

## Hedge Fund Outlook Is 'Much Worse' Than 1998, LTCM Veteran Says

The \$1.9 trillion hedge fund industry, mired in its worst performance in two decades, faces "much worse" conditions than in 1998, when Long-Term Capital Management LP collapsed, a veteran of that fund said.

"It's definitely a trickier environment," said Hans Hufschmid, chief executive officer of GlobeOp Financial Services LP, and a former partner at LTCM and co-head of its London office. "The market is much worse than it was in 1998. Then it was just LTCM, but this impacts everybody."

Hedge funds are concerned for the first time about risks related to prime brokers after Bear Stearns Cos.' forced merger with JPMorgan Chase & Co., said Hufschmid, 52, whose London-based company is administrator to funds managing about \$104 billion.

Banks and brokerages have written down \$495 billion and raised \$356 billion in capital since the start of 2007 as the U.S. subprime mortgage market collapsed. Banks' increasing reluctance to lend has hurt hedge-fund operations, Hufschmid said in a telephone interview yesterday.

"Hedge funds live on credit and leverage and the ability to finance esoteric positions for a long time," said Hufschmid. "To the extent liquidity is drying up as it is now, that becomes more difficult."

Greenwich, Connecticut-based LTCM leveraged \$2.3 billion of capital into holdings of about \$125 billion before its collapse, which roiled financial markets and led to a bailout organized by the Federal Reserve. The company lost \$4.6 billion and received a \$3.5 billion bailout from 14 lenders in 1998.

July ranks among the worst months of performance for hedge funds. Chicago-based Hedge Fund Research Inc.'s Weighted Composite Index, based on data from more than 2,000 funds, fell 2.4 percent in the month and is down 3.5 percent year-to-date, which would be the worst annual performance since at least 1990.

### 'Giving Up'

An HFR index based on daily net-asset-value estimates from 55 funds showed a drop of 2.8 percent in the month, the biggest drop for that measure in five years.

The industry's worst month remains August 1998, when the HFR's Weighted Composite Index fell 8.7 percent as Long-Term Capital Management collapsed after \$4 billion in losses.

This year's poor results mean fewer funds are starting, Hufschmid said. GlobeOp said none of the "seven or eight" clients it had ready to launch funds with \$500 million to \$2 billion in the first six months of the year had started.

"Some of them have given up," said Hufschmid. "A year or two ago they would have started. New funds right now have a problem."