

Press Release



THE BANK OF NEW YORK MELLON

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Global Hedge Fund Assets Will Reach \$2.6 Trillion by 2013, According to New Study by The Bank of New York Mellon and Casey Quirk

*Report sees fundamental change in hedge fund operating models;
Greater reliance on third parties to satisfy liquidity, transparency and regulatory demands*

LONDON AND NEW YORK, April 20, 2009 – Hedge fund assets will bottom out at roughly \$1 trillion in 2009, after which capital appreciation and \$800 billion in net inflows over the next four years will push global levels to \$2.6 trillion by 2013, according to a new study of institutional investors, investment consultants and hedge funds released today by The Bank of New York Mellon and Casey, Quirk & Associates.

The study, entitled “The Hedge Fund of Tomorrow: *Building an Enduring Firm*,” found that institutions remain firmly committed to hedge fund investing. Institutional investors comprised less than 20% of hedge fund redemptions in 2008-2009, and North American pension plans will represent the single largest source of new capital between 2010 and 2013, followed by British and Northern European institutions. Global high net worth investors could account for as much as 60% of new net flows between 2010 and 2013, although their return to hedge fund strategies will rely on capital market conditions and hedge fund performance.

Funds of hedge funds will solidify their role as the primary hedge fund distribution channel, capturing almost 60% of net inflows between 2010 and 2013 by continuing to offer services most investors will find difficult to replicate on their own, such as manager-sourcing and ongoing due diligence.

According to the report, the hedge fund industry is facing a “transformational crisis” and must address key shortcomings in its business and operating models. As a result, hedge funds will rely more on third parties for a growing range of administrative support. Fund administrators will play a greater role in hedge funds’ operations, which will require stronger integration of hedge fund servicing activity with traditional custody and cash platforms.

“The events of 2008 have changed the old dynamic. Investor and regulatory demands for new levels of transparency mean the legacy operating model no longer works,” said Brian Ruane, executive vice president of Alternative Investment Services at The Bank of New York Mellon. “Hedge funds increasingly will turn to independent third parties for middle- and back-office functions such as portfolio accounting and reconciliation, custody of non-collateral assets, pricing and valuation, cash management, and counter-party risk-mitigation. Allowing third parties to play a bigger role in their business will be a sign the hedge fund industry is maturing.”

“Enduring hedge fund management firms will more closely align their business models with investor needs for transparency and liquidity. This means new fee models and longer-term incentive structures,” said Kevin Quirk, a partner with Casey Quirk. “By striking better-designed balances, they will come to define the central value proposition of active asset management.”

While the single-strategy boutique remains a viable model, better-designed and more durable investment management businesses will capture a majority of new hedge fund assets. Four models likely to thrive in the coming years include:

- **Single-Strategy Boutique:** ‘Classic’ hedge fund, dominated by a typical direct investment capability using hedge fund techniques
- **Multi-Capability Platform:** Common brand, distribution and business infrastructure support multiple distinct alternative investment capabilities
- **Merchant Bank Alternative Manager:** Diversified financial intermediation business with core capabilities in investment management
- **Converged Traditional-Alternative Manager:** Investment firm that has successfully integrated alternative and traditional long-only capabilities

Results from this year’s study, the third in an ongoing series jointly created by the Bank of New York Mellon and Casey Quirk, relied on interviews with more than 150 institutional investors, investment consultants, hedge funds, funds of hedge funds, and industry experts around the world.

Casey Quirk provides management consulting services exclusively to investment management firms. The firm specializes in developing business strategy and planning, enhancing investment practices, and crafting distribution policies. Casey Quirk draws on more than 35 years of experience in delivering value to its clients and partners through a unique combination of deep industry knowledge and experience, solutions-oriented thought leadership, and a proven ability to create change within organizations. Additional information is available at www.caseyquirk.com.

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