

## Media Release

### Market Insight: Impact of Recent Market Events on the Hedge Fund Industry

New York, October 8, 2008 **The Credit Suisse/Tremont Hedge Fund Index group has spoken to a range of fund managers to assess how the current market events may impact fund performance.**

The unusual recent events in the financial markets have shaken things up from Wall Street to Washington. It is undeniable that September was a difficult month for financial markets across the board, leaving many fund managers struggling to keep pace with the severe market volatility of the past few weeks.

At Credit Suisse/Tremont Hedge Fund Index we have spoken to a range of fund managers in order to assess the impact that current events have had on fund performance and the steps that fund managers are taking to navigate these difficult market conditions.

#### Effect of Lehman Failure and Short Sale Ban

Lehman Brothers accounted for approximately 5% of assets in the prime brokerage space, which totaled approximately \$100 billion. Through our discussions with fund managers, we believe that prime broker and counterparty exposure to Lehman Brothers appears to be limited. The failure of Lehman Brothers had been anticipated and many managers had been pro-active in managing their exposure prior to September 15th. In addition, many large funds work with several prime brokers, thereby limiting their dependence on and exposure to any single prime service provider.

The short sale ban in the financial sector and related disclosure requirements are impacting funds across strategies to varying degrees. Some sectors, such as Convertible Arbitrage, may be significantly affected as fund managers are unable to hedge the equity portion of their convertible bonds. Funds without specific exposure to the financial sector have reported a limited impact on performance, since the ban was limited to the shares of certain financial institutions. Certain fund managers do, however, seem to be changing their portfolio behavior in order to avoid disclosing their positions, and this could have an impact on performance going forward.

#### Steps Funds are Now Taking

Those funds that have performed relatively well to date are typically holding net short positions on broad equity indices or on overvalued financial and consumer related equities. Despite fluctuations in the markets, managers with net short positions in these sectors have generally been rewarded as their positions yielded positive results. Managers holding short positions in the financial sector before the shorting ban went into place have generally maintained those positions.

Overall, we are seeing an increase in cash levels being held by funds across the board. In less liquid sectors, this stockpiling of cash may be in anticipation of redemption requests; however, the higher than average cash

exposure can also be attributed in part to de-leveraging. Many funds are also holding cash in an effort to be prepared to take advantage of opportunities as they arise.

Early estimates indicate that the Credit Suisse/Tremont Index will be down over 6% for September. This is compared to a loss of over 13% in the DJ Stoxx 50, a loss of almost 9% in the S&P 500 and a loss of over 14% in the MSCI Asia Pacific Indices.

In the short term, some managers are predicting that stricter lending rules could raise borrowing costs and increased government regulation could affect investment decisions. According to our research, managers in general are being proactive in reducing exposure and risk. In addition, the actions that fund managers are currently taking – namely, increasing cash balances, de-levering and capitalizing on short positions – are strengthening their balance sheets as they wait for opportunities to arise.

#### Timeline: Key Events to Date

- September 15, Lehman Brothers Holdings, Inc. files for bankruptcy; later that day, Bank of America announces the purchase of Merrill Lynch for \$50 billion in stock
- September 16, US Federal government commits \$85 billion to American International Group (AIG), providing the insurer time and capital to deal with its financial issues
- September 17, share prices of Goldman Sachs and Morgan Stanley drop sharply
- September 18-19, 2008, US Securities and Exchange Commission (SEC) and U.K. Financial Services Authority impose emergency ban to protect against “naked” short selling abuses. Other countries follow suit and additional disclosure provisions are declared
- September 29, the US House of Representatives fails to pass a “Bailout Plan” for the US financial markets. Dow Jones Industrial Average plummets 777 points, the largest one day loss in its history
- October 1, the US Senate passes the “Emergency Economic Stabilization Act” by a vote of 75-24. The SEC extends short the selling ban, the US Congress continues to work on an economic rescue plan
- October 3, the US House of Representatives passes the economic “Bailout Plan” by a vote of 263 to 171

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