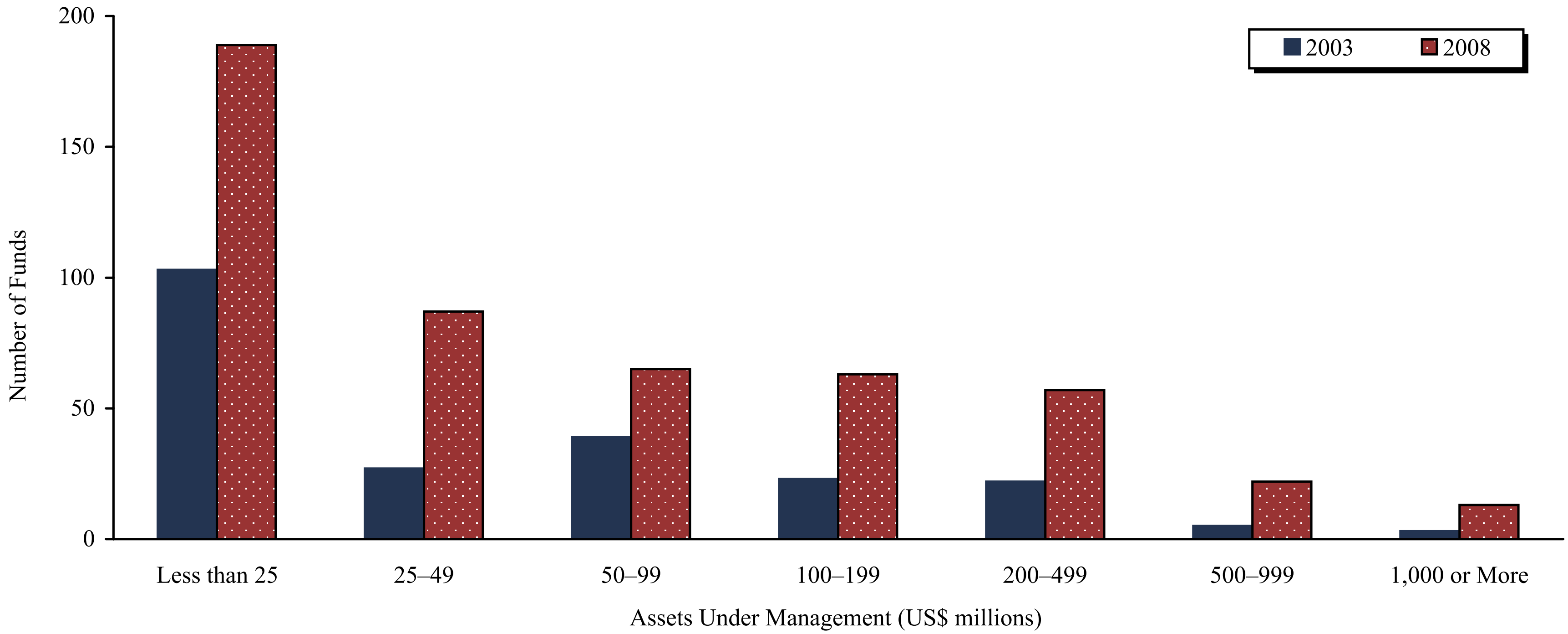
Source: Eurekahedge Pte Ltd.

Notes: Annual data of Asia-focused hedge funds provided as of each year end. Data for 2009 are through July 31, 2009.

Exhibit 2

DISTRIBUTION OF ASIAN HEDGE FUNDS BY FUND SIZE

2003 versus 2008



Source: Cambridge Associates Asian hedge fund universe, calculated from data provided by Eurekahedge Pte Ltd.

Notes: Eurekahedge applies a broad definition when including funds in its Asian hedge funds database. At the end of 2008 the database listed over 1,600 hedge funds, including funds based in Asian countries (regardless of whether those hedge funds had an Asian, global, or broad emerging markets mandate), funds based outside of Asia that had Asian investment mandates, and the multiple share classes offered by some funds. We have refined Eurekahedge's database to create the "Cambridge Associates Asian hedge fund universe," which includes only the flagship product of funds (i.e., multiple share classes are eliminated to avoid double counting) whose mandate is to invest 90% or more in Asia, regardless of where the hedge fund manager's office is based. For the period ending December 31, 2008, the Cambridge Associates Asian hedge fund universe was composed of 567 funds from Eurekahedge's initial database of over 1,600 funds. Of these 567 funds, 71 did not provide complete information to be included in this exhibit, resulting in a universe size of 496 funds for 2008, compared to 222 funds in 2003.

Exhibit 3

ANNUALIZED RETURNS AND STANDARD DEVIATION OF ASIAN HEDGE FUNDS VERSUS OTHER INDICES

Periods Ending December 31, 2008

	Annualized Returns (%)			Annualized Standard Deviation		
	One Yr	Three Yrs	Five Yrs	One Yr	Three Yrs	Five Yrs
Eurekahedge Asian Hedge Fund Index	-21.0	2.7	6.9	3.1	9.7	8.3
MSCI AC Asia Pacific Index	-41.6	-7.9	2.8	8.3	20.6	18.3
Eurekahedge Asia ex Japan Index	-26.6	8.2	9.9	3.8	12.9	10.7
MSCI AC Asia ex Japan Index	-52.2	-3.5	5.4	10.3	27.8	23.6
Eurekahedge Japan Index	-11.6	-5.2	2.7	2.4	6.1	6.9
MSCI Japan Index	-29.2	-10.4	0.9	6.7	15.6	16.6
Topix	-26.8	-10.9	0.8	6.5	14.9	16.3
Eurekahedge Greater China Index	-23.9	22.9	17.0	4.2	16.7	14.4
MSCI Golden Dragon Index	-49.4	-0.9	4.2	10.4	28.7	24.2
Hang Seng Index	-51.3	-2.4	2.5	9.6	27.2	22.9
Eurekahedge India Index	-51.9	-3.2	6.1	7.4	23.7	21.3
MSCI India Index	-64.6	-2.6	8.7	12.4	36.9	32.3
Eurekahedge Australia/NZ Index	-20.9	3.6	8.3	3.3	9.4	7.8
MSCI Australia Index	-50.7	-6.1	4.6	9.7	26.7	22.4
Eurekahedge Hedge Fund Index	-11.9	4.5	6.8	2.3	6.9	6.0
MSCI AC World Index	-41.9	-7.4	0.4	7.2	18.2	15.2
S&P 500	-37.0	-8.4	-2.2	6.1	15.3	12.9

Sources: Eurekahedge Pte Ltd., MSCI Inc., Standard & Poor's, Thomson Datastream, and Tokyo Stock Exchange Group, Inc. MSCI data provided "as is" without any express or implied warranties.

Notes: Only the flagship product of Asian hedge funds that report monthly returns is included in the compilation of Eurekahedge's various Asian hedge fund indices. The Eurekahedge Asian Hedge Fund Index representing hedge funds in the region comprised 386 funds as of the first half of 2009. The Eurekahedge Hedge Fund Index is a composite index of North American, European, Asian, Latin American, and Emerging Markets hedge fund indices and is used as a proxy for "global" hedge funds; there were a total of 2,387 funds included in the Eurekahedge Hedge Fund Index as of the first half of 2009. While MSCI indices are reported in U.S. dollars, Eurekahedge's indices are denominated in different currencies (such as US$, JP¥, or AU$), although a majority are US$-denominated. Eurekahedge believes that irrespective of the currency denomination of the funds included in its database, taking a simple average (instead of asset-weighted average) of the net performance of all the constituent funds provides a sufficient overview of the average performance of hedge funds. Therefore it is inaccurate to state that the various indices provided by Eurekahedge are US$-denominated. Nonetheless, we believe that comparing the performance of Eurekahedge indices to US$-denominated MSCI indices provides an indicative overview of the hedge fund industry's relative performance.

Exhibit 4

COMPARATIVE PERFORMANCE OF ASIAN HEDGE FUNDS VERSUS OTHER REGIONAL HEDGE FUNDS

Periods Ending December 31, 2008

	Annualized Returns (%)			**Annualized Standard Deviation**			Sharpe
	One Yr	Three Yrs	Five Yrs	One Yr	Three Yrs	Five Yrs	Ratio
Eurekahedge Latin Amer HF Index	-2.9	11.4	14.3	2.2	6.2	5.4	2.0
MSCI Em Mkts Latin America Index	-51.3	1.7	17.2	12.2	33.3	29.2	0.5
Eurekahedge Em Mkts HF Index	-23.3	6.6	10.8	3.5	11.0	9.3	0.8
MSCI Emerging Markets Index	-53.2	-4.6	8.0	10.8	29.1	25.2	0.2
Eurekahedge Asian Hedge Fund Index	-21.0	2.7	6.9	3.1	9.7	8.3	0.4
MSCI AC Asia Pacific Index	-41.6	-7.9	2.8	8.3	20.6	18.3	0.0
Eurekahedge North Amer HF Index	-10.1	4.4	6.3	2.3	6.3	5.6	0.5
S&P 500	-37.0	-8.4	-2.2	6.1	15.3	12.9	-0.4
Eurekahedge European HF Index	-22.0	-0.8	4.5	3.1	8.9	7.8	0.2
MSCI Europe Index	-46.4	-6.6	1.5	8.1	20.7	17.3	-0.1
Eurekahedge Hedge Fund Index	-11.9	4.5	6.8	2.3	6.9	6.0	0.6
MSCI AC World Index	-41.9	-7.4	0.4	7.2	18.2	15.2	-0.2

Sources: Eurekahedge Pte Ltd., Federal Reserve, Merrill Lynch & Co., MSCI Inc., and Thomson Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: Returns are sorted by the five-year annualized returns of the hedge fund indices. The Eurekahedge Hedge Fund Index is a composite index of North American, European, Asian, Latin American, and Emerging Markets hedge fund indices and is used as a proxy for “global” hedge funds; there were a total of 2,387 funds included in the Eurekahedge Hedge Fund Index as of the first half of 2009. While MSCI indices are reported in U.S. dollars, Eurekahedge's indices are denominated in different currencies (such as US$, JP¥, or AU$), although a majority are US$-denominated. Eurekahedge believes that irrespective of the currency denomination of the funds included in its database, taking a simple average (instead of asset-weighted average) of the net performance of all the constituent funds provides a sufficient overview of the average performance of hedge funds. Therefore it is inaccurate to state that the various indices provided by Eurekahedge are US$-denominated. Nonetheless, we believe that comparing the performance of Eurekahedge indices to US$-denominated MSCI indices provides an indicative overview of the hedge fund industry’s relative performance.

Exhibit 5

COMPARATIVE PERFORMANCE OF LARGE, MEDIUM AND SMALL ASIAN AND GLOBAL FUNDS

Periods Ending December 31, 2008

Eurekahedge Asian Hedge Funds

	Annualized Returns (%)			Cumulative Return	Outperformance of
	One Yr	Three Yrs	Five Yrs	2004–08 (%)	Large over Small
Large (> US$250mm)	-13.2	10.4	12.5	80.4	
Medium (US$50mm–250mm)	-18.3	6.6	9.3	55.8	56.7
Small (< US$50mm)	-23.9	-1.0	4.4	23.7	

Eurekahedge Global Hedge Funds

	Annualized Returns (%)			Cumulative Return	Outperformance of
	One Yr	Three Yrs	Five Yrs	2004–08 (%)	Large over Small
Large (> US$500mm)	-1.9	10.0	11.3	71.0	
Medium (US$100mm–500mm)	-8.8	6.8	8.9	53.1	57.7
Small (< US$100mm)	-19.8	-0.7	2.5	13.3	

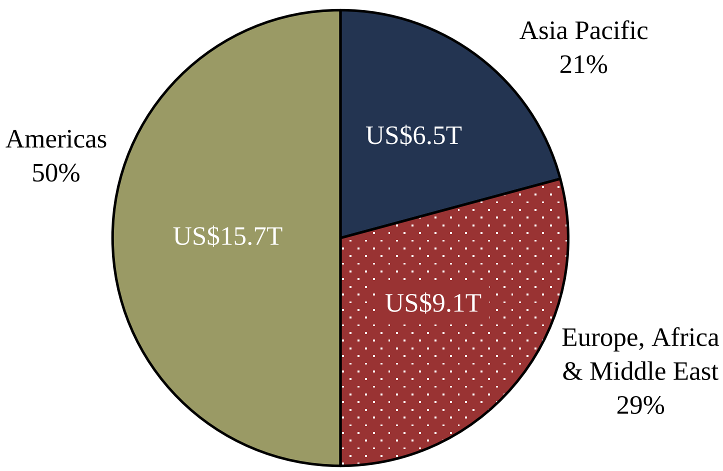
Source: Eurekahedge Pte Ltd.

Notes: The sample size of Asian hedge funds is 386 compared to 2,387 global hedge funds. Eurekahedge defines large, medium, and small Asian hedge funds differently from global hedge funds, as noted in the labels above. Funds reporting to Eurekahedge are based in different currencies, although the majority tends to be US$-denominated. Eurekahedge believes that irrespective of the currency denomination of the funds included in its indices, taking a simple average (not asset-weighted average) of the net performance of all the constituent funds provides a sufficient overview of the average performance of hedge funds. Therefore it is inaccurate to state that the various indices provided by Eurekahedge are US$-denominated. Nonetheless, we believe that the performance of Eurekahedge indices provides an indicative overview of the hedge fund industry’s performance.

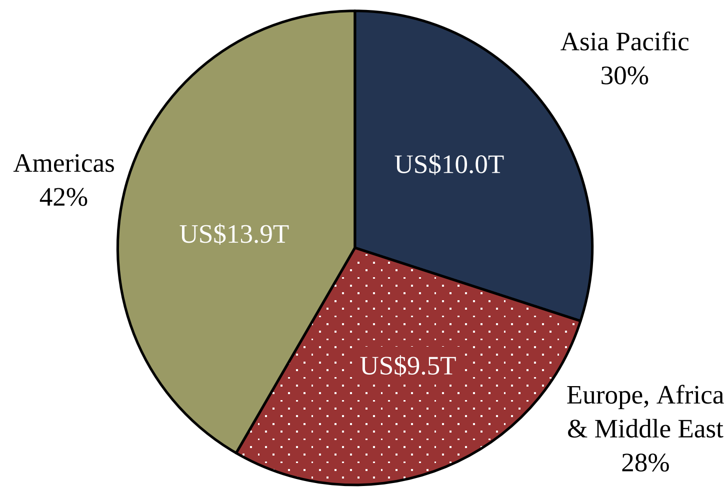
Exhibit 6

MARKET CAPITALIZATION OF DIFFERENT MARKETS GLOBALLY

2003



2008

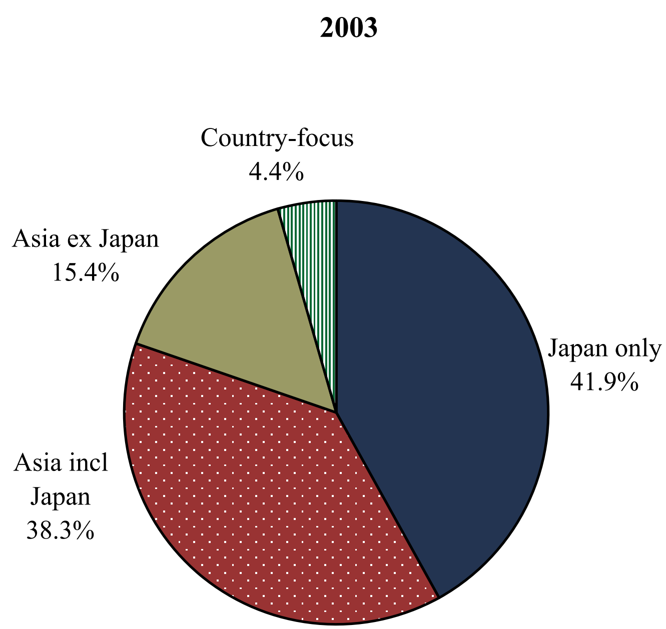


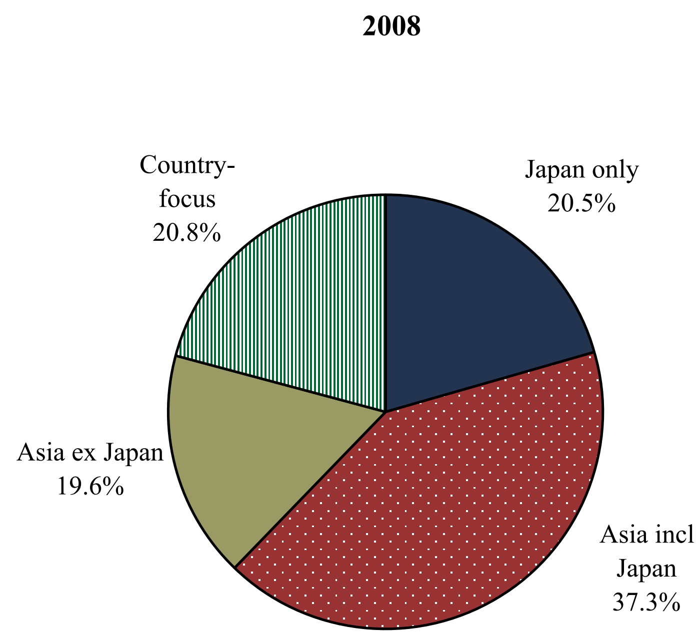
Source: World Federation of Exchanges.

Notes: Data are as of December 31, 2003, and December 31, 2008, respectively. $T denotes trillions of dollars.

Exhibit 7

**ASIAN HEDGE FUND UNIVERSE'S GEOGRAPHICAL INVESTMENT FOCUS
(BY ASSETS UNDER MANAGEMENT)**



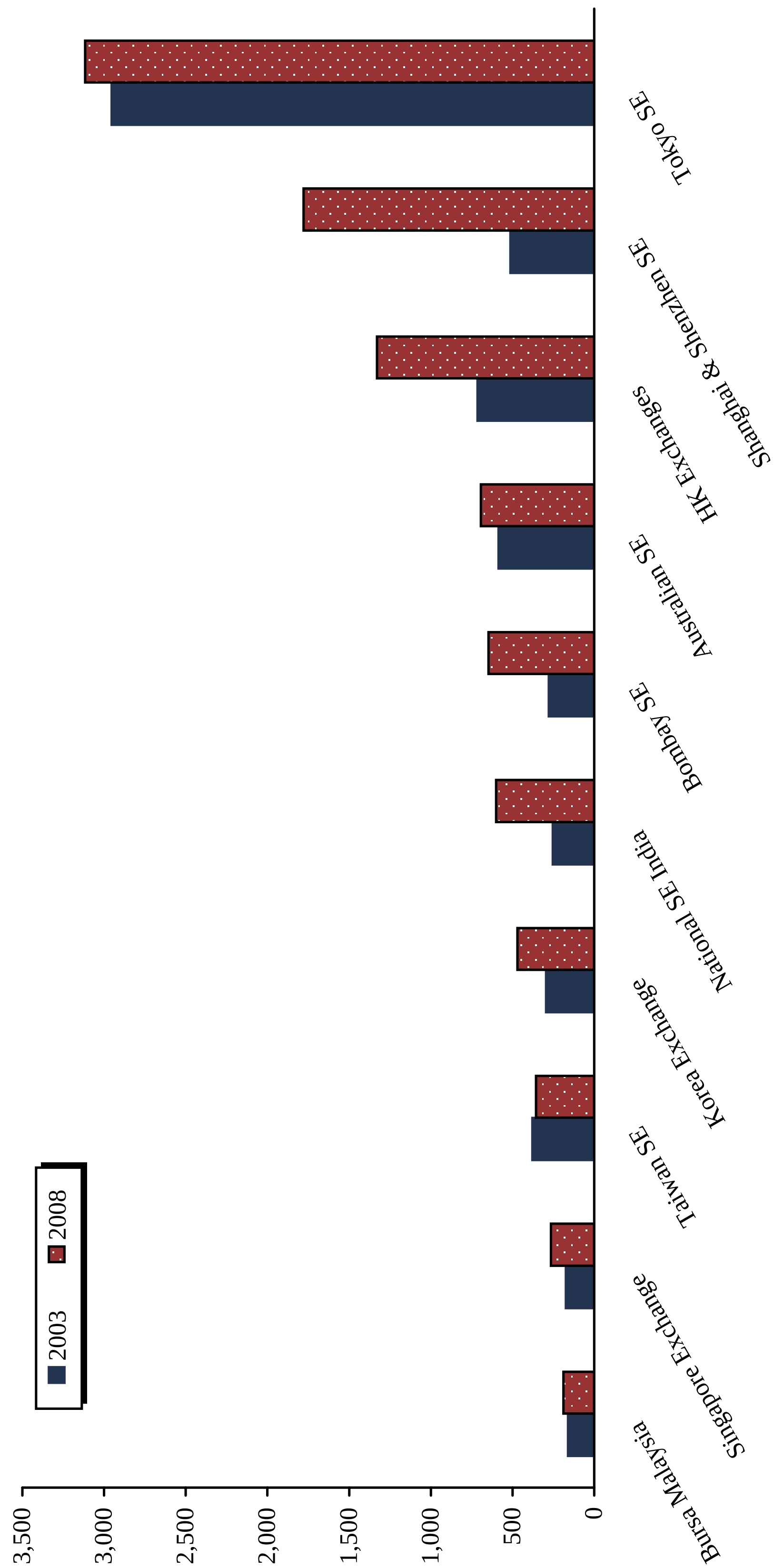


Source: Cambridge Associates Asian hedge fund universe, calculated from data provided by Eurekahedge Pte Ltd.

Notes: Data are as of December 31, 2003, and December 31, 2008, respectively. Eurekahedge applies a broad definition when including funds in its Asian hedge funds database. At the end of 2008 the database listed over 1,600 hedge funds, including funds based in Asian countries (regardless of whether those hedge funds had an Asian, global, or broad emerging markets mandate), funds based outside of Asia that had Asian investment mandates, and the multiple share classes offered by some funds. We have refined Eurekahedge's database to create the "Cambridge Associates Asian hedge fund universe," which includes only the flagship product of funds (i.e., multiple share classes are eliminated to avoid double counting) whose mandate is to invest 90% or more in Asia, regardless of where the hedge fund manager's office is based. For the period ending December 31, 2008, the Cambridge Associates Asian hedge fund universe was composed of 567 funds from Eurekahedge's initial database of over 1,600 funds.

Exhibit 8

GROWTH (IN US$ TERMS) IN THE TEN LARGEST ASIAN STOCK EXCHANGES OF 2008
(BY MARKET CAPITALIZATION)

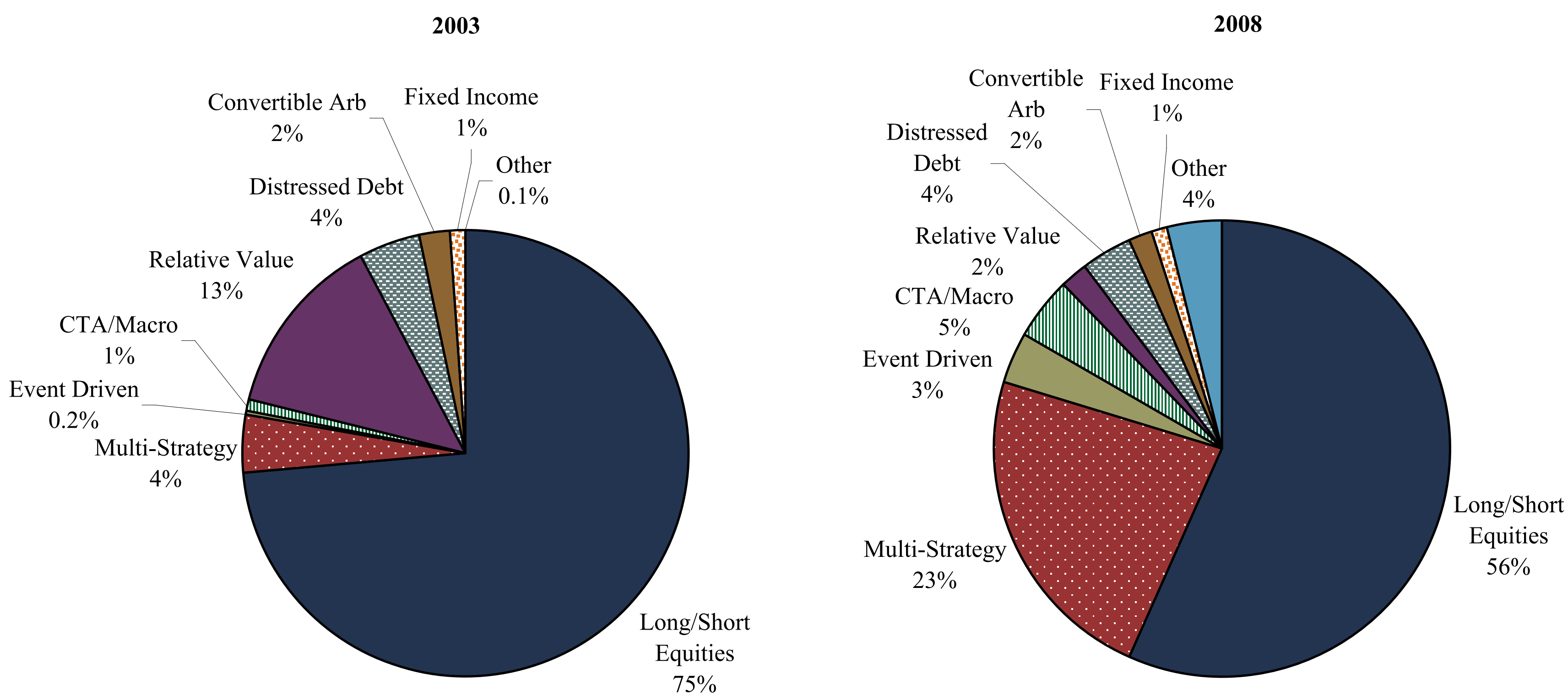


Source: World Federation of Exchanges.

Note: Data are as of December 31, 2003, and December 31, 2008, respectively.

Exhibit 9

STRATEGY BREAKDOWN OF ASIAN HEDGE FUNDS
(BY ASSETS UNDER MANAGEMENT)



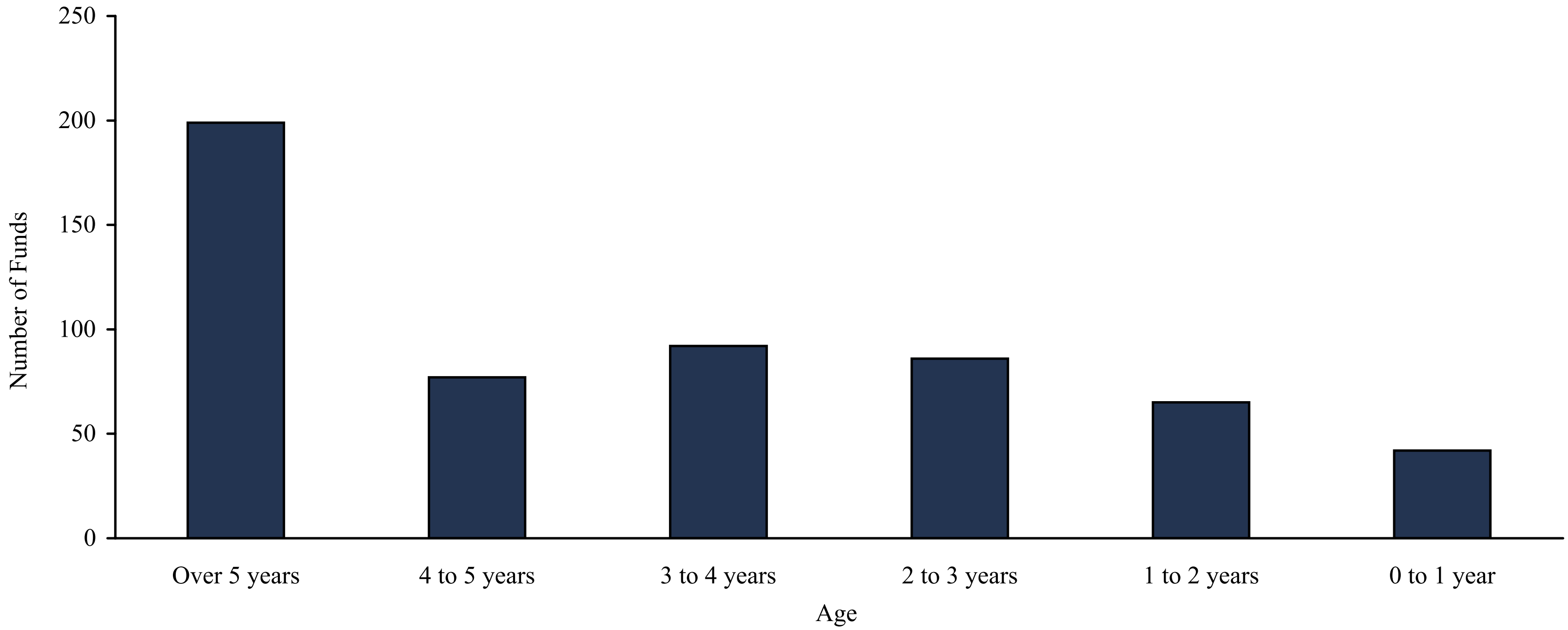
Source: Cambridge Associates Asian hedge fund universe, calculated from data provided by Eurekahedge Pte Ltd.

Notes: Data are as of December 31, 2003, and December 31, 2008, respectively. Eurekahedge applies a broad definition when including funds in its Asian hedge funds database. At the end of 2008 the database listed over 1,600 hedge funds, including funds based in Asian countries (regardless of whether those hedge funds had an Asian, global, or broad emerging markets mandate), funds based outside of Asia that had Asian investment mandates, and the multiple share classes offered by some funds. We have refined Eurekahedge's database to create the "Cambridge Associates Asian hedge fund universe," which includes only the flagship product of funds (i.e., multiple share classes are eliminated to avoid double counting) whose mandate is to invest 90% or more in Asia, regardless of where the hedge fund manager's office is based. For the period ending December 31, 2008, the Cambridge Associates Asian hedge fund universe was composed of 567 funds from Eurekahedge's initial database of over 1,600 funds.

Exhibit 10

DISTRIBUTION OF ASIAN HEDGE FUNDS BY AGE

2008

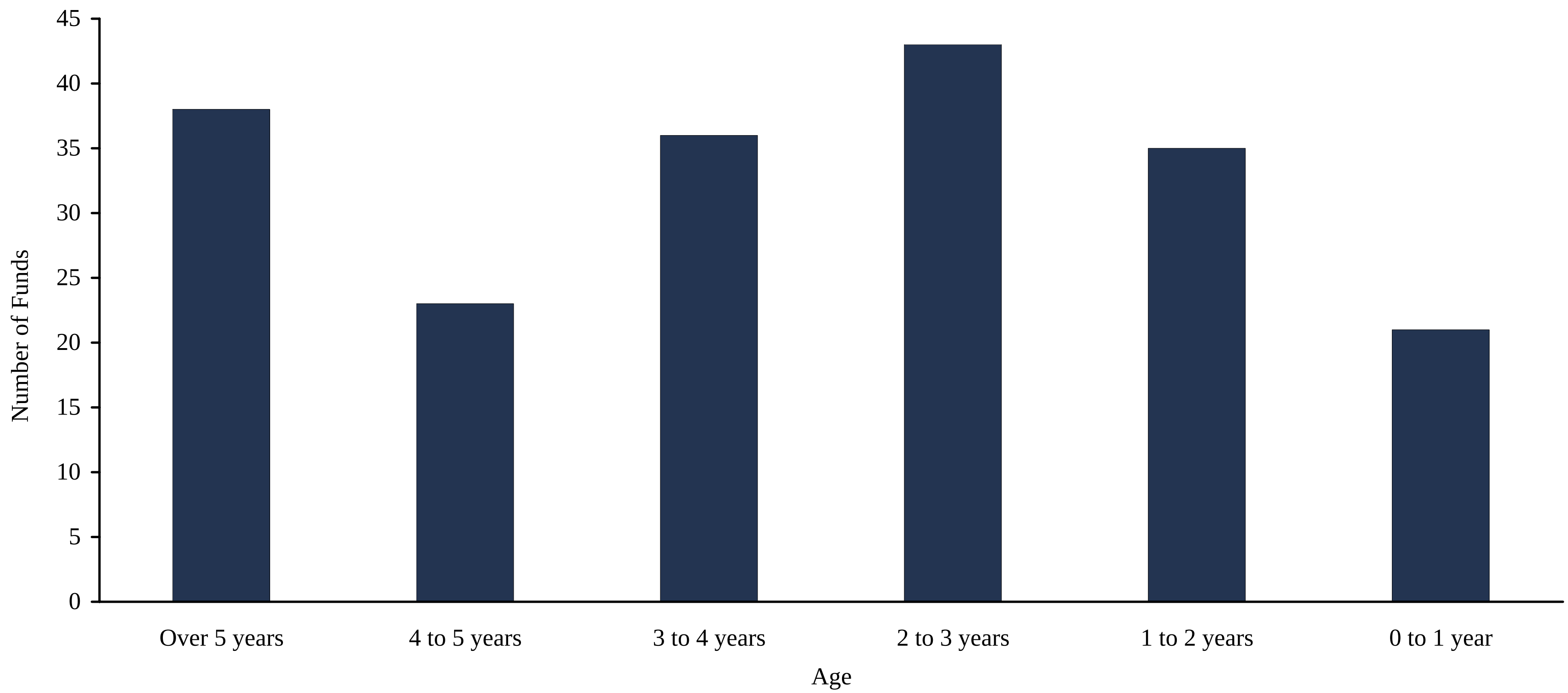


Source: Cambridge Associates Asian hedge fund universe, calculated from data provided by Eurekahedge Pte Ltd.

Notes: Data are as of December 31, 2008. Eurekahedge applies a broad definition when including funds in its Asian hedge funds database. At the end of 2008 the database listed over 1,600 hedge funds, including funds based in Asian countries (regardless of whether those hedge funds had an Asian, global, or broad emerging markets mandate), funds based outside of Asia that had Asian investment mandates, and the multiple share classes offered by some funds. We have refined Eurekahedge's database to create the "Cambridge Associates Asian hedge fund universe," which includes only the flagship product of funds (i.e., multiple share classes are eliminated to avoid double counting) whose mandate is to invest 90% or more in Asia, regardless of where the hedge fund manager's office is based. For the period ending December 31, 2008, the Cambridge Associates Asian hedge fund universe was composed of 567 funds from Eurekahedge's initial database of over 1,600 funds. In this exhibit, six additional funds for which inception dates were unavailable are excluded from the universe, resulting in 561 total funds included.

Exhibit 11

AGE OF ASIAN HEDGE FUNDS AT THE TIME THEY CLOSED DOWN (POST-2000)



Source: Cambridge Associates Asian hedge fund universe, calculated from data provided by Eurekahedge Pte Ltd.

Notes: Data are as of December 31, 2008. Eurekahedge applies a broad definition when including funds in its Asian hedge funds database. At the end of 2008 the database listed over 1,600 hedge funds, including funds based in Asian countries (regardless of whether those hedge funds had an Asian, global, or broad emerging markets mandate), funds based outside of Asia that had Asian investment mandates, and the multiple share classes offered by some funds. We have refined Eurekahedge's database to create the "Cambridge Associates Asian hedge fund universe" that includes only the flagship product of funds (i.e., multiple share classes are eliminated to avoid double counting) whose mandate is to invest 90% or more in Asia, regardless of where the hedge fund manager's office is based. For the period ending December 31, 2008, the Cambridge Associates Asian hedge fund universe was composed of 567 funds. In this exhibit, we have identified 196 funds that have closed since 2000.