

## Hedge Fund Strategy Performance Commentary March 2010

	Mar-10	Last 3 Months	YTD	Inception to Date <sup>1</sup>
<b>RBC Hedge 250</b>	<b>1.67%</b>	<b>1.88%</b>	<b>1.88%</b>	<b>21.40%</b>
<b>Relative Value</b>				
Convertible Arbitrage	0.93%	-0.96%	-0.96%	17.73%
Equity Market Neutral	-0.04%	-0.08%	-0.08%	8.66%
Fixed Income Arbitrage	2.02%	5.49%	5.49%	18.23%
<b>Tactical</b>				
Equity Long/Short	1.83%	1.65%	1.65%	47.47%
Macro	1.19%	1.57%	1.57%	14.19%
Managed Futures	1.16%	-1.02%	-1.02%	56.25%
<b>Event-Driven</b>				
Credit	2.36%	4.32%	4.32%	5.62%
Mergers & Special Situations	2.90%	4.22%	4.22%	36.02%
<b>Multi-Strategy</b>				
Multi-Strategy	1.40%	1.91%	1.91%	1.95%

<sup>1</sup>Inception July 1, 2005

### Relative Value

#### Convertible Arbitrage (0.93%)

Convertible Arbitrage managers posted gains on tighter credit spreads and a significant increase in new issuance. The decline in the VIX index of S&P 500 option volatility from 19.26 to 17.59 was negative for the strategy, but this was more than made up for by tighter credit spreads. Although net new issuance (new issuance minus redemptions) remains negative on a year-to-date basis, March new issuance came in strong at approximately 4 billion dollars.

#### Fixed Income Arbitrage (2.02%)

Fixed Income Arbitrage managers posted a 2.02% gain, with the biggest contribution coming from yield curve steepener (long short term, short long term) trades. Bill Gross of PIMCO has been the most vocal proponent of the view that government stimulus and its impact on economic growth and inflation will make long term bonds less attractive in the near term.

### Tactical

#### Equity Long/Short (1.83%) & Equity Market Neutral (-0.04%)

Global equity markets continued their gains from February with most major equity indices and sectors posting strong performance for the month. Equity markets in the Eurozone also participated in the rally as investors shrugged off concerns over the uncertainty surrounding a deal on aid for the Greek debt crisis.

Strong earnings reports and better-than-expected jobs data helped investor sentiment to improve. Equity volatility also continued to fall, with the VIX index touching levels below 17% at times. Small cap stocks outperformed larger capitalization stocks and higher beta names generally performed better than defensive stocks. As a result, the more directional equity long short managers outperformed the equity market neutral managers who generally lost money on their short positions. At the sector level, biotech performed particularly strongly with financials, industrials, consumer discretionary and materials also participating well in the rally.

However, Hedge fund managers are conscious of the sustainability of this rally as governments look to reduce deficits. As such, stock pickers are starting to look for ideas to build out their short books.

### **Macro (1.19%) & Managed Futures (1.16%)**

Macro and managed futures funds posted positive performance on average in March, led by long positioning in global equities and commodities, especially oil. Financial markets largely shrugged off sovereign credit concerns related to Greece and staged a significant rally in response to steadily improving global economic data.

FX trading was an important performance driver for many managers. Shorts in the Euro and Yen benefited, respectively, from sovereign credit concerns and a strong uptick in global risk appetite. Longs in emerging market currencies were also profitable.

Managers with a more bearish bias underperformed. Longs at the front end of the US yield curve, shorts in developed market equities, and long volatility positions were all drags on performance.

## **Event Driven**

### **Credit (2.36%)**

Credit strategies gained 2.36%. Moody's and others are forecasting a decline in defaults this year, and high yield credit spreads tightened. Both of these factors helped to enhance the value of distressed and high yield paper held by hedge funds. Managers continue to believe that credit markets in general may be close to fair value, but they are finding good opportunities on both the long and short sides.

### **Mergers & Special Situations (2.90%)**

Event Driven funds enjoyed strong March performance, as measured by RBC's Hedge 250 Index. The Mergers & Special Situations Index strategy returned 2.90% in March and is up 4.78% YTD. Low interest rates and large deal closings have been significant drivers of the positive performance for Merger funds. Managers are still expecting deal flow to ramp up significantly, based in large part on corporate cash stockpiles and Private Equity pent-up demand. Continued global economic recovery and positive equity market performance are expected to fan the flames of higher deal volume. The major risk to this forecast is a higher interest rate environment if Central Banks begin to remove liquidity from global markets. Recent large announced global deals include Bharti Airtel/Zain Africa (\$10.7 bln), Newcrest Mining/Lihir Gold (\$8.2 bln), and BP/Deepwater (\$7 bln).

Event Driven funds have been realizing gains in the auto and financial sectors as companies emerge from their government sponsored turnarounds. One risk to continued positive performance, however, is the relative lack of new opportunities - the result of better than expected access to capital for struggling companies.

## Return Data: RBC Hedge 250 Index®

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