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## INVESTMENT HEDGE FUNDS ARE NOT BETTER OR WORSE, BUT DIFFERENT

The debate about hedge funds should not be whether they are better or worse than traditional asset portfolios. It should be about what the optimal blend is between traditional and hedge fund portfolios to best achieve an investor's risk and return objectives.

I am of the opinion that hedge funds should be seen as an important risk mitigating component of a total investment portfolio. An allocation to hedge funds should significantly reduce total portfolio volatility and downside risk, while not necessarily impacting significantly on an investor's expected return.

This principle of similar expected portfolio returns with less risk becomes especially important to investors with looming exit point risk. A typical example of an investor with exit point risk may be a member of a defined contribution retirement plan that is approaching retirement age and who is planning to purchase an asset or retirement annuity with the lump sum benefit. When we compare the devastating equity bear market of 2008 with the exuberant bull market of 2009, it becomes awfully clear how exit risk may have negatively affected the benefits of 2008 retirees.

A hedge fund is a risk tool, not a return tool. Most hedge funds aim to consistently outperform risk free rates. They therefore tend to outperform traditional asset classes during tough times like 2008. They also tend to lag during the great times like 2009. It is this different type of return that makes hedge an invaluable component of a diversified portfolio – enhancing your risk adjusted returns.

Today between 15% to 20% of pension funds and private wealth portfolios in first world countries consist of hedge funds to help them protect capital during tough times. Our four distinctive single strategy hedge funds achieved an average return of 14.9% in 2009, which lagged the very strong Allshare performance of 32.1%. However, in 2008 our average hedge fund return was 20.7%, compared to a drop in the Allshare of -23.2%.

***This is a perfect example of how hedge funds can use their short selling and leverage mandate in a responsible way to mitigate risk. Their returns aren't better or worse – they are just different. That's where the magic lies in hedge funds.***

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