



HEDGE FUND RESEARCH, INC.

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**EMERGING MARKETS HEDGE FUNDS REVERSE SEPTEMBER LOSSES
WITH STRONG OCTOBER GAINS**

*Cautious investors hold new allocations as volatility accelerates;
HFR launches HFRX Korea Index, adding to existing HFRX Asian and EM Indices*

CHICAGO (November 16, 2011) – Emerging markets hedge funds posted strong performance gains in October, reversing sharp losses from September as emerging market (EM) economies and assets continue to experience volatility relating to the European sovereign debt crisis. The HFRX Total Emerging Markets Index gained +4.1 percent in October following a decline of -5.0 percent in September; while intra-month volatility was even more pronounced in specific regions, including Latin America and Russia. In response to this volatility, investors hesitated on making new allocations to EM hedge funds, which saw a modest net outflow of \$197 million (0.17 percent of assets under management in EM funds) for the 3Q11, according to the HFR Emerging Markets Hedge Fund Industry Report, released today by HFR. As a result of September losses, total EM hedge fund assets declined by \$7.2 billion from the record level established at mid-year to end the third quarter at \$115.7 billion.

Net asset flows and asset levels were also only narrowly changed across EM strategies and regions. Investors allocated new capital to EM Event Driven and Relative Value funds, while reducing capital in Equity Hedge and Macro funds. Most regions also showed narrow changes in asset flows over the quarter, with the most significant change being an inflow of \$145 million to funds investing across Multiple Emerging Markets.

Reflecting investor interest in lower equity market correlation, the number of EM hedge funds executing Relative Value and Macro strategies continued to increase. Nearly 18 percent of EM hedge funds are Relative Value strategies as of the end of 3Q, utilizing leverage to trade primarily corporate and sovereign fixed income, while over 11 percent are Macro strategies, trading across asset classes with an emphasis on currency and commodities.

Despite the volatility, EM hedge funds have performed well against local equity and currency markets, which have experienced sharp declines in recent months. The HFRX Latin America Index recovered +5.2 percent in October after declining -8.5 percent in September; YTD through October the index has declined less than 7 percent while the Bovespa has declined -15.8 percent. Similarly, the HFRX Russia/Eastern Europe Index gained +5.5 percent in October after a decline of -7.5 percent in September; for the year, the index has declined -11.0 percent through October while Russian equity markets have declined more than -12 percent.

“Emerging market asset volatility has accelerated in recent months in response to external factors and internal EM fundamentals, a trend which is likely to continue to present both opportunities and challenges for hedge funds and investors,” said Kenneth J. Heinz, President of HFR. “Emerging market hedge funds offer sophisticated access to strategies which complement existing EM equity and sovereign fixed income positions with Macro and Arbitrage strategies designed to monetize opportunities in currencies, equities and sovereign bonds, while mitigating certain aspects of directional volatility inherent in emerging market investing.”

Newly launched HFRX Korea Index gains +8.3 percent in October

HFR is pleased to launch the HFRX Korea Index, comprised of hedge funds investing primarily in Korea and the latest addition to HFR’s comprehensive suite of HFRX EM and Asian hedge fund benchmarks. This new index reflects the increased growth and influence of hedge funds in Asia, and specifically the growth of investors and hedge funds located in Emerging Asia.

HFR and Wind announce strategic partnership

HFR is pleased to announce a new strategic partnership with **Wind Information**, the leading provider of data and information to the Asian marketplace, which became effective in October 2011. Wind Information Co., Ltd (Wind Info), headquartered in Lujiazui Financial Center in Shanghai, is a leading integrated service provider of financial data, information and software,

and the partnership between HFR and Wind Info enables Chinese financial institutions to access the HFR Database with local market support and distribution.

About HFR

HFR (Hedge Fund Research, Inc.) is the global leader in the alternative investment industry. Established in 1992, HFR specializes in the areas of indexation and analysis of hedge funds. HFR Database, the most comprehensive resource available for hedge fund investors, includes fund-level detail on historical performance and assets, as well as firm characteristics on both the broadest and most influential hedge fund managers. HFR has developed the industry's most detailed fund classification system, enabling granular and specific queries for relative performance measurement, peer group analysis and benchmarking. HFR produces over 100 indices of hedge fund performance ranging from industry-aggregate levels down to specific, niche areas of sub-strategy and regional investment focus. With performance dating back to 1990, the HFRI Fund Weighted Composite Index is the industry's most widely used standard benchmark of hedge fund performance globally. The HFR suite of Analysis Products leverages the HFR Database to provide detailed, current, comprehensive and relevant aggregate reference points on all facets of the hedge fund industry. HFR also offers consulting services for clients seeking customized top-level or more nuanced analysis. For the hedge fund industry's leading investors and hedge fund managers, **Hedge Fund Research is The Institutional Standard.**