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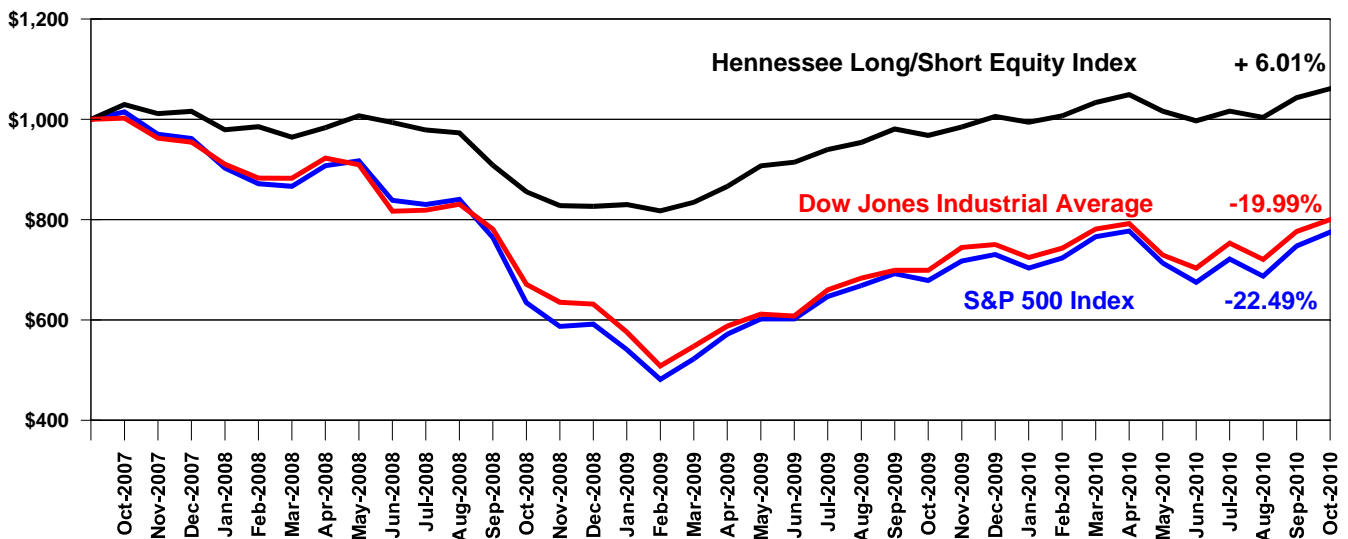
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HEDGE FUNDS OUTPERFORM SINCE 2007 PEAK

Adjusting Gross and Net Exposures Key to Hedge Fund Outperformance

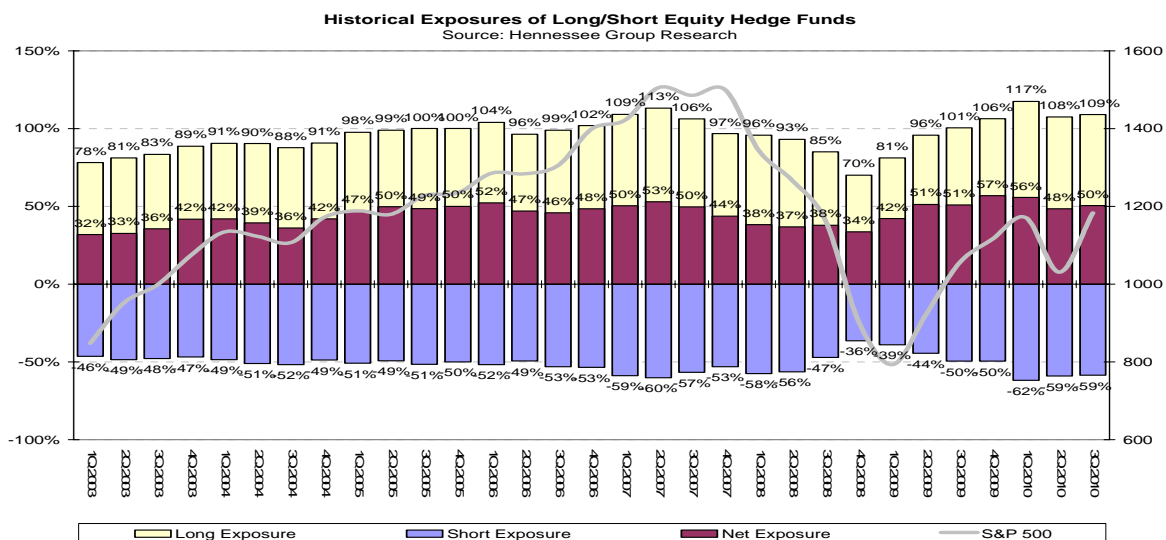
Monday, December 13, 2010 – New York, NY – Since the equity markets reached a high in October of 2007, there has been a double digit correction followed by a sharp double digit rally, which has made for a very challenging investment environment. While most broad based equity averages remain well off their highs reached in late 2007, the average hedge fund has recently exceeded its high-water mark and has drastically outperformed its traditional counterparts. **“The Hennessee Group believes a key driver of this outperformance by hedge funds has been their ability to successfully navigate through these highly volatile and uncertain market environments by adjusting their equity market exposures,”** said Mr. Gradante, Managing Principal of Hennessee Group. **“Specifically, hedge funds protected investor capital during the severe market correction that commenced in late 2007 by reducing net portfolio exposures and also participated in a good portion of the recent equity market rally by once again adding risk exposure following the financial crisis.”**

Three Year Benchmark Performance - Oct. 2007 to Oct. 2010



For the three year period ended October 2010, the Hennessee Long/Short Equity Index is up a respectable +6.10% relative to the S&P 500 Index which is off -22.49% and the Dow Jones Industrial Average which is off -19.99%. In a prior research paper (see [Long/Short Equity Hedge Funds React to Global Downturn](#)), the Hennessee Group estimated that the average net exposure of long/short equity hedge funds decreased by -16%, from +52% at the end of the second quarter of 2007 to +36% in the second quarter of 2008. This reduction in risk exposure allowed the Hennessee Long/Short Equity Index to outperform by a wide margin during the equity market sell-off. Specifically, from October 2007 to February 2009, the S&P 500 index lost -51.85% and the Dow Jones Industrial Average lost -49.17%. Over this same time period, the Hennessee Long/Short Equity Index lost -18.25%.

According to recent Hennessee Group research, hedge funds gradually increased equity market exposure to participate in the market rally that commenced in early 2009. Hennessee Group estimates that long/short equity hedge funds increased their net exposure by an average of +22%, from a low of +34% in the fourth quarter of 2008 to +56% in the first quarter of 2010. In addition, hedge funds increased their absolute gross exposures by an average of +73% over the same time period, from a low of +106% to a high of +179%. Hedge funds increased their net exposures in reaction to the market bottom largely by increasing their long exposures more than their short exposures. The increase in equity market exposure has benefited hedge funds as the Hennessee Long/Short Equity Index was up +29.80% from the beginning of 2009 through October of 2010. While short positions and hedges were the primary detractors from hedge fund results during the strong equity market rally, hedge fund managers also struggled with other market dynamics such as the spike in correlation amongst individual securities. The elevated levels of correlation, due in large part to macro sentiment driving stock prices rather than fundamentals, has made for a very challenging investment environment, particularly for fundamentally based managers.



• Based upon a sampling of 50 long/short equity hedge fund managers monitored by the Hennessee Group.

“While hedge funds have reduced exposures again in recent months as the sovereign debt crisis and other macro issues have overshadowed the markets, they remain elevated relative to historical levels and we believe managers will continue to maintain them as the global economy continues to recover and the equity markets further stabilize,” stated Mr. Gradante, Managing Principal of Hennessee Group LLC. **“That said, we believe they will remain cautious as there a number of headwinds that continue to trouble managers. We also expect security selection to be more of an alpha generator going forward as opposed to the exposure adjustment we have witnessed in recent years, particularly as fundamentals begin to matter and we see more dispersion between sectors and stocks.”**

For more information on hedge fund strategy performance in 2010, please see the ***Hennessee Hedge Fund Review***, our monthly hedge fund publication, at: <http://www.hennesseegroup.com/hhfr/index.html>.

About the [Hennessee Group LLC](#)

Hennessee Group LLC is a Registered Investment Adviser that consults direct investors in hedge funds on asset allocation, manager selection, and ongoing monitoring of hedge fund managers. Hennessee Group LLC is not a tracker of hedge funds. The [Hennessee Hedge Fund Indices](#)[®] are for the sole purpose of benchmarking individual hedge fund manager performance. The Hennessee Group does not sell a hedge fund-of-funds product nor does it market individual hedge fund managers. For additional [Hennessee Group Press Releases](#), please visit the Hennessee Group’s website. The Hennessee Group also publishes the [Hennessee Hedge Fund Review](#) monthly, which provides a comprehensive hedge fund performance review, statistics, and market analysis; all of which is value added to hedge fund managers and investors alike.

Description of [Hennessee Hedge Fund Indices](#)[®]

The [Hennessee Hedge Fund Indices](#)[®] are calculated from performance data reported to the Hennessee Group by a diversified group of over 1,000 hedge funds. The [Hennessee Hedge Fund Index](#) is an equally weighted average of the funds in the Hennessee Hedge Fund Indices[®]. The funds in the [Hennessee Hedge Fund Index](#) are derived from the Hennessee Group’s database of over 3,500 hedge funds and are net of fees and unaudited. Past performance is no guarantee of future returns. ALL RIGHTS RESERVED. This material is for general information only and is not an offer or solicitation to buy or sell any security including any interest in a hedge fund.