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HEDGE FUNDS EXPERIENCE NET INFLOWS OF CAPITAL IN 2004

Individuals and Family Offices Remain the Largest Source of Capital

January 12, 2005 – New York, NY – **Hennessee Group LLC, an adviser to hedge fund investors, estimates that hedge fund industry assets increased by \$139 billion in 2004 to \$934 billion.** Likewise, the number of managers in the hedge fund industry increased to 8,050 from 7,000. The increase in assets represents 17% growth over industry assets since the beginning of 2004. Preliminary results indicate that the hedge fund industry experienced inflows of \$75 billion in 2004. The remaining \$64 billion of the increase was the result of positive performance, as further evidenced by **the Hennessee Hedge Fund Index which advanced +8.27% in 2004.**

In comparison, most estimates are for \$180 billion in equity mutual fund inflows in 2004, up from \$152 billion in 2003. According to the Investment Company Institute, mutual funds currently manage \$7.9 trillion.

“While hedge funds continued to gain interest from investors, a comparison between hedge fund and mutual fund assets reveals that hedge funds represent only a small share of the market,” stated Charles Gradante, managing principal of the Hennessee Group. **“On the margin, hedge funds can make a difference with or without leverage. But with hedge funds approaching \$1 trillion in invested assets and mutual funds nearing \$8 trillion, it is mutual fund inflows and outflows that should be regularly highlighted as moving the broad markets, as they did in our last bear market when mutual funds experienced heavy redemptions.”**

ASSET FLOWS

Preliminary results indicate that arbitrage and event driven funds took in the majority of new assets. **Total assets for arbitrage and event driven funds were up approximately 27% in 2004. The**

Hennessee Arbitrage/Event Driven Index advanced +7.98% for the year. The majority of assets flowed to multiple strategy arbitrage funds, while single strategy arbitrage funds reported outflows of capital. Arbitrage and event driven returns were primarily driven by credit sensitive strategies in 2004, as convertible arbitrage and merger arbitrage failed to generate significant returns.

Growth in assets for long/short equity funds was not as robust. **Long/short equity assets increased approximately 11% in 2004, with the majority of the increase a result of performance.** The Hennessee Long/Short Equity Index advanced +8.44% in 2004.

“2004 was another difficult year for short sellers, as the average long/short equity fund was unable to generate significant profits on the short side of their portfolios,” stated Mr. Gradante. **“However, a rising interest rate environment in 2005 should create a better market for short selling, as high quality companies typically outperform low quality companies when the Fed is reducing liquidity in the system. Stock picking should be rewarded better in 2005.”**

INVESTOR SOURCES OF CAPITAL

Hennessee estimates that individuals and family offices remain the largest source of capital for the hedge fund industry, representing approximately 44% of total industry capital, or \$411 billion. Fund of funds represent 24% of capital (\$224 billion), corporations and institutions represent 15% (\$140 billion), pensions plan represent 9% (\$84 billion) and endowments and foundations represent 8% (\$75 billion).

About the Hennessee Group LLC

Hennessee Group LLC is a Registered Investment Adviser that consults direct investors in hedge funds on asset allocation, manager selection, and ongoing monitoring of hedge fund managers. Hennessee Group LLC is not a tracker of hedge funds. The Hennessee Hedge Fund Indices[®] are for the sole purpose of benchmarking individual hedge fund manager performance. The Hennessee Group does not sell a hedge fund-of-funds product nor does it market individual hedge fund managers.

Description of Hennessee Hedge Fund Index

The Hennessee Hedge Fund Indices[®] are calculated from performance data supplied by a diversified group of over 730 hedge funds monitored by the Hennessee Group LLC. The Hennessee Hedge Fund Index is believed to represent at least half of the capital in the industry and is an equally weighted average of the funds in the Hennessee Hedge Fund Indices[®]. The funds in the Hennessee Hedge Fund Index are derived from the Hennessee Group's database of over 3,500 hedge funds and are net of fees and unaudited. Past performance is no guarantee of future returns. ALL RIGHTS RESERVED. This material is for general information only and is not an offer or solicitation to buy or sell any security including any interest in a hedge fund.