



Analyzing Past Market Turmoil and Outcome for Hedge Funds

September 2007

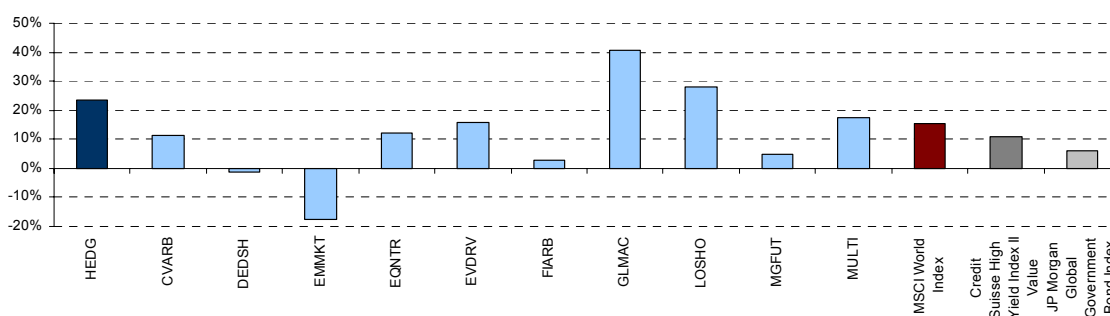
Credit Suisse Index Co., Inc.

Hedge funds, as exhibited by the Credit Suisse/Tremont Hedge Fund Index (“HEDG”), have shown the ability to recover quickly after market turmoil in the past, exhibiting trends of correlation in subsequent bull market runs and decorrelation at market downturns surrounding the event. Beginning with the U.S. subprime market downturn in June 2007, world equities saw a repricing of risk and a flight to liquidity from the beginning of the crisis through August 2007. In this crisis, both alpha-producing hedge funds and traditional beta portfolios were all negatively impacted. In an effort to show that hedge funds have weathered such past crises well, a few historical market events are analyzed below. For each event, this paper analyzes a twelve month period beginning with the onset of the crisis. Although there are certain sectors that fared better than others over such periods, it is unclear whether one hedge fund strategy is more resistant to market shocks than others. However, hedge funds as an asset class have tended to remain less volatile and have retained some positive performance throughout most crises discussed below.

Asian Financial Crisis

During the Asian financial crisis in mid-to-late 1997, hedge funds generally maintained positive returns despite the market turmoil which impacted the entire region. Hedge funds exhibited decorrelation subsequent to the peak of the Asian crisis in August 1997 and HEDG returned +23.62% from July 1997 through June 1998. The Emerging Markets sector was naturally hit rather hard (down -17.60% over the same one year period), but other sectors fared well over the period shown with positive performance except for Dedicated Short Bias which was slightly negative. Global Macro and Long/Short Equity had strong positive performance throughout the crisis (returning +40.53% and +26.21%, respectively, from July 1997 through June 1998) and were able to take advantage of the new macro opportunity set.

July 1997 to June 1998



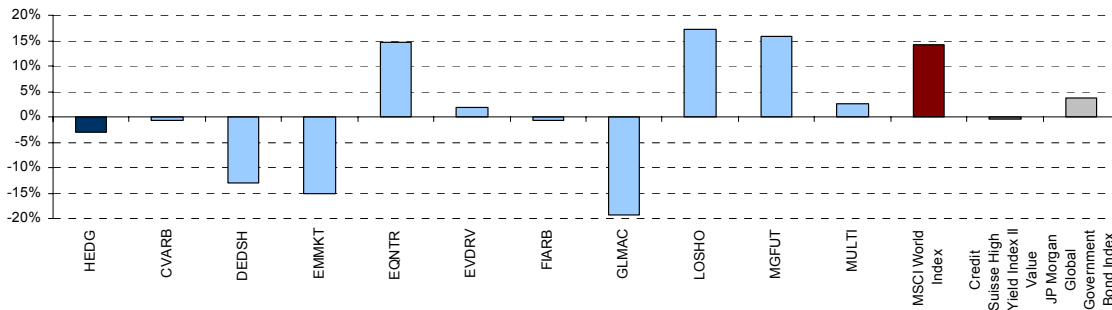
Sources: Bloomberg, Credit Suisse Tremont Index LLC.

Russian Debt Crisis/Long Term Capital Management

The Russian debt crisis/Long Term Capital Management fiasco occurred in the late summer of 1998 and was a crisis that materially affected hedge fund returns (especially since the crisis was centered around a high-profile hedge fund with billions of dollars of assets under management). Many sectors suffered including Event Driven and Emerging Markets, although Equity Market Neutral maintained positive and steady performance while Managed Futures was able to generate significant returns during the crisis (+15.86% from July 1998 through June 1999). Long/Short Equity also quickly rebounded and returned +17.28% over the same period, demonstrating that, while hedge funds as an asset class were hit, the diversification of hedge fund strategies provided some protection.



July 1998 to June 1999

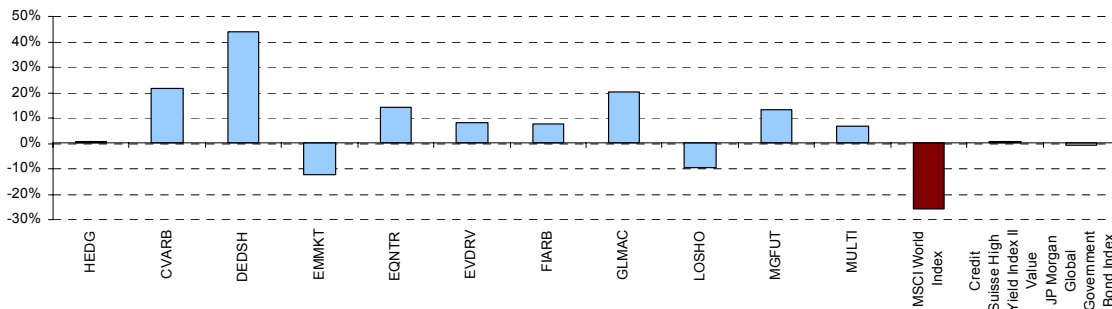


Sources: Bloomberg, Credit Suisse Tremont Index LLC.

Dot Com Bubble Burst

During the dot com bubble burst in mid 2000, hedge funds generally maintained flat returns in the face of drastic drops in equity markets. Hedge funds exhibited strong decorrelation and adapted quickly to the crisis. Although Long/Short Equity was negatively impacted (even though it had less than a 0.6 correlation to the MSCI World Index on a 12 month rolling basis through 2000), most other sectors weathered the storm well. Emerging Markets had a higher correlation to world equities (around 0.8 on a 12 month rolling basis) and was hit as hard as Long/Short Equity. Convertible Arbitrage, Global Macro, and Managed Futures did extremely well in the wake of the crisis (returning +31.77%, +20.43%, and +13.27%, respectively, from April 2000 through March 2001). Dedicated Short Bias generated very high returns of +44.09% over the same period.

April 2000 to March 2001



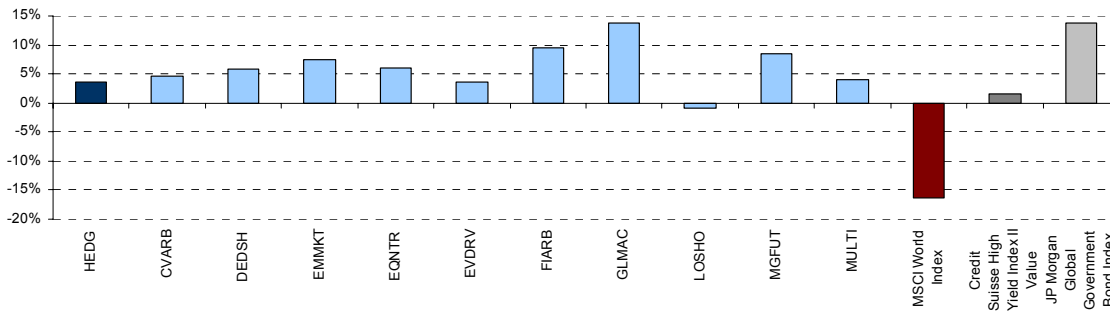
Sources: Bloomberg, Credit Suisse Tremont Index LLC.

9/11 World Trade Center Attacks

After the terrorist attacks on the World Trade Center in September 2001, hedge funds maintained steady returns and hedged against the crisis. While the already bearish equity markets plummeted further, hedge funds steadily decorrelated their returns from the falling markets. Emerging Markets and Long/Short Equity were among the two sectors initially hit the hardest in the crisis, while most other sectors returned steady positive performance subsequent to the crisis. Emerging Markets made a rapid comeback and returned +7.45% from July 2001 to June 2002 while Long/Short Equity remained relatively flat with a -0.86% return over the same period. Global Macro generated high returns during this crisis, returning +13.76% for the same one year period.



July 2001 to June 2002

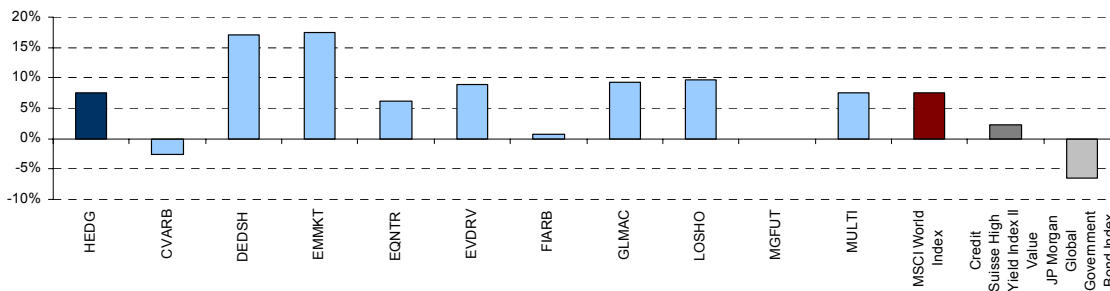


Sources: Bloomberg, Credit Suisse Tremont Index LLC.

Credit Crisis

In the face of the credit crisis in early 2005 (and continuing throughout the year), hedge funds retained positive performance amidst declining government bonds. Convertible Arbitrage and Managed Futures returned negative performance for 2005 (down -2.55% and -0.11% for the year), while Fixed Income Arbitrage was relatively flat. Emerging Markets, Dedicated Short Bias, Long/Short Equity, and Global Macro all returned strong positive performance for the year (returning +17.39%, +17.00%, +9.68%, and +9.25%, respectively).

January 2005 to December 2005



Sources: Bloomberg, Credit Suisse Tremont Index LLC.

Conclusion

In conclusion, during the different crises reviewed above, many hedge fund strategies returned positive performance. Even during the worst downturns, hedge funds were able to resume positive returns quicker than global equity or debt markets. In fact, the majority of hedge fund strategies, including hedge funds as an asset class, typically enjoyed positive returns over the one year period following the events analyzed above. Given the current subprime market fallout, we believe that hedge funds are well positioned to be successful once again. Hedge funds are able to take advantage of new opportunities, such as those created in the past few months, in order to generate absolute returns. Given that different sectors can emerge as the leader after a market disruption, we believe that a diversified portfolio, such as our index-based investments, is a compelling strategy to achieve attractive risk-adjusted returns.



Endnotes

Sources: All data was obtained from publicly available information, internally developed data and other third party sources believed to be reliable. Credit Suisse has not sought to independently verify information obtained from public and third party sources and makes no representations or warranties as to accuracy, completeness or reliability of such information.

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JP Morgan Global Government Bond Index: The JPM GBI is the most widely-used benchmark for measuring performance and quantifying risk across international fixed income bond markets. The indices measure the total, principal, and interest returns in each market and can be reported in 19 different currencies. By including only traded issues available to international investors, the Index provides a realistic measure of market performance. The index is the exclusive property of J.P.Morgan & Co.

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