

The Future of Hedge Funds: Transparent and Liquid



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Panel Detail:

Tuesday, April 28, 2009 8:00 AM - 9:15 AM

Speakers:

[Jason Cummins](#), Head of Economic Research, Brevan Howard Asset Management LLP

[Joseph Dear](#), Chief Investment Officer, California Public Employees' Retirement System (CalPERS)

[Orin Kramer](#), General Partner, Boston Provident LP; Chairman, New Jersey State Investment Council

[Marc Lasry](#), Chairman, CEO and Co-Founder, Avenue Capital Group

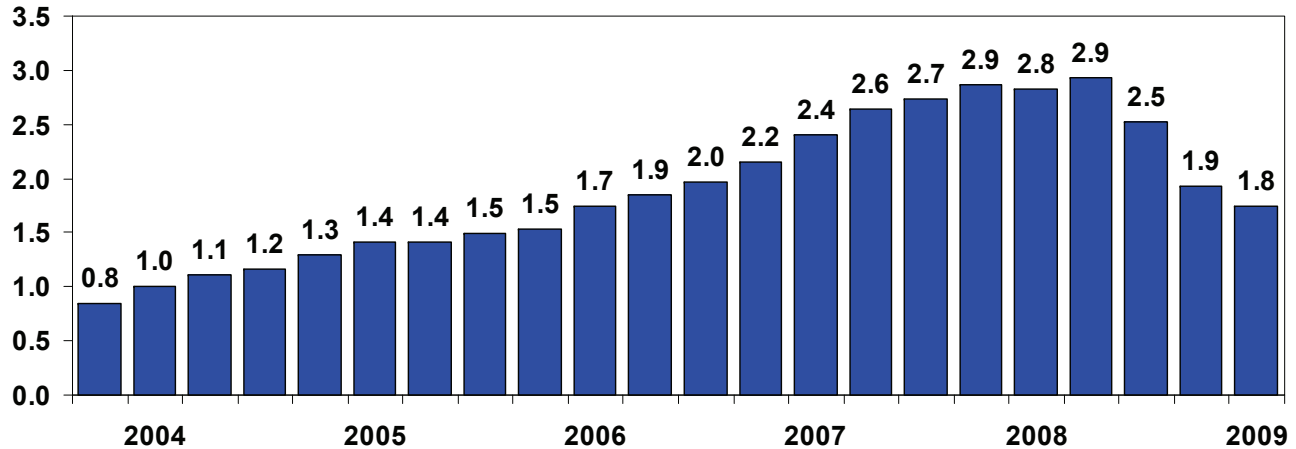
[Stephen Nesbitt](#), CEO, Cliffwater LLC

Moderator:

[Steven Drobny](#), Co-Founder and Partner, Drobny Global Advisors

Worldwide hedge fund assets decrease by 40 percent since Q2 2008

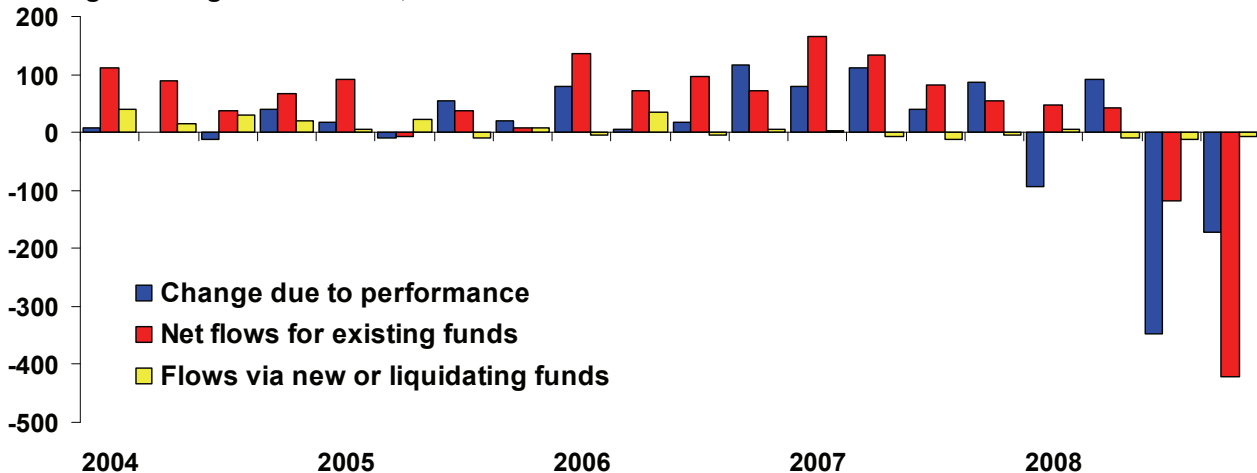
US\$ trillions



Sources: Hedgefund.net, Milken Institute.

Downsizing of existing funds contributes the most to the decline in hedge fund assets in 2008

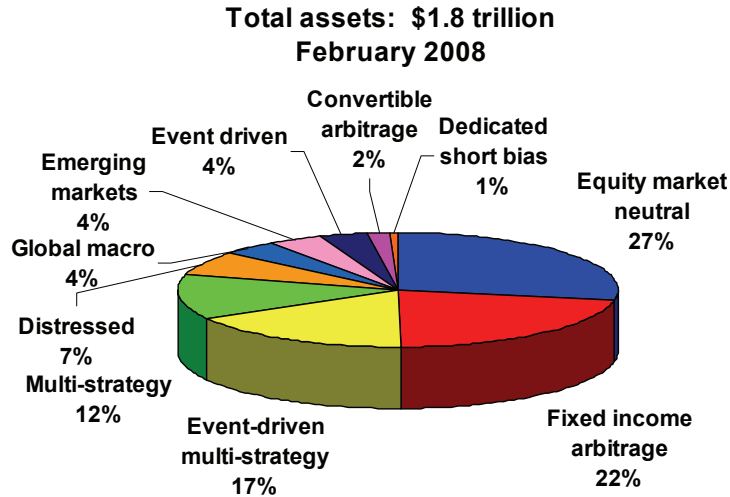
Change in hedge fund assets, US\$ billions



Sources: Hedgefund.net, Milken Institute.



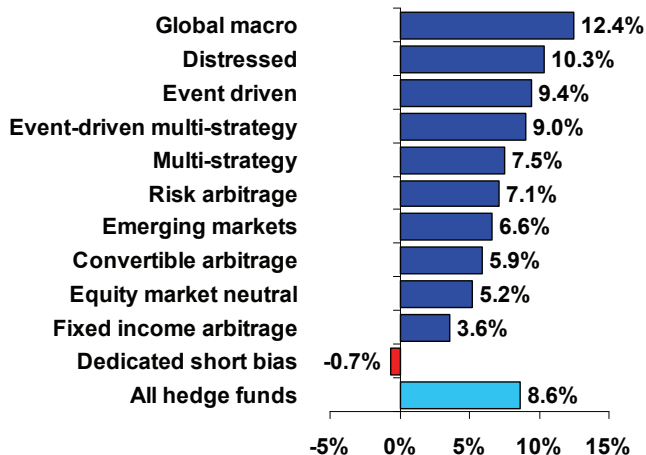
Breakdown of hedge funds by strategies



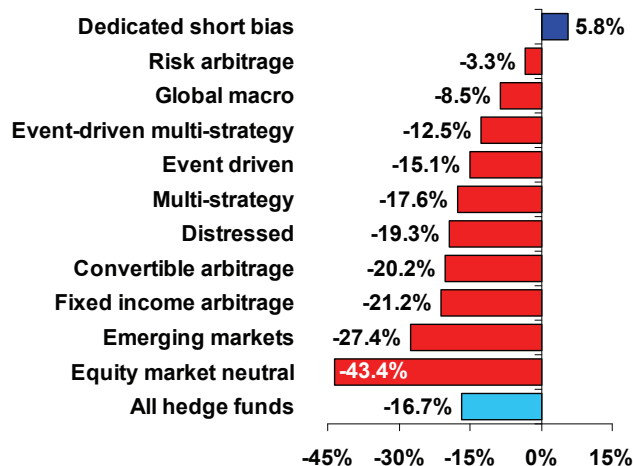
Sources: Bloomberg, Credit Suisse, Hedgefund.net, Milken Institute.

Hedge fund returns, different strategy

Annualized return, January 1994–March 2009



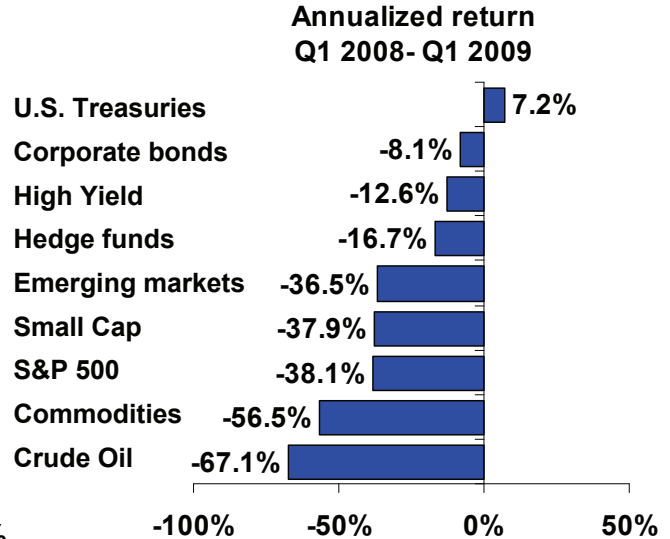
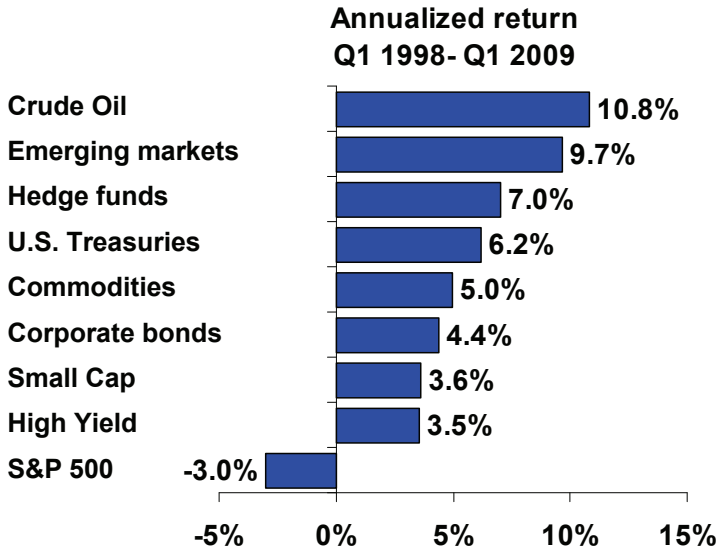
Annualized return, March 2008–March 2009



Sources: Bloomberg, Milken Institute.



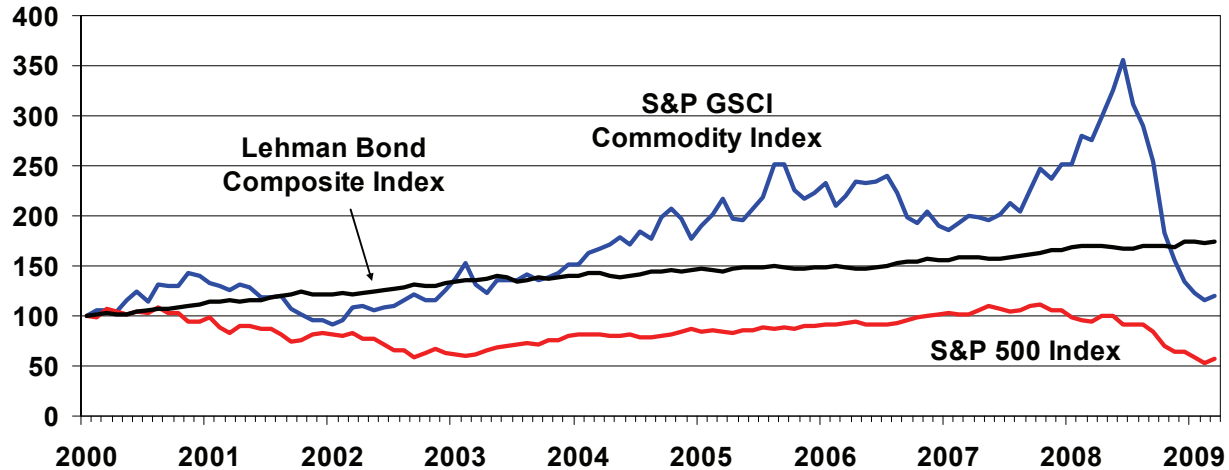
Total returns of selected asset classes



Sources: Bloomberg, Datastream, Milken Institute.

Price performance of major bond, equity and commodity indices

Index, January 30, 2000 = 100



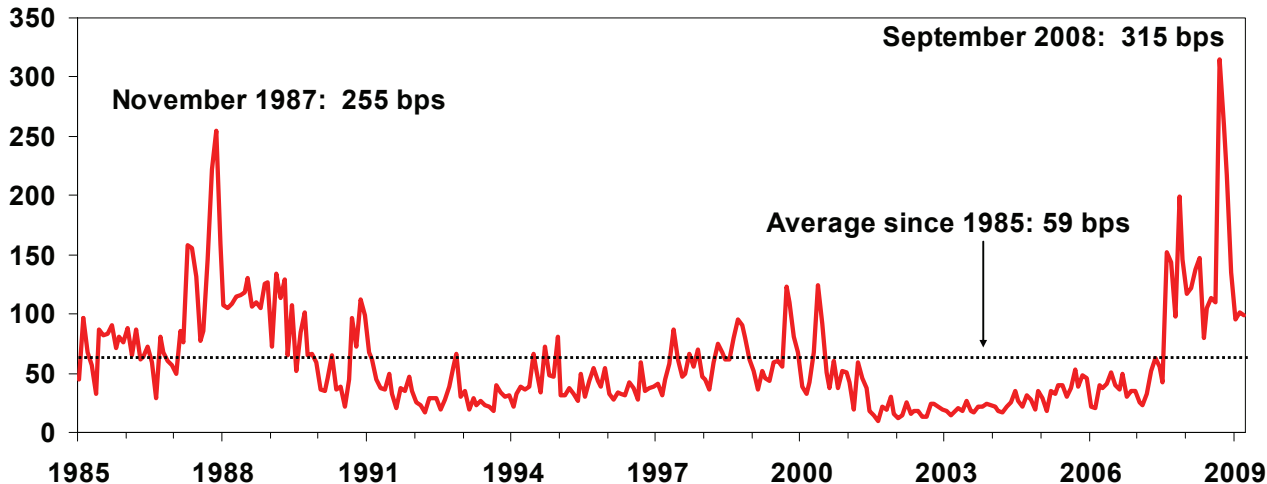
TED Spread reached historical high in 2008

Monthly, January 1985—March 2009



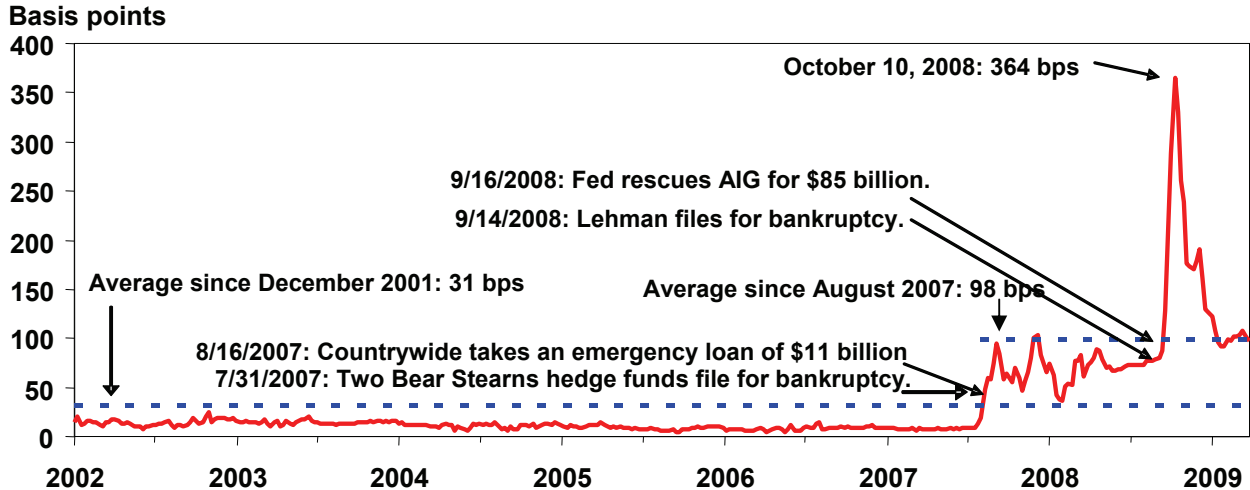
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Basis points



Sources: Bloomberg, Milken Institute.

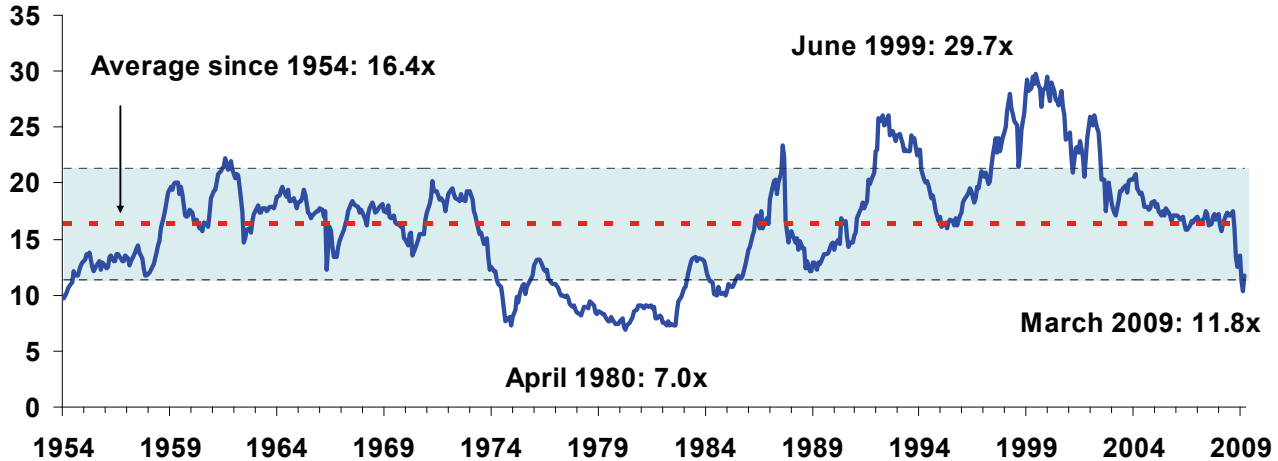
Liquidity freeze: spread between 3-month LIBOR and overnight index swap rate *(weekly, 2001–October 31, 2008)*



Sources: Bloomberg, Milken Institute.

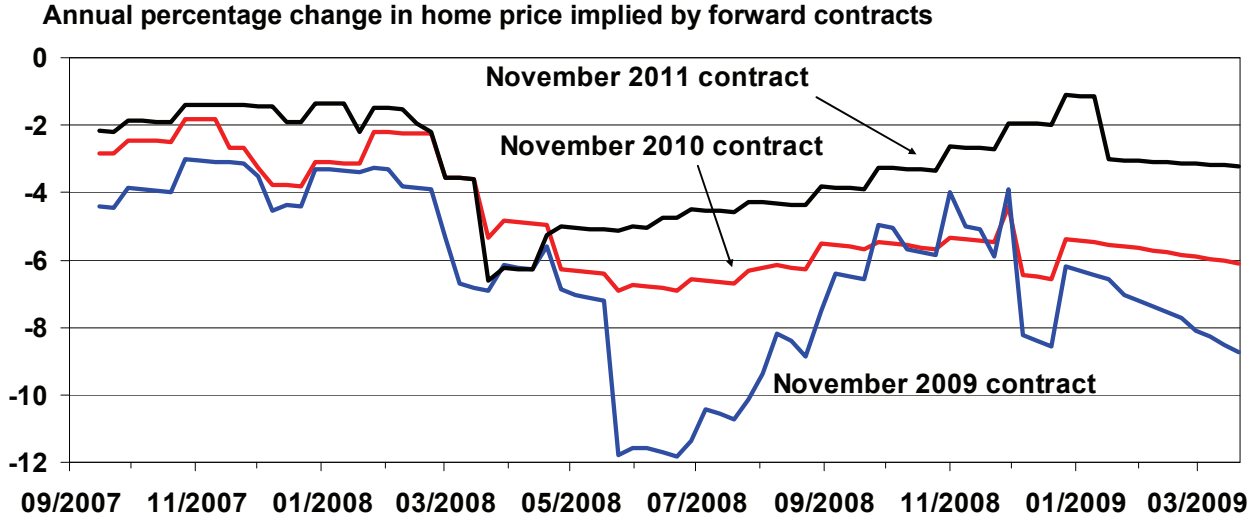
Does low price-earning ratio imply great investment opportunity? *Monthly, January 1954–March 2009*

Price-earning ratio for S&P 500 index



Sources: Bloomberg, Milken Institute.

Where is the bottom: Home price may not rebound until after 2011



Sources: Chicago Mercantile Exchange, Milken Institute.

Steve Drobny slides



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The future of hedge funds

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But some followers of the hedge concept got clobbered on their shorts while being murdered on their longs. Worse than that, the SEC is moving in as

HARD TIMES COME TO THE HEDGE FUNDS

by Carol J. Loomis

arisen is with the hedge, which simp year's stern test. In general, the hed bered by the 1969 bear market, endi with records that were worse than tl aggressive mutual funds denied the l

The 1969 experience has been a many hedge-fund investors, and ha with strong reservations about the w first time in their relatively short hi not growing; in fact, some have d draws of capital and a few have a

What remains, however, is still a the last few years the hedge funds h in number and exploded in size. The dwarfed by their public cousins, the assets are in the \$50-billion range \$1 billion the hedge funds commar interest, since it is money that is in ward the more speculative stocks a of "performance," to move in and ceptional speed. Furthermore, the have seen the formation of some twr that are patterned after the priva commonly also identified as "hedg ence in the market substantially e the hedge concept.

The most interested spectator of

The future of hedge funds

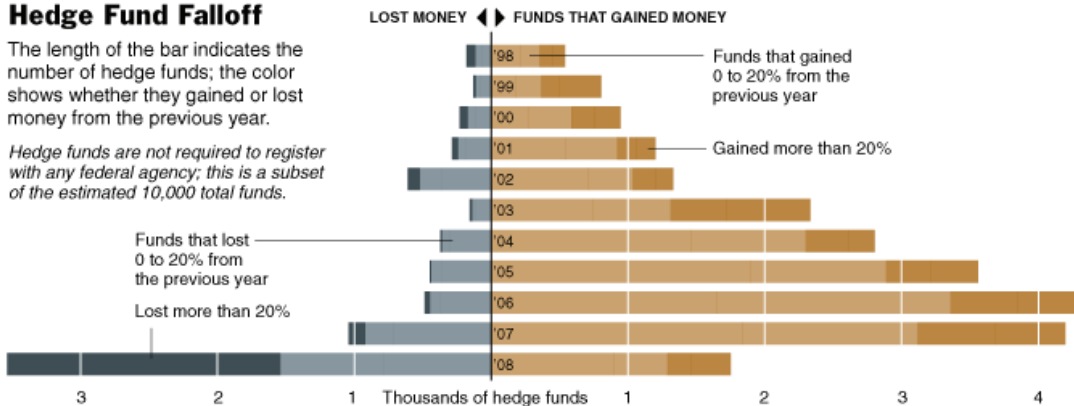
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Hedge Fund Falloff

The length of the bar indicates the number of hedge funds; the color shows whether they gained or lost money from the previous year.

Hedge funds are not required to register with any federal agency; this is a subset of the estimated 10,000 total funds.



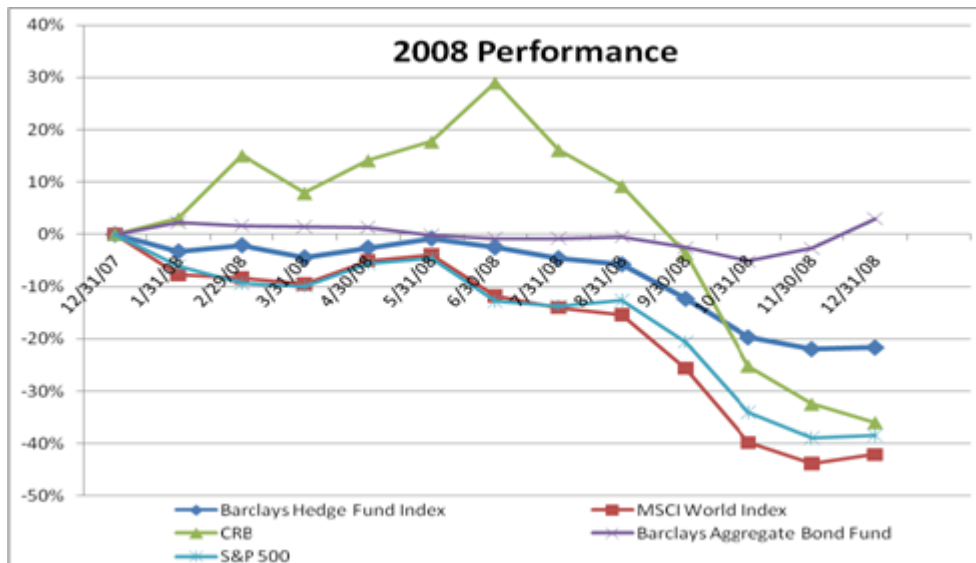
Source: HedgeFund.net

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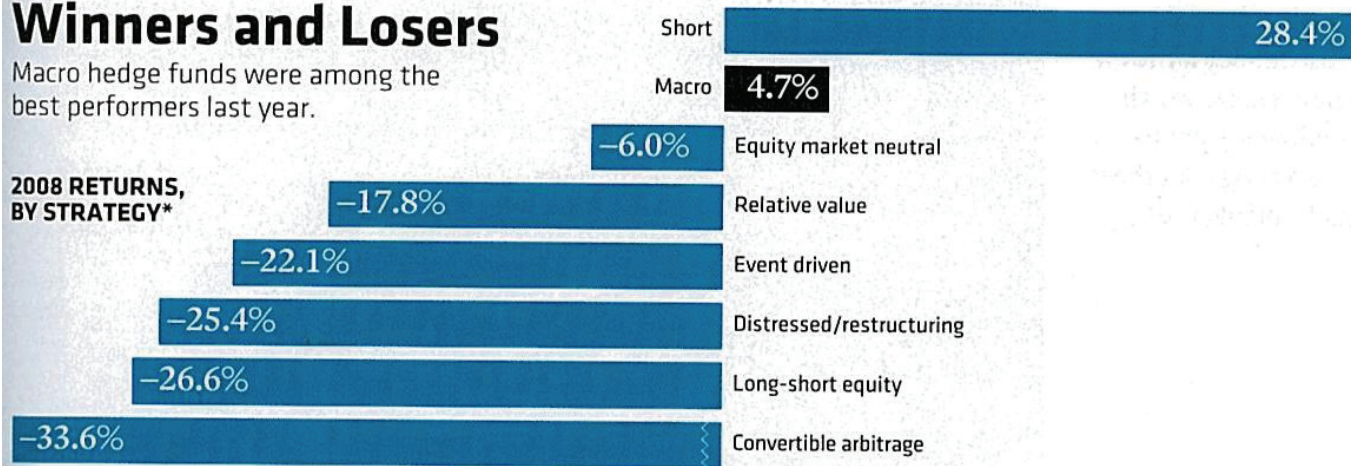
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Winners and Losers

Macro hedge funds were among the best performers last year.

**2008 RETURNS,
BY STRATEGY***



*Selected strategies shown. Source: Hedge Fund Research

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Confidential

Memorandum

Date: March 11, 2009

California Public Employees' Retirement System

To: CalPERS Hedge Fund Partners

From: Kurt Silberstein, Senior Portfolio Manager, Global Equity

Craig Dandurand, Portfolio Manager, Global Equity

Subject: Improving the Relationship Between CalPERS and its Hedge Fund Partners