MANAGED FUNDS ASSOCIATION

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HEDGE FUND PERFORMANCE

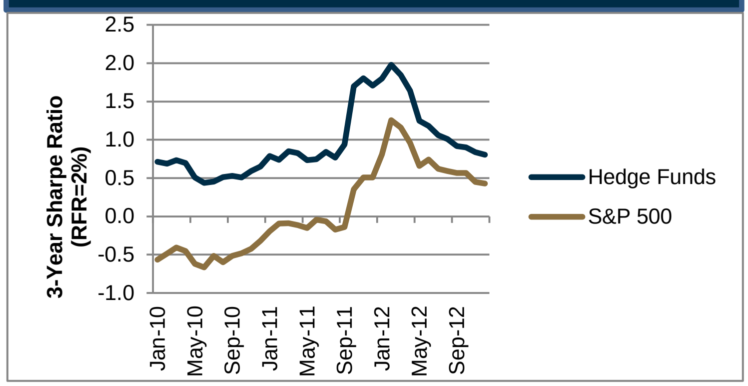
Hedge funds were developed to help diversify investment portfolios, manage risk, and deliver reliable returns over time.

Many investors use hedge funds as an uncorrelated diversification vehicle.[i]

Investors rely on hedge funds to produce "risk adjusted returns" and the most effective way to analyze their performance is to understand what these returns are.

Investors most commonly evaluate hedge funds by assessing their Sharpe Ratio over a number of years. A **Sharpe Ratio measures performance while taking into account the amount of risk to which the investments are exposed**. Comparing a hedge fund or hedge fund index's Sharpe Ratio to the S&P 500's Sharpe Ratio[ii] is a good way to benchmark performance for hedge funds.

Rolling Sharpe Ratio of Hedge Funds vs. S&P 500 (January 2010 - December 2012)



Source: Preqin 2013

Higher Risk-Adjusted Returns

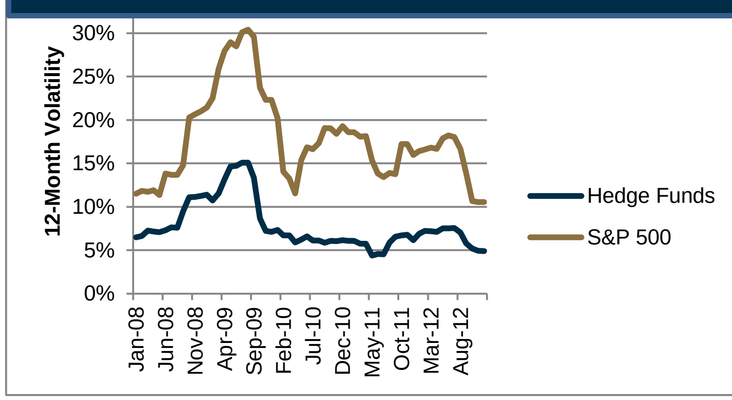
From 2010-2012, hedge funds have consistently outperformed the S&P 500 when their returns are measured using the Sharpe Ratio.

Lower Volatility

Hedge Funds also produce less volatile returns. From 2008-2012:

- Hedge fund volatility stayed within a range of 4.4% to 15.1%.
- The volatility of the S&P 500 did not drop below 10% and topped out at over 30%.

Rolling Volatility of Hedge Funds vs. S&P 500 (January 2008 - December 2012)



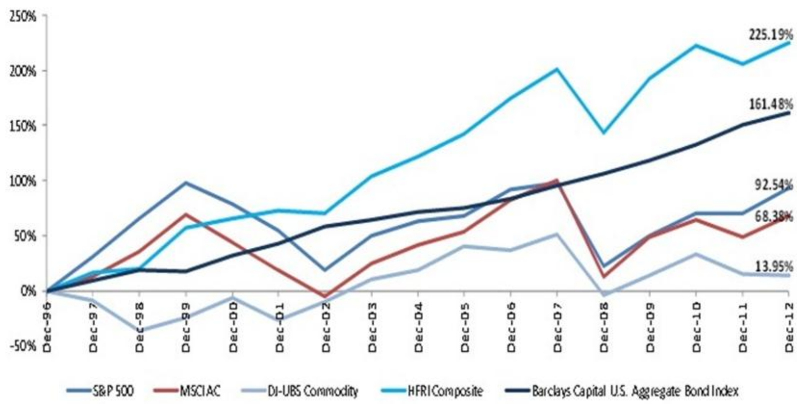
Source: Preqin 2013

Stronger Performance

While the S&P 500 has made steady gains over the past three years, hedge funds still outperform the index over a fifteen year time period, which includes the financial crisis.

The majority (65%) of hedge fund investors today are institutional investors such as public and corporate pension plans, university endowments and foundations and will typically stay committed to a selected manager for a number of years. According to research from Preqin, the average hedge fund holding period for institutional investors is five years.

Cumulative Returns of Hedge Funds and Other Risk Assets (1997-2012)



Source: J.P. Morgan, Hedge Fund Research, Bloomberg

Hedge funds' risk adjusted performance is the main reason some of the smartest, most sophisticated investors choose to invest in this asset class. These institutions are looking for steady returns that are protected from unnecessary risk.

MFA would like to acknowledge industry research firm Preqin for providing the data for this presentation.

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[i] Williamson, Christine. "Big public pension funds trump hedge fund benchmarks." Pensions & Investments, April 01, 2013. http://www.pionline.com/article/20130401/PRINTSUB/304019978/big-public-pension-funds-trump-hedge-fund-benchmarks.

[ii] The Sharpe Ratio is widely recognized as one of the most appropriate metrics for hedge fund performance because it measures risk adjusted return. See sources:

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