

Long-Short Equity:

Regarded as the original hedge fund strategy, long-short equity funds hold a portfolio of stocks (longs) hedged by a portfolio of shorts, or bets on stocks falling.

Managers short a stock by borrowing it from a long-term holder, often via a prime broker or other intermediary, and then selling it in the market. They later buy it back at what they hope is a lower price and pocket the difference, minus the cost to borrow the stock.

Most of these funds are long-biased -- i.e. the value of stocks they bought to hold outweigh the value of their short positions.

However, some funds are market neutral -- the short portfolio balances out the long portfolio, meaning the fund has almost no exposure to overall market movements but instead makes money from the manager's stock picking skills.

Such funds often use pairs trades, in which they buy one stock and then balance it with a short in the same sector, thereby hedging out risks associated with that sector.

Well-known funds using the strategy include Odey European, Toscafund.

Performance year-to-date: 11.45 percent*

Performance in 2008: -19.76 percent*

Managed Futures:

These are highly-complex, computer-driven funds, usually designed by programmers with training in statistics, which bet on trends in global futures markets, such as oil, equities, bonds and commodities.

The duration of the trends they aim to exploit can vary, but they make money out of the momentum of futures markets and therefore tend to favour more established trends, for instance a long-term rise or fall in the price of oil.

The futures they invest in are highly liquid and therefore investors are usually able to get their money back quicker than with most other hedge funds.

Well-known funds include Man Group's AHL and Winton Futures Fund.

Performance year-to-date: -7.82 percent*

Performance in 2008: 18.33 percent*

Global Macro:

Once synonymous with hedge funds, these opportunistic managers take bets around the world on equity, bond, currency and commodity markets, often using leverage to try and boost returns.

Managers try to make money out of periods of investor exuberance or fear, by using in-depth research or by gathering information others do not have.

The manager's judgement tends to be more of a factor and trades tend to be based more on fundamentals than managed futures funds.

Well-known funds using the strategy include George Soros's Quantum fund, Julian Robertson's Tiger Management, Paul Tudor Jones's Tudor Investment Corp.

Performance year-to-date: 5.24 percent*

Performance in 2008: -4.62 percent*

Event-Driven:

This category includes a wide array of funds, all of which bet on securities in companies that are undergoing, or are expected to undergo, significant change.

Merger arbitrage funds bet on the likelihood of mergers and acquisitions going through, usually by buying the shares of a target company, which tend to rise when takeovers are announced, and going short on the shares of an acquirer.

Distressed funds buy the bonds or other securities of companies facing tough times or approaching or in bankruptcy, and therefore tend to find the best investment opportunities when [economic](#) conditions are at their worst.

They may also buy bonds priced for default, for instance sub-prime mortgage debt.

Meanwhile, activist funds, such as TCI or Atticus, take stakes in firms and then agitate for corporate change such as mergers or spinning off businesses.

Performance year-to-date: 9.11 percent*

Performance in 2008: -17.74 percent

Fixed Income Arbitrage:

Once described by one of Long Term Capital Management's team as "vacuuming up nickels that others couldn't see," these complex strategies aim to exploit small price anomalies in corporate or government bonds.

Managers buy a security they think will rise as the discrepancy corrects itself and short the security they think will fall, thus hedging out exposure to interest rate movements. They tend to bet on credit spreads, yield curves or other trades.

Leverage, or borrowing to amplify returns, tends to be higher than in most other strategies because the price discrepancies these funds exploit tend to be small.

Performance year-to-date: 15.9 percent*

Performance in 2008: -28.82 percent*

Convertible Arbitrage:

This is another complex strategy in which managers aim to make money from the volatility and mispricing of convertible bonds.

They typically buy a convertible bond -- a bond allowing the holder to exchange it for common stock -- and then strip out equity exposure by shorting the underlying equity.

They then buy credit default swaps to hedge default risk on the bond, and hedge exposure to interest rates and foreign currencies through treasury futures or swaps, leaving them exposed to the bond's equity option.

Funds were badly hit last year by falling convertibles prices, but have profited this year by, in some cases, simply buying the convertible and riding its price rise.

Performance year-to-date: 31.14 percent*

Performance in 2008: -31.59 percent*

Emerging Markets:

Such funds invest in equity or bonds in emerging markets. They tend to be long-biased because stock lending and derivatives markets tend to be less developed, making short-selling more difficult or expensive.

Performance year-to-date: 17.54 percent*

Performance in 2008: -30.41 percent*

Dedicated Short Bias:

These are funds that only short stocks -- bet on lower prices. Since markets tend to rise over time they usually only make money in times of market falls and are often used by investors to hedge other positions in their portfolios.

Performance year-to-date: -17.28 percent*

Performance in 2008: 14.87 percent*

Funds of hedge funds:

Funds of hedge fund managers hold a basket of hedge funds, either in one strategy or across a range of strategies, and charge investors an extra level of fees for their fund selection and due diligence.

The reputation of the sector has been hit after some funds failed to spot and invested with U.S. fraudster Bernard Madoff.

Performance year-to-date: 6.95 percent**

Performance in 2008: -21.37**

*Data source: Credit Suisse/Tremont.

** Data source: Hedge Fund Research.

***YTD numbers thru July 09