Press Release

BNY MELLON
ASSET SERVICING

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Unprecedented market turbulence impacts pooled fund of hedge funds in third quarter

Fund of hedge fund managers outperformed UK and Overseas Equity pooled funds

LONDON, December 4, 2008 – Statistics released today by BNY Mellon Asset Servicing show that pooled fund of hedge funds failed to achieve positive returns during the third quarter of 2008. Over this period the median return for these funds was -9.7%, the lowest return that BNY Mellon has seen since the company started to measure pooled fund of hedge fund performance in 2003. In the second quarter, pooled fund of hedge fund managers had been back in positive territory, with the median fund returning 2.4%.

Pooled fund of hedge funds were outperformed by a number of key pooled fund sectors during the third quarter of 2008 such as Bonds, Property and Cash. They did however outperform against many of the equity pooled funds including UK Equity (-13.0%), Emerging Market Equity (-20.3%), Pacific Basin ex Japan Equity (-16.3%) and European ex UK Equity (-13.0%) funds.

Results were also negative over a one year period with pooled fund of hedge funds returning -8.8%. Despite failing to achieve positive results over this period, pooled fund of hedge fund managers did achieve outperformances against other key sectors. Broadly speaking, results for other pooled fund sectors were negative during the quarter, including UK and Overseas Equity funds which returned -22.4% and -17.7% respectively. Pooled fund of hedge funds also outperformed Property pooled funds (-17.3%) over this period.

Some stronger results in earlier periods meant that pooled fund of hedge funds did make some small gains over the medium term, with funds returning 3.1% p.a. over three years to 30 September 2008. During this period, pooled fund of hedge funds fared better than many other key pooled fund sectors.

BNY Mellon's analysis shows that fund of hedge fund managers achieved outperformances of 1.9% p.a. and 3.7% p.a. against Overseas and UK Equity pooled funds, and that they were able to achieve this with lower levels of risk as measured by the median standard deviation. This measures the volatility of quarterly returns over these periods, and was 12.5% p.a. for UK Equity funds and 11.2% p.a. for Overseas Equity funds, compared with 7.2% for pooled fund of hedge funds.

Pooled fund of hedge fund managers also fared better than pooled Property and UK Bond funds, which returned 1.3% p.a. and 0.7% p.a. respectively. They were however, outperformed by both Cash (5.0% p.a.) and International Bonds (4.4% p.a.).

Commenting on the results, Alan Wilcock, BNY Mellon Asset Servicing's Performance and Risk Analytics Manager, said: "Given the extraordinary market turbulence we have seen, it is perhaps not that surprising that pooled fund of hedge funds suffered in these volatile conditions and on average produced negative returns in all three months of the last quarter."

"Along with other asset classes, pooled fund of hedge funds have not come away unscathed from the recent events in the market place."

Each quarter, BNY Mellon Asset Servicing publishes results from its pooled fund of hedge funds universe which consists of multi-strategy funds of hedge funds. These offer a route into alternative investments for UK pension schemes and a means of generating returns, whilst reducing overall fund risk through diversification. Hedge fund strategies can be broadly classified as directional, event driven and non-directional. Directional strategies seek to forecast and exploit broad market trends, while event driven strategies seek to anticipate and exploit events such as mergers or corporate restructurings. Non-directional strategies generally seek to take advantage of pricing inefficiencies.

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As at 30 September 2008, the average fund of hedge funds held 44.4% of its assets in directional strategies, 13.4% in event driven strategies, 16.6% in non directional strategies and 25.6% in other (unspecified) strategies and cash.

BNY Mellon Asset Servicing's fund of hedge funds universe currently covers 16 separate funds with over £7.8 billion in assets.

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Notes to editors

The performance analysis and other information in this press release are based on historical data and are intended for informational purposes only. Past performance is not a guarantee of future performance. This press release does not constitute investment advice, nor is it an offer or recommendation of any security, investment product, service or firm.

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