Hedge Funds Have Significantly Outperformed Equities, Bonds and Commodities Over the Past 17 years

Research commissioned by KPMG and AIMA measured performance, volatility and risk from 1994 to 2011

London – April 24, 2012 – Hedge funds significantly outperformed traditional asset classes such as equities, bonds and commodities over the last 17 years according to a new study by The Centre for Hedge Fund Research at Imperial College in London. The research, commissioned by KPMG, the international audit, tax and advisory firm, and the Alternative Investment Management Association (AIMA), the global hedge fund association, is the most comprehensive of its kind to date.

The report, entitled "The Value of the Hedge Fund Industry to Investors, Markets and the Broader Economy", found that, per annum, hedge funds returned 9.07% on average after fees between 1994 and 2011, compared to 7.18% for global stocks, 6.25% for global bonds and 7.27% for global commodities. Moreover, hedge funds achieved these returns with considerably lower risk volatility as measured by Value-at-Risk (VaR) than either stocks or commodities. Their volatility and Value-at-Risk were similar to bonds, an asset class considered the least risky and volatile. The research also demonstrated that hedge funds were significant generators of "alpha", creating an average of 4.19% per year from 1994-2011.

"This research is powerful proof of hedge funds' ability to generate stronger returns than equities, bonds and commodities and with lower volatility and risk than equities," said Andrew Baker, AIMA's CEO.

Portfolios including hedge funds also outperformed those comprising only equities and bonds, The Centre for Hedge Fund Research concluded. The study showed that such a portfolio outperformed a conventional portfolio that invested 60% in stocks and 40% in bonds. The returns of the portfolio with an allocation to hedge funds also yielded a significantly higher Sharpe ratio (which characterises how well the return of an asset compensates the investor for the risk taken) with lower "tail risk" (the risk of extreme fluctuation).

The Centre for Hedge Fund Research has created a unique aggregate hedge fund and benchmark index database. The database represents a careful aggregation of all the current information from multiple leading sources about hedge fund performance globally. Survivorship bias is not a factor because both active and inactive funds are included.

"The most interesting point to come out of this research is that it disproves common public misconceptions that hedge funds are expensive and don't deliver. The strong performance statistics, showcased in our study, speak for themselves," said Rob Mirsky, Head of Hedge Funds at KPMG in the UK.

The new report is the first of a two-part series on the state of the global hedge fund industry and contains a literature review of current academic work on the industry. The report also highlights the positive contributions the hedge funds industry makes to the broader economy. Not only are hedge funds important liquidity providers in the markets they are active in, they also have a role to play in the efficient allocation of capital, portfolio diversification and financial stability.

Part two of the report, which will be released in May, is based on a global survey of hedge fund managers. It will look at leading industry trends such as the impact of increasing institutionalisation of the industry on hedge fund managers' operational infrastructure and how the demands of regulatory compliance and transparency to investors are shaping the industry.

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Notes to the editor:

The paper may be downloaded here: http://www.aima.org/en/document-summary/index.cfm/docid/F67D5FE7-A77F-4000-97B18E5D3F938A6E

For media enquiries, please contact:

Monica Fiumara, Senior PR Manager, KPMG (UK); Tel: +44 (0)20 7694 5674; Mobile: +44 (0)7901 105180
Email: monica.fiumara@kpmg.co.uk

Pete Settles, Media Relations, KPMG LLP (US): 201-505-6065; 732-546-4212 (Mobile); Email: psettles@kpmg.com

Christen Thomson, AIMA's Director of Communications. Tel: +44 (0)20 7822 8380; Email: cthomson@aima.org

About KPMG's Alternative Investments Group

KPMG's Alternative Investments practice is comprised of audit, tax, and advisory professionals with deep industry experience across the broad range of alternative investment funds, including hedge funds, private equity funds, infrastructure funds, real estate funds and fund of funds.

Around the globe, KPMG has more than 3,000 professionals in 60 international jurisdictions serving investment funds. KPMG's Alternative Investments (AI) practice is an integral part of the firm's Financial Services (FS) line of business. The FS line of business serves more than 20,000 clients worldwide. KPMG professionals have expertise in the issues, challenges, trends, and risks relevant to financial services companies as they meet the multifaceted challenge and opportunities of the alternative investments industry.

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KPMG is a global network of professional firms providing Audit, Tax and Advisory services. We operate in 152 countries and have 145,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

About AIMA

As the global hedge fund association, the Alternative Investment Management Association (AIMA) has over 1,300 corporate members (with over 6,000 individual contacts) worldwide, based in over 40 countries.

Members include hedge fund managers, fund of hedge funds managers, prime brokers, legal and accounting firms, investors, fund administrators and independent fund directors. They all benefit from AIMA's active influence in policy development, its leadership in industry initiatives, including education and sound practice manuals and its excellent reputation with regulators worldwide.

AIMA is a dynamic organisation that reflects its members' interests and provides them with a vibrant global network. AIMA is committed to developing industry skills and education standards and is a co-founder of the Chartered Alternative Investment Analyst designation (CAIA) – the industry's first and only specialised educational standard for alternative investment specialists. For further information, please visit AIMA's website, www.aima.org.