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POOLED FUND OF HEDGE FUNDS CONTINUE TO MAKE GAINS

Statistics published by Mellon Analytical Solutions (MAS) today show that pooled fund of hedge funds achieved positive results in the first quarter of 2007, with a median return of 3.4%. The median return over the last 12 months was 7.4%, which represents a real rate of return of 2.6% against retail price inflation.

Over three years to 31 March 2007, pooled fund of hedge funds achieved a positive median return of 8.3% p.a. However, they were outperformed significantly by pooled UK Equity funds, which returned 17.2% p.a. over the same period. According to MAS' latest statistics, this outperformance of 8.9% was achieved with a slightly higher level of risk to that of pooled fund of hedge funds. The median standard deviation, which measures the volatility of returns, was 6.5% p.a. for pooled UK Equity funds, compared with 5.3% p.a. for fund of hedge funds.

Comparative results were more favourable over the last five years, with fund of hedge funds returning 9.1% p.a., against 8.4% p.a. for UK Equity funds. In addition the median standard deviation for pooled UK Equity funds was much higher over this period at 14.5% p.a. compared with 4.9% p.a. for fund of hedge funds.

Daniel Hall, Publications and Statistics Manager at Mellon Analytical Solutions, said: "Over the last five years pension funds have shown an increasing interest in alternative strategies, such as fund of hedge funds, as a means of generating return, while reducing overall fund risk

through diversification. At the end of 2001, pension fund weightings in alternatives stood at 0.2% of total asset value, whereas by the end of 2006 this had increased to 2.2%.”

Each quarter, MAS publishes results from its pooled fund of hedge funds universe. This universe consists of multi-strategy funds of hedge funds which offer a route into alternative investments for UK pension schemes. Hedge fund strategies can be broadly classified as directional, event driven and non-directional. Directional strategies seek to forecast and exploit broad market trends, while event driven strategies seek to anticipate and exploit events such as mergers or corporate restructurings. Non-directional strategies generally seek to take advantage of pricing inefficiencies.

As at 31 March 2007, the average fund of hedge funds held 43.1% of its assets in directional strategies, 14.7% in event driven strategies, 15.2% in non-directional strategies and 27.0% in other (unspecified) strategies and cash.

Mellon Analytical Solutions’ fund of hedge funds universe currently covers 18 separate funds with over £3.5 billion in assets. All returns quoted are net of fees.

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Notes for Editors

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