

The logo for TrimTabs, featuring the word "Trim" in white serif font on a dark blue square background, followed by "Tabs" in white serif font on a light blue rectangular background.

TrimTabs

The Leading Independent Research Firm for Equity Market Liquidity

THE HEDGE FUND FLOW REPORT

SHOWING ONLY THE TOPICAL STUDY INCLUDED IN THE APRIL 2010 ISSUE



BarclayHedge

The Global Leader in Alternative Asset Research

Topical Study: Hedge Fund Flows and Returns by Location

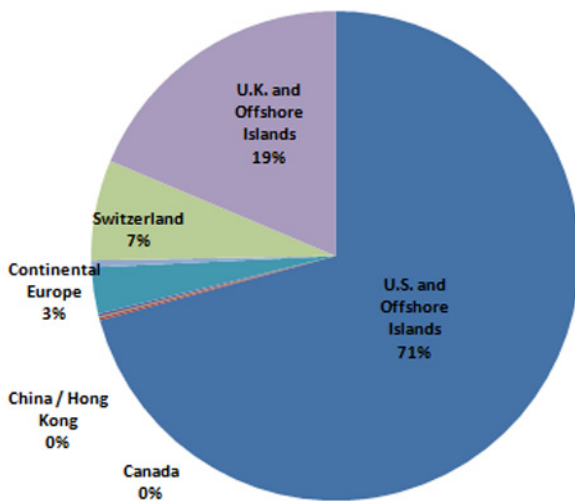
- The hedge fund industry has gone global. The U.S. share of funds in the BarclayHedge database dropped to 60% in February 2010 from 71% in February 2000. The 2008 crisis halted the steady ascent of London as a choice for fund listings. Funds based in Britain posted much larger redemptions than their American counterparts.
- Hedge fund returns were largest in Canada (268%) and China (266%) in the past decade, while returns were the worst in Japan and Switzerland. Levels of risk explain differences in geographic returns. The Sharpe ratio of hedge fund returns is close to one in most regions. U.S. funds have a relatively high Sharpe ratio because of their low volatility.
- Flows seem to follow returns fairly quickly. Funds based in Canada posted the largest inflow as a percentage of assets (234%) in the past 10 years. Hedge fund flows were highly correlated between all regions, suggesting the industry is globally integrated.
- Some regions seem to specialize in certain strategies. U.K. funds posted below average returns in most strategies, but Britain boasts the best returns for Emerging Markets funds (14.1% annualized).
- Geographic diversification offers some benefits to hedge fund investors because returns vary across regions and some regions specialize. For U.S. investors, a globally diversified portfolio is marginally more efficient than a purely domestic one.
- The benefits from diversification are materially smaller for hedge funds than for stocks. Most large hedge funds are geographically diversified regardless of location, and fund strategies do not vary greatly across regions. Returns in the U.S. and the U.K., the two main hedge fund regions, are 93% correlated. For U.S. investors, diversification benefits appear strongest in the Asia Ex-Japan and Latin America regions.

All told, this study illustrates that the hedge fund industry is fairly well integrated. Risk levels explain most of the return differential across regions, and investors seem to move into hot regions quickly. The same factors seem to affect hedge fund flows in all regions, and returns are highly correlated. At the same time, geographic diversification can marginally improve long-term returns for hedge fund investors.

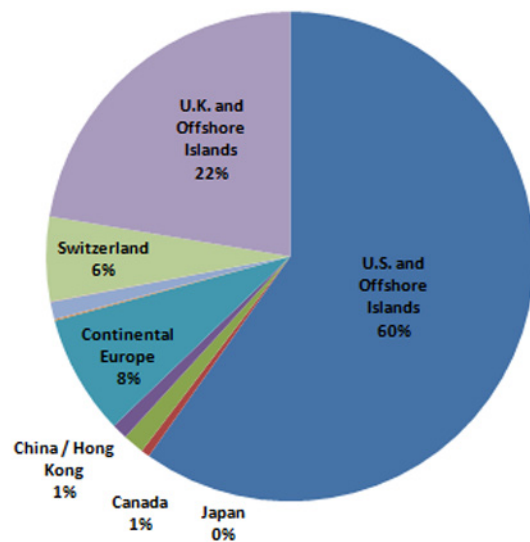
U.S. share of global hedge fund industry drops 11% in past 10 years. 2008 crisis pummels U.K. hedge funds.

The hedge fund industry has undergone a steady process of globalization in the past decade. Based on the hedge funds in the BarclayHedge database, the U.S. share of the global industry dropped to 60% in February 2010 from 71% in February 2000. The U.K. share increased to 22% from 19% in the same period, while the Continental Europe share rose to 8% from 3%. The 2008 crisis seems to have halted the emergence of London as the alternative center of the hedge fund universe. The U.K. share of the industry fell to 22% in February 2010 from a peak of 27% in January 2007 because funds based in Britain posted much larger redemptions than their American counterparts in 2008.

Hedge Fund Assets by Location February 2000

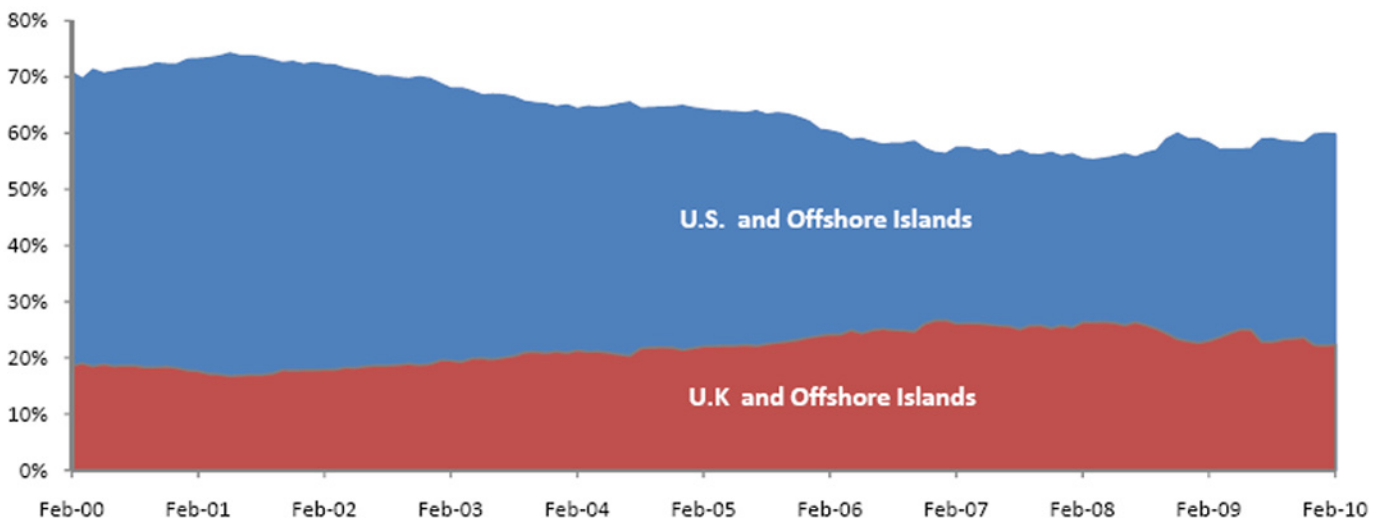


Hedge Fund Assets by Location February 2010



The 2008 crisis seems to have halted the emergence of London as the alternative center of the hedge fund universe. The U.K. share of the industry fell to 22% in February 2010 from a peak of 27% in January 2007 because funds based in Britain posted much larger redemptions than their American counterparts in 2008.

MARKET SHARE OF THE GLOBAL HEDGE FUND INDUSTRY

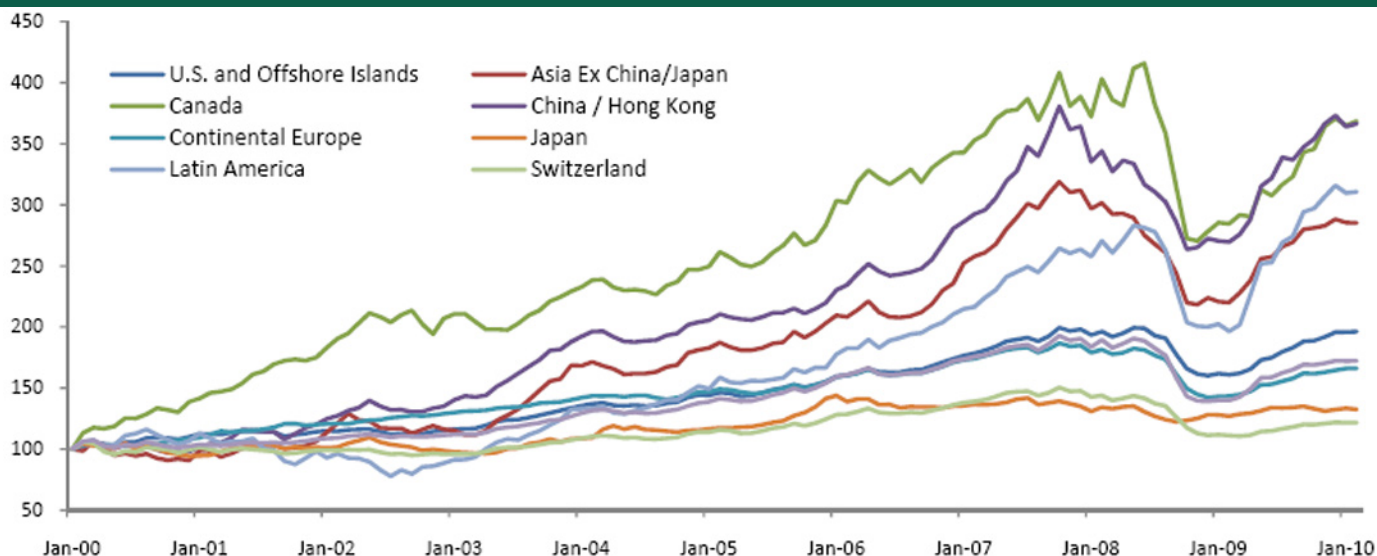


Canadian and Chinese hedge funds post best returns in the past 10 years. U.S. funds post high risk-adjusted returns.

Long-term hedge fund returns vary widely across region of listing. Funds based in Canada returned 268% in the past 10 years, followed by 266% for funds based in China and Hong Kong. Funds based in the U.S. returned 96%, while funds based in the U.K. returned 72%.

A few star performers might bias returns in Canada and China/Hong Kong. Our sample in those areas consists of only 60 funds versus more than 3,000 in the U.S. and the U.K.

CUMULATIVE HEDGE FUND RETURNS BY COUNTRY OF DOMICILE



Differences in risk partially explain the difference in returns by region. Funds based in Canada are twice as risky as funds based in the U.S., resulting in a lower Sharpe ratio. The U.S. exhibits a particularly high Sharpe ratio (second only to China) because the industry is extremely diversified across strategies, reducing overall volatility. Funds in Switzerland, Japan, and Continental Europe show the worst returns on both absolute and risk-adjusted bases.

Hedge Fund Returns 2000 to 2010

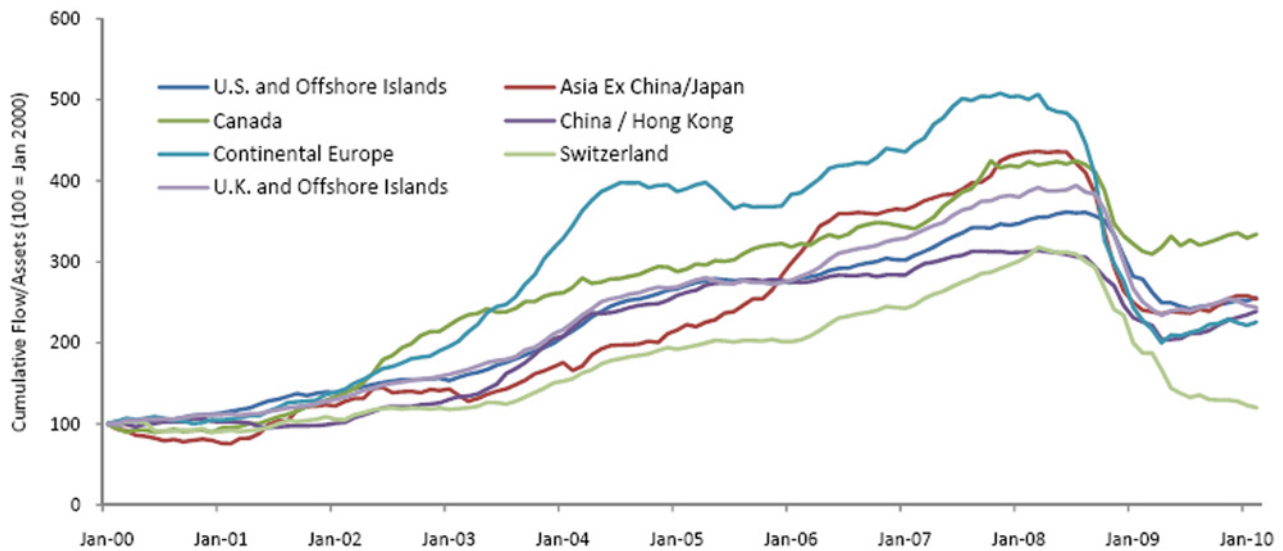
	Average Annual Returns	Annual Standard Deviation	Sharpe Ratio (risk free Rate of 0%)
U.S. and Offshore Islands	7.1%	5.8%	1.21
Asia Ex China/Japan	11.7%	11.8%	1.00
Canada	14.8%	12.8%	1.15
China / Hong Kong	14.3%	10.2%	1.41
Continental Europe	5.3%	5.5%	0.97
Japan	3.1%	6.6%	0.46
Latin America	13.0%	14.0%	0.93
Switzerland	2.2%	6.7%	0.33
U.K. and Offshore Islands	5.8%	7.6%	0.77

Note: We did not include a "risk-free rate" in our measure of Sharpe ratios because the "risk-free rate" would have varied between regions and made comparisons harder.

THE HEDGE FUND FLOW REPORT

Flows appear to adjust to returns fairly quickly. In the past 10 years, flows as a percentage of assets were strongest into Canada (234% of assets) and weakest into Switzerland (20% of assets). Flows were highly correlated between all regions, suggesting the hedge fund industry is globally integrated.

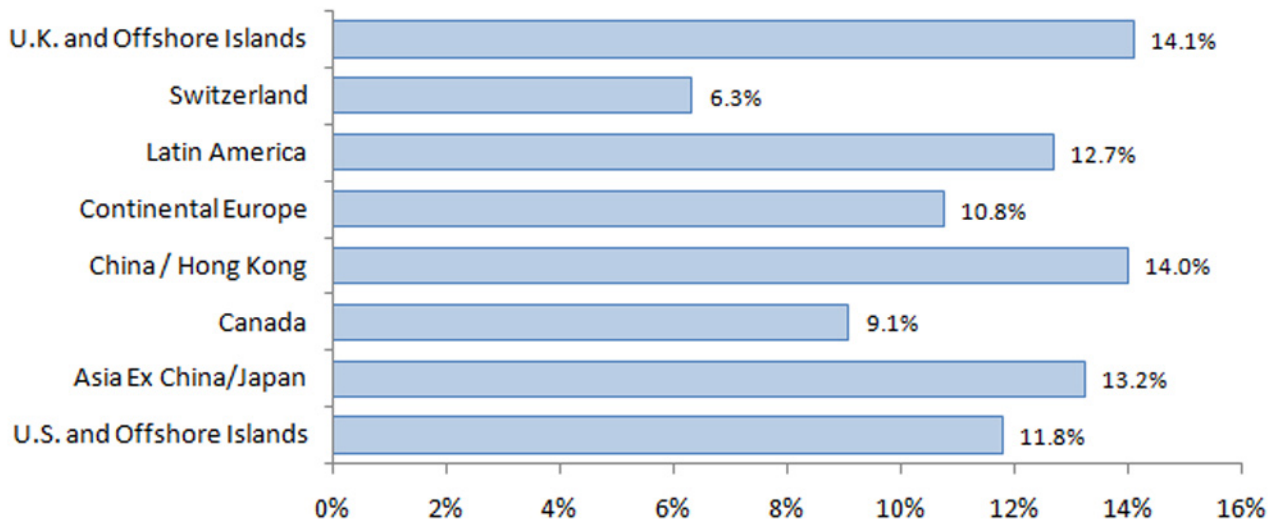
CUMULATIVE HEDGE FUND FLOWS TO ASSETS BY REGION OF DOMICILE



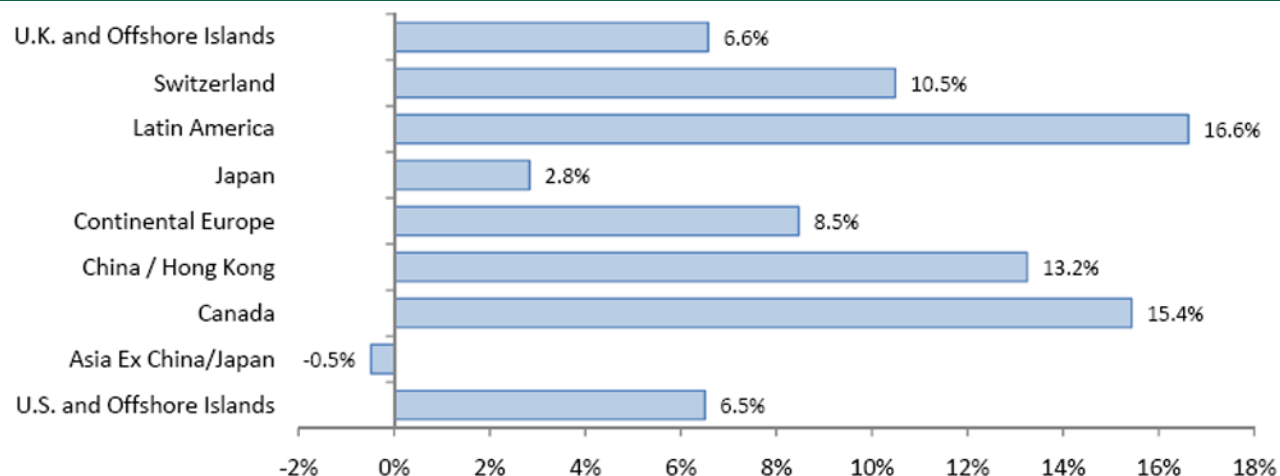
China and U.K. post largest returns in Emerging Markets strategy. Hedge fund investors can improve returns (slightly) with diversification.

Some regions seem to specialize in certain strategies. U.K. funds under perform on average, but Britain boasts the best returns for Emerging Markets hedge funds (14.1% annualized), followed by China (14.0%). For Equity Long-Short funds, historically the “core” of hedge fund investing, performance is best in Latin America (16.6%). We find no evidence that funds based in developed countries with relatively efficient markets have trouble creating alpha. Canada and Switzerland posted above average returns for Equity Long-Short funds in the past 10 years.

ANNUALIZED RETURNS OF EMERGING MARKETS HEDGE FUNDS (2000 TO 2010)



ANNUALIZED RETURNS OF EQUITY LONG-SHORT HEDGE FUNDS (2000 TO 2010)



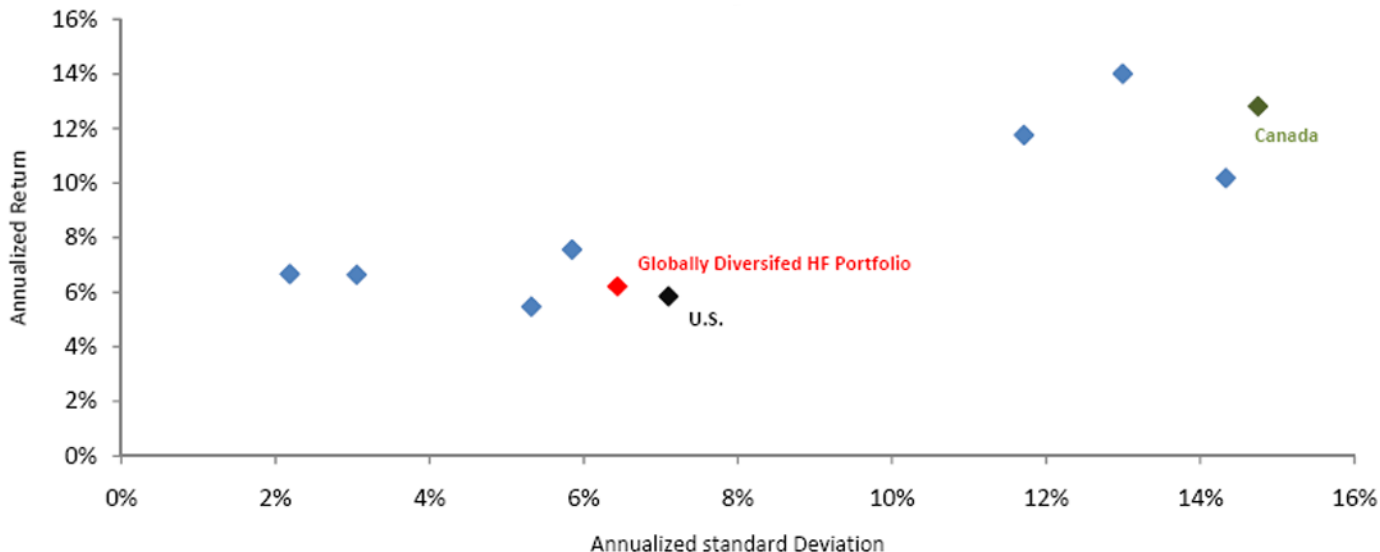
Hedge Fund Returns by Strategy and Region

Strategy	Best Region	Best Region's Annualized Return
Convertible Arbitrage	U.K. and Offshore Islands	10.3%
Distressed Securities	China / Hong Kong	14.5%
Emerging Markets	U.K. and Offshore Islands	14.1%
Equity Long Bias	Latin America	23.0%
Equity Long/Short	Latin America	16.6%
Equity Long-Only	Canada	19.1%
Equity Market Neutral	Asia Ex China/Japan	12.4%
Event driven	Asia Ex China/Japan	9.1%
Fixed Income	Canada	17.0%
Fund of Funds	Asia Ex China/Japan	7.2%
Macro	Asia Ex China/Japan	21.9%
Merger Arbitrage	Continental Europe	14.8%
Multi-Strategy	Latin America	24.6%
Other	Asia Ex China/Japan	20.2%
Sector Specific	Canada	14.8%

The difference in returns by geographic location and the observation that regions seem to specialize in specific strategies suggest hedge fund investing offers some diversification benefits. Adding global hedge funds to a portfolio of U.S. hedge funds can increase returns and reduce risk.

The plot below shows that a globally diversified portfolio of hedge funds (one that invests in each region based on relative importance) offers slightly better risk/reward than a portfolio investing solely in U.S. hedge funds. The gains are relatively small because U.S. hedge funds still account for the bulk of the globally diversified portfolio and because hedge funds returns are highly correlated between regions.

RISK/RETURN PROFILE OF HEDGE FUNDS BY LOCATION



Returns in the U.S. and the U.K., the two main hedge fund regions, display a 93% correlation. Japan (39%) is the only region in which returns are less than 50% correlated with U.S. returns, mostly because Japan-based hedge funds have dramatically under performed - hardly the kind of diversification investors have in mind. For U.S. investors, diversification benefits appear strongest in the Asia Ex-Japan and Latin America regions.

Correlation Matrix of Monthly Hedge Fund Returns 2000 to 2010

	U.S. and Offshore Islands	Asia Ex China/ Japan	Canada	China / Hong Kong	Continental Europe	Japan	Latin America	Switzerland	U.S. and Offshore Islands	Global HF Port
U.S. and Offshore Islands	100%									
Asia Ex China/ Japan	68%	100%								
Canada	73%	45%	100%							
China / Hong Kong	77%	78%	60%	100%						
Continental Europe	77%	49%	73%	57%	100%					
Japan	39%	37%	38%	46%	26%	100%				
Latin America	79%	61%	49%	64%	49%	27%	100%			
Switzerland	92%	66%	67%	70%	70%	46%	72%	100%		
U.K. and Offshore Islands	93%	67%	78%	76%	84%	44%	75%	90%	100%	
Global Hedge Fund Port.	99%	69%	77%	78%	82%	42%	78%	93%	97%	100%

This article was included in the April 2010 issue of the TrimTabs Hedge Fund Flow Report.

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Hedge Fund Flows for September 2008

Headline: Hedge Funds Post Record \$30 Billion Outflow in September

Topical Study: How Did Best-Performing Funds Weather Burst of Commodities Bubble?

Methodology and Survey Response Rate

Graphs: Flows & Returns by Strategy

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