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HFRI CHINA, LATIN AMERICA, RUSSIA LEAD INDUSTRY SURGE TO BEGIN 2019

*‘Risk On’ sentiment reversal follows steep 2018 declines;
Currency Risk Premia strategies also lead through early 2019*

CHICAGO, (February 21, 2019) – Emerging Markets hedge funds, including China, Latin America and Russia-focused funds, surged to begin 2019, with the “risk on” sentiment representing a sharp contrast from late 2018 and reversing steep losses from 4Q. The HFRI Emerging Markets (Total) Index advanced +4.7 percent in January, the strongest monthly gain since March 2016, as reported today with the release of the *HFR Asian Hedge Fund Industry Report* and the *HFR Emerging Markets Hedge Fund Industry Report* by HFR[®], the established global leader in the indexation, analysis and research of the global hedge fund industry.

Hedge funds investing across all EM regions contributed to strong gains for the month, with each experiencing sharp reversals from late 2018. EM hedge fund performance was led by the HFRI EM: Latin America Index, which gained +8.3 percent in January and followed the 2018 decline of -6.9 percent. Similarly, the HFRI EM: Russia/Eastern Europe jumped +6.5 percent, the strongest monthly return since March 2016, while the HFRI EM: China Index added +5.75 percent, the best since January 2018. These gains represent a reversal from 2018 when the HFRI Russia Index fell -4.4 percent and the HFRI China Index declined -17.5 percent. Hedge funds investing in Japan also gained in January, as the HFRI Japan Index gained +2.4 percent for the month, partially reversing 2018 decline of -5.6 percent.

Total Asia and EM hedge fund capital declined in both 4Q and Full Year 2018 with most of the capital decline attributable to performance-based losses. Total Asian hedge fund capital declined by \$10 billion in 4Q to \$108.2 billion, while total EM hedge fund capital fell by \$5 billion in 4Q to \$222 billion, representing a decline of \$12 billion from its AUM peak from 1Q18.

In addition to underlying regional EM equity market strength, currency gains also contributed to the early EM hedge fund gains in 2019. Currency risk premia strategies, in addition to equity risk premia, led January performance across the HFR Bank Risk Premia Index family. The HFR BSRP Currency Risk Premia Index has returned +4.85 percent YTD 2019 through mid-February, while the HFR BSRP Equity Risk Premia Index added +3.9 percent over the same time period. Within these respective sub-strategy/style families, the HFR BSRP Currency Carry Index has gained +10.9 percent thus far in 2019, while the HFR BSRP Equity Size Index has vaulted +17.4 percent.

“Emerging Markets hedge funds led global industry performance in January as a powerful ‘risk-on’ sentiment dominated, representing a stark and significant reversal of the ‘risk-off’ sentiment which dominated December, the 4th quarter and most of 2018,” stated Kenneth J. Heinz, President of HFR. “The powerful sentiment shift was driven by a number of factors, including ongoing trade negotiations, geopolitical developments in Latin America and the evolving impacts of Brexit. With each of these factors continuing into 1H19 as both fluid and unpredictable, specialized EM and Asian hedge funds represent an ideal mechanism for sophisticated investors to access the upside of these powerful trends while mitigating inherent volatility associated with the uncertainty.”

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