

Hedge Fund Strategy Performance Commentary April 2010

	April-10	Last 3 Months	YTD	Inception to Date ¹
RBC Hedge 250	0.88%	2.89%	2.79%	22.48%
Relative Value				
Convertible Arbitrage	0.72%	-0.16%	-1.05%	17.63%
Equity Market Neutral	0.77%	0.21%	0.52%	9.31%
Fixed Income Arbitrage	1.53%	4.48%	7.15%	20.09%
Tactical				
Equity Long/Short	0.70%	3.02%	2.31%	48.43%
Macro	-0.07%	1.90%	1.56%	14.17%
Managed Futures	1.25%	3.06%	-0.05%	57.77%
Event-Driven				
Credit	1.95%	4.70%	6.61%	7.94%
Mergers & Special Situations	1.40%	5.08%	5.60%	37.82%
Multi-Strategy				
Multi-Strategy	-0.90%	2.43%	3.06%	3.10%

¹Inception July 1, 2005
Return Data: RBC Hedge 250 Index®

Relative Value

Convertible Arbitrage (+0.72%)

Convertible managers performed well, benefiting from spread tightening early in the month (the Merrill Lynch High Yield Index tightened from 584bps to 561bps) and elevated volatility into month-end (the VIX spiked to over 22). Primary issuance was slower, with 7 new deals in the US raising nearly \$3bn.

Managers continue to report that “cheapness” observed in the convertible market throughout 2009 and early 2010 has diminished. Many have shifted their portfolios away from beta-sensitive converts in favor of special situation bonds, in many cases linked to restructurings and/or exchange opportunities.

Fixed Income Arbitrage (+1.53%)

Fixed income managers outperformed the hedge fund universe, though with wide dispersion. Mortgage managers posted the strongest returns; non-Agency RMBS continued to rally on improving fundamental data and a supportive technical backdrop characterized by new deployments of PPIP capital and rotation by investors out of corporate credit into mortgages.

Rates trading and positions along global yield curves showed mixed performance. Managers with a more bearish bias benefited from holdings on the US curve as a flight to safety as the month closed saw curve flattening and a strong bid for short duration paper.

Tactical

Equity Long/Short (+0.70%) & Equity Market Neutral (+0.77%)

Equity managers posted modest performance, with many giving back a portion of their gains towards month-end as markets retreated on European sovereign concerns. Outperformers generally ran with higher long exposure in small cap names; as in previous strong months, small caps again led the markets.

On a sector basis consumer stocks were big winners, benefiting from continued sales strength. Longs in energy, notably oil related names, were also large performance contributors. Many managers running with overweights in consumer staples (reflecting a cautious outlook on the sustainability of the economic recovery) lagged their peers.

Macro (-0.07%) & Managed Futures (+1.25%)

Macro managers were flat while managed futures managers outperformed. While CTAs benefited from a number of strong trends, especially in global equity, FX, and commodities markets, discretionary macro managers struggled to reconcile bearish views about sovereign credit in Europe with steadily improving economic data elsewhere (particularly in the US).

Currency trading was a major focus for discretionary managers. Shorts in the Euro, reflecting sovereign credit considerations and bearish views about the growth outlook, were profitable, particularly when paired against the USD and JPY. Bearish views on other growth-sensitive currencies like CAD, AUD, and most emerging market currencies drove profits towards month-end as European concerns became more pronounced.

Event Driven

Credit (+1.95%)

Credit managers continued their strong run of performance, benefiting from spread tightening, a very busy new issuance month, improving corporate earnings, and continued appetite for high yielding paper. Not surprisingly, long biased managers again outperformed managers with higher hedge ratios.

In spite of their strong performance many managers reported selling into April's strength. Although many reported feeling comfortable about the economic recovery process in the US, concerns about broader global macro conditions, centered around Greece and the Eurozone, led them to take profits on some credits trading at or near par. Several also reported selling remaining credit positions in the commercial real estate sector.

Mergers & Special Situations (+1.40%)

Event driven managers again posted solid gains. As in past recent months, positions in distressed bonds and post-reorganization equities were key performance drivers. Many managers reported that they expected to be quite cautious deploying new capital until the macro environment settled down, preferring to focus on the collection of distressed and dislocated assets already in their books.

Dedicated merger managers showed modestly positive returns, although deal activity was again light. Many managers reported trading around Smith/Schlumberger, Qwest/CenturyTel, AIA/Prudential, and other announced strategic deals.

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