



HEDGE FUND RESEARCH, INC.

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INVESTOR RETREAT FROM EMERGING MARKETS HEDGE FUNDS ACCELERATES IN SECOND QUARTER

Allocations to Latin America-, MENA-focused funds only partially offset redemptions in Russia, Emerging Asia

Commodity-focused hedge funds experience volatility, losses

CHICAGO, (August 19, 2010) – Emerging markets (EM) hedge funds experienced a net withdrawal of \$1.5 billion in the second quarter of 2010 (2Q10), according to figures released today by Hedge Fund Research (HFR), the leading provider of hedge fund industry data. This represents the second consecutive quarter, and the seventh quarter in the last eight, in which EM hedge funds have experienced a net capital withdrawal. Combining 2Q outflows with performance-based losses, total capital invested in EM hedge funds declined by \$3.2 billion, to end the quarter at just under \$95 billion.

EM outflows reflect a significant decoupling from the overall hedge fund industry, which experienced a net capital inflow of \$9.6 billion for 2Q10, and a first half (1H10) capital inflow of \$23 billion. Combined with redemptions in excess of \$550 million in 1Q10, investors have withdrawn over \$2 billion from EM hedge funds in 1H10.

EM outflows were region-specific during the period; investors allocated new capital to hedge funds focusing on Latin America and the Middle East, while redemptions were concentrated in Russia and Emerging Asia. By investment strategy, EM funds in Equity Hedge experienced \$1.8 billion in redemptions, which was only partially offset by inflows of \$320 million to Macro EM funds.

Increased commodity volatility and divergence create challenges

The performance of commodity-focused hedge funds has also been adversely impacted by recent commodity market volatility, with the HFRX Commodity Index down -5.6 percent YTD through July. As both importers and exporters of individual commodities, most EM economies maintain characteristic sensitivities to commodity price movements which can be detrimental, beneficial or variable, depending on the specific economy and price movement. Despite broad divergences across different commodity markets, hedge funds focused on metals, agricultural and energy commodities have all experienced negative performance YTD 2010.

“Changes in global growth expectations, prospective currency volatility and commodity-specific market influences have resulted in a near term decrease in investor risk tolerance for Emerging Market hedge fund exposure,” said Kenneth J. Heinz, President of Hedge Fund Research, Inc. “While many of these risks have persisted into 3Q10, many powerful trends in EM equities, sovereign credits and commodities have also reversed; hedge fund investors considering the tactical, cyclical and overall positive performance dynamics of EM hedge funds will look to access these trends in coming quarters.”

HFR INDUSTRY SUMMIT; PRESS EVENT TO BE HOSTED IN HONG KONG

Hedge Fund Research will host the HFR Industry Summit: Asia 2010 in Hong Kong on September 16th & 17th at the Four Seasons Hong Kong; the HFR Industry Summit is the hedge fund industry’s premier private investor engagement, hosted annually in Chicago and London, and this will mark the event’s inaugural appearance in Asia.

HFR will also host an exclusive engagement for the global financial media on September 15th at the HKEx Exchange Auditorium. For more details or to attend this event, please contact Josh Gu, Hedge Fund Research, Inc. at jgu@hfr.com.

About HFR

Hedge Fund Research, Inc. (HFR) 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.

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