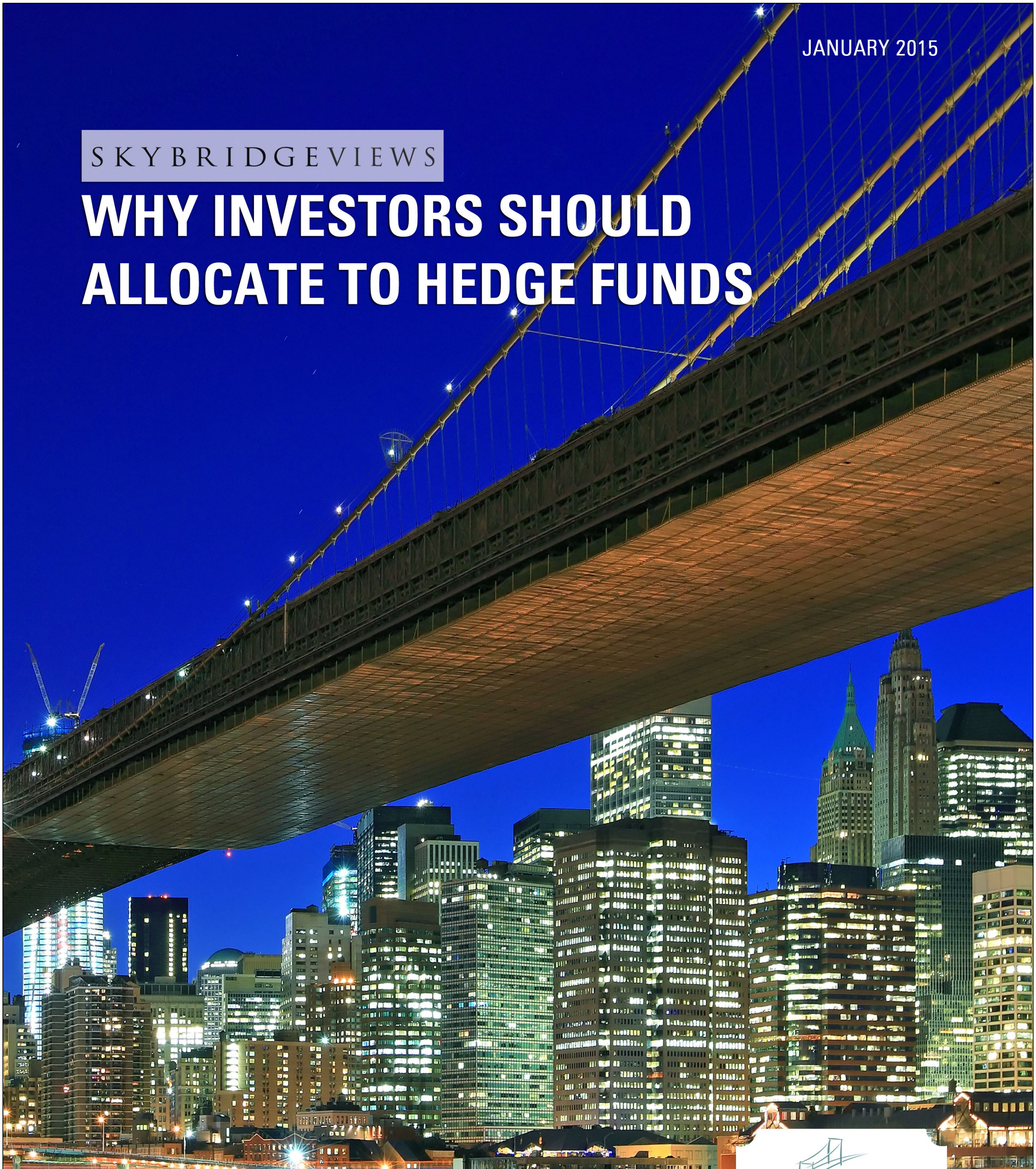
JANUARY 2015

SKYBRIDGEVIEWS

WHY INVESTORS SHOULD ALLOCATE TO HEDGE FUNDS



SKYBRIDGE CAPITAL

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WHY INVESTORS SHOULD ALLOCATE TO HEDGE FUNDS

Executive Summary

For the past 65 years since first emerging as an alternative investment, hedge funds have delivered on their promise: to provide a means of guarding against or minimizing financial loss. So whether during a bull market, when hedge funds don't perform as well as, say, equities, or during a bear market, when they perform better than, say, equities, this alternative investment *hedges* an investor's bets, tempering the highs but also the lows. That's argument enough for many investors – including wealthy individuals, institutional investors and pension funds – to hold hedge funds in their portfolios, which explains why the industry oversees almost $3 trillion in assets under management. And the Federal Reserve Board's expected action to start raising short-term interest rates this year should normalize monetary conditions and, in the process, underscore *why investors should allocate to hedge funds*[1].

Introduction

With assets at a record $2.82[2] trillion, hedge funds today are obviously an integral part of the portfolios of investors, including high-net-worth (HNW) individuals, pension funds and institutional investors. But with the equity bull market in its sixth year and bonds again producing positive returns, some pundits are questioning the wisdom of continuing to allocate capital to hedge funds. This white paper articulates our viewpoint for why investors should continue to allocate to hedge funds.

Our viewpoint encompasses a simple explanation and a more complex one. Both underline that, however the overall market is performing, this alternative investment performs its duty generally well in reducing risk and adding diversification, especially when markets are unsettled. And, when the Federal Reserve Board is expected to begin to boost short-term interest rates, even Fed Chairwoman Janet Yellen has warned investors and foreign central bankers that "this normalization [higher rates] could lead to some heightened financial volatility[3]."

Why hedge funds? The simple explanation

Very simply, modern portfolio theory (MPT) and asset allocation illuminate why hedge funds are important investments. Developed in the early 1950s by economist Harry Markowitz, MPT holds that instead of putting an entire nest egg in a single stock or investment, it is best to diversify and spread the right combination of investment eggs in one's basket. This approach limits the riskiness of the portfolio, as illustrated in the following chart:

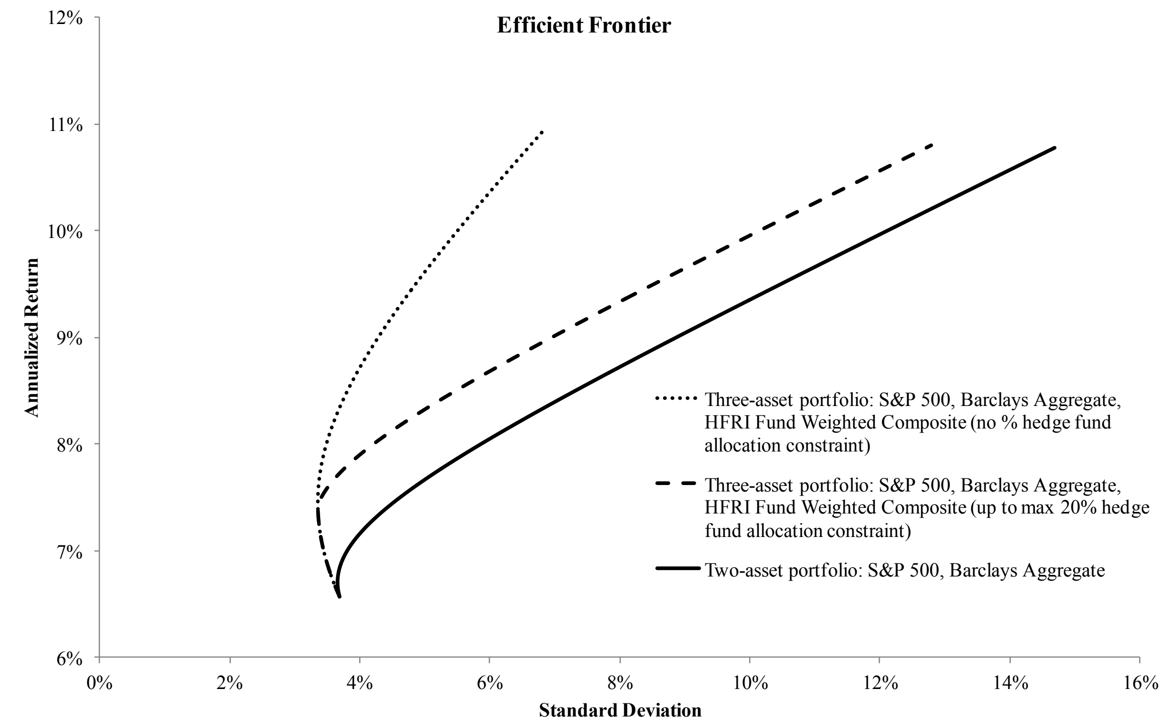

Chart source: SkyBridge. Period: 1/1/90 (HFRI index inception) through 10/31/14. Data source: HFR for HFRI index, Bloomberg for S&P 500 and Barclays Aggregate indices (total returns used in both cases). As described by HFR: "The HFRI Fund Weighted Composite Index is a global, equal-weighted index of over 2,000 single-manager funds that report to HFR Database. Constituent funds report monthly net of all fees performance in US Dollar and have a minimum of $50 Million under management or a twelve (12) month track record of active performance. The HFRI Fund Weighted Composite Index does not include Funds of Hedge Funds."

MPT has influenced how investors perceive risk, return and management of their portfolios and, in turn, money managers routinely adopt and follow its principles. To be sure, MPT possesses some warts, including requiring investors often to rethink their concept of risks and to determine what truly constitutes diversification. Some investment professionals, for instance, say a portfolio comprised of just stocks and bonds is sufficient. Others argue that a portfolio of stocks, bonds, hedge funds, private equity, venture capital, real estate and commodities is superior.

In general, successful investors and hedge fund managers embrace MPT because they also embrace these precepts:

No investor can predict the future with precision. How many investors anticipated the financial crisis? Of those who did, how many profited from it? How many investors called the ensuing bull market? How many experts have been predicting the dollar's demise over the years or have braced for a surge in interest rates and have been dead wrong?

The near term or even more distant past often turns out to be a lousy predictor of the future. All was quiet on the western front in late 2006 and, suddenly, the U.S. housing market and equity markets were collapsing, the financial crisis was unleashed and then the world economy buckled.

Yet, soon after the darkest days of the financial crisis, one of the most powerful bull markets in history began despite a very modest economic rebound.

The more non-correlated exposures in a portfolio, the more resilient it proves to be to permanent capital impairment if a certain exposure goes terribly wrong. The proof: Just imagine what happened to investors who were 100 percent allocated to equities at the end of 1999 or 2007, or if all of an investor's wealth was allocated to gold at the end of August of 2011, or levered in U.S. housing equity at the end of 2006.

Economic, business, equity market, interest rate, inflation, commodity, and risk premia cycles still exist – and always will. Economists not that long ago debated the "great moderation" to explain the low macroeconomic volatility and remarkable gains and resilience of developed markets in the 1990s. Over the following decade, two of the worst equity bear markets in history occurred. By the end of the 1970s, investors would have been ridiculed if they had predicted that at some point the Fed Funds Rate would be at zero for nearly six years and would subsequently embrace something called Quantitative Easing (QE). And when gold was at its 2001 low of $256, anyone contending it would surge over 600 percent to $1,900 in 2011 would have been laughed out of the room[4].

Few investors operate with an infinite investment time horizon and even though endowments and a few other entities can, in theory, they're still subject to loss constraints and cash outlays. No matter how long term an investment time horizon, a market loss of 30 percent, 40 percent or 50 percent or more can spark frightful consequences to future spending patterns, wealth and near term cash flow needs.

Why the negative bias?

Long/Short Equity and Macro struggles

While we believe the industry will continue to grow for the reasons cited in this paper, there are valid reasons for the media cabal of negativity toward hedge funds. It is true that, since the crisis, weighted average hedge fund returns have compressed in comparison to pre-crisis returns. There are a variety of reasons for this, but we think the most critical driver has been that the majority of capital in the hedge fund industry is invested in two strategies that have struggled due to secular and cyclical headwinds: Long/Short (L/S) Equity and Macro. Here are some of the secular reasons for L/S Equity's struggles:

Regulation Fair Disclosure (Reg FD): An enhanced focus on timely dissemination of fundamental security information to all investors after Reg FD was passed and the receding dominance of long only active management via mutual funds has weighed on L/S Equity managers. It used to be much easier for them to gain an information edge because critical fundamental security information was disseminated in a more disparate manner.

Change in Equity Market Constituency: Prior to the substantial decline in long only active management, AUM as a percentage of equity market capitalization in favor of passive strategies and ETF's, thoughtful mutual fund managers were the final arbiter of an equity security's fair value. L/S Equity managers had far more flexibility than mandate constrained long only managers, but long only active managers cared about stock fundamentals and would drive convergence to fair value with their buying and selling decisions. As their dominance has waned and passive investments have flourished, markets in general care far less about underlying stock fundamentals (which were already a minor driver of security returns in the first place prior to this market constituency shift).

Quantitative Easing: L/S Equity has also suffered from several cyclical issues, including the Fed's stated mission of deploying more than $4 trillion in QE to reflate assets such as equities and housing in an effort to aid the economy. When the world's most powerful economic institution does everything possible to boost asset prices, shorting securities and hedging bets to reduce equity market risk are not going to be winning strategies.

Changes in monetary policy: Furthermore, extremely loose monetary policy, the change in equity market participation and other factors have caused equity market correlations to go higher and equity market dispersion to be lower than in previous cycles. Without lower correlations and higher fundamentally driven dispersion, it will always be more challenging for L/S Equity managers to generate alpha. However, the good news for the industry going forward is that with Fed's recent end of QE and only less potent Bank of Japan and Europe's Central Bank QE left, short positions will not face such powerful headwinds and at some point could become profitable again, particularly during the next bear market. Additionally, in the absence of Fed QE, it is possible correlations will decline and dispersion will increase, which should be supportive of the strategy.

Lack of short rebate: With risk free at zero for the past six years, there has been no short rebate to provide a modest return to L/S equity managers and to help offset the cost of borrowing shares. As the Fed gradually raises interest rates, this modest tailwind should return again. We are not arguing that L/S Equity will once again become a great strategy because we still believe there are far better options for hedge fund investors. However, some of the cyclical headwinds they have faced over the past five years are beginning to recede.

Macro managers have also suffered from a confluence of detrimental factors since the crisis. After being the stars of the crisis (in general, discretionary macro managers lost less than other strategies and systematic CTA's were one of the only strategies that made money in '08), macro managers have been snake bit from political and central bank market intervention. For example, the European Union (EU) instituted policies and made other strong moves, including fighting the settlement of the Greek debt default, which many would argue prevented investors from profiting off of short European sovereign debt positions. Furthermore, during the years since the crisis we have experienced fairly synchronized hyper loose monetary policy, arguably contributing to higher geographical asset correlations than in the past. This has generally diminished macro managers' ability to place more discrete geographically focused themes as correlations between asset classes have been high and dispersions between asset classes have been low. Also, it is typical at this stage of a market cycle that there is not a sufficient amount of explosive market trends for macro managers to capture or follow. The only trends that are present are equity beta related which are highly correlated to investors' existing equity exposure.

However, there has recently been welcome news for macro managers. Central banks and governments may have shifted from being a secular headwind to a tailwind. As the Fed ends QE, the BOJ has expanded their program and the ECB has fitfully ramped up a plan (which, in our opinion, is meager). Meanwhile, the forward view on interest rates would argue for the Fed to potentially tighten while the ECB and BOJ continue to loosen. There also as yet appears to be no meaningful political resistance to the logical outcomes from this policy, e.g. a stronger dollar and weaker commodity prices. Thus, from a secular standpoint, the tide may be starting to turn more in favor of macro managers, however we believe that the best relative days for macro managers will likely be some time from now when the next bear market takes place.

Why hedge funds:

The more complex explanation

Accepting MPT and asset allocation doesn't necessarily mean investors should continue to allocate to hedge funds. So why should one invest in them? The following argument should make the case fairly succinctly.

Competitive full market-cycle returns: Over the long-term, equity market returns have annualized just below 10%[5]. Recent equity market cycle[6] returns have ranged from annualized +8.6% to -3.6%. Over the long-term an expected return for equities around five-to-10 percent, not much better or worse, is reasonable to expect and is supported empirically. Consider it a near-given that because this asset class possesses the highest risk, it will generate the highest returns over a full cycle. Meanwhile, bonds tend to produce whatever return over the maturity of the bond that corresponds to the current yield to maturity. Commodities, typically, have deflated in value over time, although they have enjoyed a few super cycles of positive performance. As for cash, central banks' interest-rate policy dictates its return.

Assessing this list, it is hard to argue that equities will earn more than a 10 percent annualized return over the next decade. It also is difficult to believe that bonds will continue to appreciate in value at anywhere near the pace they have enjoyed the past 30 years. After all, if you buy a 10 year treasury at 2.5 percent yield to maturity, and you hold it to maturity, that will be your nominal return.

As for the outlook for commodities, it appears that the last great global commodity supercycle[7] of this century's first decade ended in mid-2008 to 2010. Commodity bulls have fought a losing battle since. This shouldn't be such a surprise since throughout recorded history, they have deflated in value. This reflects new supplies that almost always develop if sufficient economic incentives emerge from transitory price increases and diminished Chinese economic growth expectations.

The commodity-intensive nature of Chinese economic growth was bound to slow once such imaginative technologies as solar power became competitive and new farming technologies enhanced crop yields, among other factors. For the sake of argument, though, let's imagine that commodities are flat over the next 10 years.

With the state of the global economy, as well as heavy debt levels and deteriorating demographics in the developed world, it is difficult to imagine cash yielding anything meaningfully above two to five percent over the next decade. If it does, it probably will reflect central banks once again trying to return the inflation genie into the bottle. Such a scenario would prove disastrous for bonds and, at best, challenging for equities. So this explains why a return from cash of anything above two to five percent is highly improbable.

Clearly these forecasts are highly speculative. A great deal can happen within three years, let alone a decade. But following the logic above, it's plain that if hedge funds can produce returns of two-to-six percent over the next 10 years, they at least will be competitive with other major asset classes, and emerge second or third. To argue that hedge funds will be number one is a bit foolhardy since that outcome isn't supported by history, logic, or current and expected future capital market opportunities. And of course, competitive full market-cycle return generation is among many reasons to consider hedge funds.

Mitigating drawdown or risk of portfolio loss

During powerful equity bull markets, it is easy to forget that one of the best ways to compound capital over time is to lose as little as possible – or just a lot less than other asset classes such as equities – in major bear markets or dislocations. The math is fairly simple: If you lose 10 percent, you must make 11 percent to get back to your high water mark. If you lose 20 percent, you must make 25 percent, and if you lose 50 percent, you must make 100 percent.

Typically, that's a tall order over a period of less than three years. As can be seen in Figure A below, hedge funds[8] have consistently lost less than equities in bear markets or corrections such as the 2000-2002 period, the financial crisis from October 2007 through February 2009 and in the third quarter of 2011.

Figure A

	Full period return (i.e., not annualized):		
	1/1/00-12/31/02	**10/1/07-2/28/09**	**7/1/11-9/30/11**
HFRI Fund Weighted Composite Index	8.3%	(19.2%)	(6.8%)
S&P 500 Total Return Index	(37.6%)	(50.2%)	(13.9%)

Of course, as can be seen in the Figure B below, during bull market periods such as the 1990s, 2003-2007 and March 2009-present, hedge funds[8] may significantly underperform equities.

Figure B

	Full period return (i.e., not annualized):		
	1/1/90-12/31/99	**1/1/03-12/31/07**	**3/1/09-10/31/14**
HFRI Fund Weighted Composite Index	534.8%	76.8%	51.9%
S&P 500 Total Return Index	432.8%	82.8%	210.0%

Thus, assuming another bear market occurs at some point in the future, holding a portion of one's portfolio in an investment other than bonds and cash and that's not hemorrhaging capital like equities during that period can produce more rational decision-making in terms of actually taking advantage of the bear market's dislocation.

If hedge funds can generate competitive returns to those of most assets classes and even trail equities substantially over a full market cycle, it makes sense to hold at least a modest allocation in them if they can reduce risk and help to moderate losses in the next bear market. Remember, one of the best ways to build wealth is not to lose it in the first place.

Reasonably low volatility

As can be seen in Figure C below, over the long-term, hedge fund[8] volatility tends to be less than half of equities' volatility and about double that of bonds. Clearly, fluctuations in net asset value of hedge funds are substantially less than that of equities. However, why should an investor care about volatility? Two primary reasons exist that are similar, yet distinct, from the drawdown risk – that peak-to-trough decline during an investment's specific record period.

Figure C

	Annualized standard deviation of monthly returns from 1/1/90 (HFRI inception)-10/31/14	Multiple of S&P 500 standard deviation	Multiple of Barclays Agg standard deviation
HFRI Fund Weighted Composite Index	6.8%	0.5x	1.9x
S&P 500 Total Return Index	14.7%	--	--
Barclays Aggregate Bond Index	3.7%	--	--

No. 1 involves *maximizing* the probability of a positive investment outcome. No. 2 encompasses *minimizing* the risk of timing a cash flow incorrectly. These are very similar points, but subtleties exist.

A major problem associated with investing in highly volatile asset classes reflects this: Whether an investor records a profitable outcome or not depends almost completely on successful timing of both entry *and* exit. This is very hard to do repeatedly. Think of it this way: The burden of timing is an investor's full responsibility. One example of this – equities in emerging markets – illustrates the point well. Emerging market equities had a stellar run from 2002 thru 2007[9]. When, those lofty returns finally caught investors' attention, they piled in. Since then, emerging market equities have significantly underperformed US equities and one-quarter of that capital has since fled.

The bottom line is that in highly volatile assets, success or failure can be entirely a function of timing. Skeptics of this argument can point to various techniques to mitigate this risk, such as averaging down. Still, possessing the discipline to average down systematically over years to potentially make back losses or relative underperformance proves very taxing and unpopular with investors. It's also extremely challenging to execute with rigorous discipline.

Therefore, a principal advantage of investing in an asset class with competitive returns and lower volatility is that an investor's ultimate outcome depends much less on successfully timing the entry and exit points.

Additionally, mitigating volatility and portfolio losses minimizes the probability that an investor will make a rash decision at an inopportune time. Investor psychology and behavior are inextricably linked. A certain percentage of the population is more likely to make poor decisions when under extreme duress. Inevitably, during times of stress or significant broad market losses, there are investors who panic and sell near or at a market bottom. Whether it was the recent Q3' 14 correction, the more significant one of Q3 '11, or during the more devastating bear markets of '00 to '02 or the financial crisis, having a percentage of one's portfolio in hedge funds lowers the probability of an investor making a rash untimely investment decision while under duress.

The second point of minimizing cash flow timing clearly ties to the first. Again, a skeptic could argue that in a perfectly rational world, cash flow timing is not that critical within broader asset allocation; this is true. However, in the real world, investors tend to care about entering an investment and then incurring substantial losses in a short period of time.

Additionally, unpredictable cash flow needs can arise – recall the fall of 2008 – for economic or personal reasons, and the risk of that need occurring at an inopportune time is far greater with highly volatile assets than lower volatility assets. Consequently, a main advantage of investing in an asset class with competitive returns and lower volatility, such as hedge funds, is that cash flow timing risk is far lower.

Moderate-to-no correlation and beta to other major asset classes

Modern portfolio theory and asset allocation, in part, reflects the concept that the more moderate-to-noncorrelated exposures there are in a portfolio, the lower the aggregate portfolio's risk and volatility. Clearly some trade-off exists between expected returns and lower risk because exposures with lower correlation to equities, for instance, tend to deliver lower returns.

Consider this example: A portfolio divided equally between cash and equities would deliver substantially lower risk and return than an all-equity portfolio. The methodology for modeling out these trade-offs between the risk, return and correlation properties of underlying portfolio exposures and the aggregate portfolio's risk-and-return profile is termed the *efficient frontier.*

In brief, the efficient frontier is a set of optimal portfolios that offers the highest expected return for a defined level of risk or the lowest risk for a given level of expected return. Portfolios below the efficient frontier are sub-optimal since they don't deliver enough return for the level of risk. Portfolios above the efficient frontier also are sub-optimal because they possess a higher level of risk for the defined rate of return.

Investors tend to try to minimize risk and maximize return -- and exposures with low-to-no correlation to one another are vital in this endeavor. A skeptic might argue that all investors should care about are long-term returns. That may be true for some. However, even for this minority, they cannot escape the efficient frontier. To generate greater and greater returns, an investor has to take even greater and greater risk and, at some point, it becomes self-defeating. Why? Because substantial losses can devastate a portfolio's ability to compound capital over time.

Hedge funds can benefit a portfolio's risk/reward profile by providing low-to-no correlation to other asset classes. While the majority of hedge funds have a positive correlation to other risk assets such as equities, at least a minor portfolio benefit in relationship to equities emerges as long as the correlation falls below one.

As can be seen in Figure D below, in comparison to other asset classes such as bonds, commodities, or real estate, however, hedge funds have exhibited little-to-no correlation. That should continue over reasonable time horizons**.**

Figure D

	HFRI Fund Weighted Composite Index
HFRI Fund Weighted Composite Index	1.00
S&P 500 TR	0.78
FTSE NAREIT Equity REIT TR	0.49
S&P GSCI Spot TR	0.19
NCREIF Property Index TR	(0.03)
Barclays US Agg TR	(0.12)

Period: 1Q 1990 through 3Q 20014 (quarterly returns data used as NCREIF returns are only reported quarterly, period start date corresponds to HFRI index inception). Index returns data source: Bloomberg.

Reasonable liquidity

Unlike other major alternative assets of investors – private equity and direct real estate investments – hedge funds offer reasonable liquidity. Most of the industry registers at least annual and, in many cases, quarterly liquidity. As a result, investors can access this liquidity if they need to rebalance their portfolio or if they simply have a cash flow need; private equity and real estate don't possess that advantage.

It is true that during certain instances in the financial crisis, a minority of hedge funds had to raise gates or issue special purpose vehicles SPV's because of a dramatic decline in liquidity. This risk must be taken into account, particularly if a repeat of the financial crisis or other liquidity event occurs. That said, based on SkyBridge's experience referring to the over 1,000 hedge funds tracked by our research team, only a minority of hedge funds "gated" or "SPV'd" their investors during this difficult period. The majority of investor capital was available if needed on the appropriate liquidity date. Even in this situation, however, the liquidity profile of hedge funds proved significantly better than other structurally less-liquid alternatives such as private equity or real estate.

The Fee Discussion

For investors considering hedge funds, another hot button relates to fees. It's not compelling to dig deep into the various conflicting arguments. The only thing that should matter is the broader portfolio benefits net of fees and expenses, a similar approach used by investors for all other asset classes. Still, the hedge fund industry is moving toward lower fees and that trend will continue. Over the past three years, we believe SkyBridge Capital has delivered meaningful fee savings to its investors by leveraging our buying power to negotiate lower fees; that trend should continue.

Hedge funds are not as liquid as exchange-traded securities or those traded over the counter. Investors must be willing to concede some liquidity if hedge funds are to have any chance of fulfilling their role in a broader portfolio. That said, the liquidity profiles of the majority of the hedge fund industry's products are significantly better than other true alternative investments (e.g., private equity, real estate).

Here's another word on recent asset class performance and future expected returns. Many investment professionals would argue that one of the reasons both equities and bonds have enjoyed a period of strong performance simultaneously since the financial crisis' dark days reflects the massive expansion of the Fed's balance sheet via multiple periods of quantitative easing. Additionally, the Fed has anchored short term-rates at zero for an exceptionally long time.

QE has ended and tentative signs emerge that the Fed Board will begin to raise interest rates this year. This signals the end of one of the greatest economic and monetary policy experiments in history. Investors should take this into account when looking at future expected returns in stocks and bonds. Those returns almost certainly will be significantly lower over the next five years versus the past five years and volatility will be higher.

Key Points

To recap a few broader points, over a full equity market cycle (i.e. the start of a bull market to end of a bear market), using the HFRI index as a proxy for "hedge funds":

- If hedge funds are added to a portfolio exclusively of equities, the main benefit is reduced risk and volatility because hedge funds tend to have less of both vs. equities.
- A modest portfolio benefit would also develop from a lower-than-perfect correlation. The trade-off is that expected returns would arguably be lower.
- If hedge funds join a portfolio of stocks, bonds, commodities and real estate, a portfolio benefit arises from lowering risk, volatility, and having a low correlation with three of the four asset classes.
- Depending on how heavily the portfolio tilts towards bonds and commodities, no reduction will occur in expected returns and they may even be enhanced.

Conclusion

The last two years have disappointed many hedge fund investors, as many alternative investment strategies have underperformed traditional long-only equity strategies. Yet, the hedge fund industry's assets under management continue to rise and are currently at a record level[10], with investments increasing from individual investors and institutional investors alike, including pensions.

What this white paper articulates is that hedge funds in broad strokes strive to deliver consistent risk-adjusted returns with minimal correlation to the performance of the broader markets. To achieve this, they typically follow fairly broad investment mandates that let them invest in a variety of markets and instruments while reducing downside risk through hedging. This approach has resulted in a steadier performance relative to the overall market during bear markets, as evidenced in 2000 to 2002 and in 2008, and in downside protection at the expense of limited upside during bull markets, seen in 2003, 2009 and particularly in 2013 and 2014.

The current market environment has proven particularly challenging for many hedge-fund managers, reflecting the high level of correlation among asset classes and individual securities. Unprecedented and accommodative central-bank policies and a relatively calm economic environment have damped market volatility. But as the central bank again begins to raise short-term interests in 2015, market volatility is likely to return and Federal Reserve Chairwoman Janet Yellen has just cautioned that such a scenario is anticipated.

If an unsettling investing environment develops, hedge fund managers should perform their role well. In the process, they will interest and remind investors that hedge funds employ sophisticated risk-management and reporting systems, and seek to provide downside protection in rough times and moderate the ups-and-downs during better times. *This is why investors should allocate monies to hedge funds, which strive to meet their risk-return objectives.*

Notes

[1]Throughout this white paper, statistical references based on the HFRI Fund Weighted Composite Index are used as a proxy for typical "hedge funds'" risk, return and performance attributes.
[2]Hedge Fund Research (HFR), as of 9/30/14 (see press release dated 10/20/14).
[3]Remarks by Janet Yellen, Federal Reserve Board Chairwoman at the International Symposium of the Banque de France on 11/7/14.
[4]Spot gold (Bloomberg ticker: XAU). From 1/1/2001 through 11/13/14, low was $255.55 on 4/2/01, high was $1,900.20 on 9/5/11. At the time of writing, the price was $1,162.55.
[5]9.6% annualized return from January 1928 through November 2014, 9.8% annualized return over the trailing 50 years ended November 2014, 9.5% annualized return over the trailing 25 years ended November 2014, 7.7% annualized return over the trailing 10 years ended November 2014. For trailing 50/25/10 year periods full-year calendar returns used for all years except 2014, partial year return (11 months through November) used for 2014. Data source: NYU (data obtained from the Federal Reserve's FRED database), adjusted to include 2014: http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html.
[6]An "equity market cycle" is generally accepted to be start of bull market to end of bear market. There have arguably been 2.75 in the recent past (using month-end periods): from January 1992 through September 2002 (8.6% annualized return), from October 2003 through February 2009, (-3.6% annualized return) and from March 2009 until the end of the next bear market (cycle currently underway, i.e., full cycle annualized return not yet available).
[7]An approximately 10 year period, ending in 2008, of double-digit returns in many commodity prices, including oil. Generally attributed to emerging markets demand growth over the same period.
[8]The HFRI Fund Weighted Composite Index is used throughout as a proxy for "hedge funds," in these examples for the time periods presented. Strategy specific hedge funds may or may not have had the return and volatilitycharacteristics set forth herein.
[9]The MSCI Emerging Market index posted a total return (with dividends reinvested into the index) of 360% from 12/31/01 through 12/31/07.Over the same period, the total return for the S&P 500 was 42%.
[10]Hedge Fund Research (HFR), as of 9/30/14 (see press release dated 10/20/14).

For media inquiries, contact Suzanne Hallberg at SkyBridge Capital at shallberg@skybridgecapital.com
For all other inquiries, contact SkyBridge Capital at 1-888-759-2730