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Hedge Fund Assets Cratered in 2008

Brutal Fall Stretch Accounts for Most of Drop

By **KERRY E. GRACE**

Hedge-fund assets fell a record \$350 billion, or 20%, last year as worsening market conditions prompted massive redemptions, liquidations and deleveraging, according to Eurekahedge.

The worst three-month period, from September through November, accounted for 90% of drop, which took assets under management to \$1.5 trillion by year's end, according a report by private-equity firm Eureka Private Equity.

The declines in 2008 came as the financial crisis spurred investors to convert holdings to cash and some funds faced unexpected disruptions to their trading strategies, including temporary bans on selling stocks short.

With 39% of funds reporting their December assets, the group said assets fell \$24 billion during the month, but so far more of the reporting funds have been in the black than those in the red.

In fact, Eurekahedge's Hedge Fund Index has so far posted a 1% return for the month - its first positive return since May. Redemption pressure was also slowing, as more funds locked in investors and performance improved, the report said. Estimated net outflows for December were \$28.2 billion, compared to \$52.2 billion in November.

December is usually a positive month for hedge funds, and Eurekahedge said the trend likely wasn't bucked last year, despite the ongoing recession and negative repercussions from the Bernard Madoff scandal.

Asian funds benefited most from holding their net long position in anticipation of a year-end bear market rally, Eurekahedge said. European allocations were hurt by "aggressive rate-cutting by major central banks globally and the resulting spike in volatility," the company said.

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