

This is the standard edition of GFIA's *Research Insights* newsletter. June's premium edition contains the content found here, plus the following:

- Commentary on fund managers in Asia, Latin America and the MENA Plus region
- A study of high watermarks and a discussion of upcoming change in the hedge fund industry
- Details of GFIA's manager meetings for the month

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## Highlights

- Continued inflows
- Good news aplenty in Taiwan
- Not even a 15% contraction in GDP can dampen the rally in Japan
- Shorting ban to be lifted in Korea
- Best month for India in 17 years
- Average returns of more than 20% in Latin American equities
- Zimbabwe best performing market in MENA Plus region
- Strong month for emerging market currencies
- How is June doing?



GFIA is the adviser to the Wittenham group of funds, which includes the Wittenham Asia Core Fund and the Wittenham MENA Plus Fund.

## Market Review

### *Continued inflows*

The market rally continued into the month of May along with decreasing risk aversion, and capital continued to flow strongly into the region. The **MSCI AC Asia Pacific** jumped +12.2% while the ex-Japan version of the index increased 13.9%. The outperforming markets were Singapore (**STI**: +25.2%), India (**BSE30**: +35.8%) and Vietnam (**VN index**: +28.0%). The rally was seen across all Asian markets, where even the worst performer, Shanghai, ended the month up 6.2% (**Shanghai A/B Composite**). Worth noting was Australia's **ASX AORD**, which was up 1.8% in local terms, but up 13.9% when translated to US\$ terms.

### *Good news aplenty in Taiwan*

Taiwan was once again the best performer in the Greater China region in May with the Taiwan **TWII** rallying 18.7% for the month. Hong Kong also performed well with the **Hang Seng Index** appreciating 17.0% as liquidity remained strong. There was plenty of good news in Taiwan—more affirmations of the opening up of Taiwan to investments from mainland China and the announcement that Taiwan would now be able to join the World Health Organization were just a few of the many stimulants for the Taiwan market in May.

### *Not even a 15% contraction in GDP can dampen the rally in Japan*

Along with the other Asian markets, the Japanese markets ended May much higher than when it started. The **Topix** was up 7.2% while the **Nikkei 225** gained 7.9%. The over-sold small caps were the best performers in May, where we saw the **Mothers** index surging 14.4%.

The Japanese markets had a tumultuous month, swinging within ranges affected by news and noises globally. Although Japan had its worst quarter-on-quarter contraction of GDP (-15.2%) in 1Q 2009, and the earnings season saw "Japan Inc.'s" pre-tax profits falling 52%, market participants seemed only to be worried about missing the current liquidity-led rally. While there are signs of improvement in certain sectors, there is no conviction that a recovery is imminent.

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All performance reported US\$-adjusted unless otherwise stated.

## GFIA Information

GFIA, a Singapore-incorporated exempt financial advisor, has provided research on, advice about, and discretionary management of hedge funds since 1998. Almost uniquely, GFIA does not provide marketing services—it is fully objective.

GFIA offers to investors a comprehensive range of services, driven by its research and understanding of hedged and absolute return managers in Asia, Latin America and other developing capital markets:

- Wittenham range of funds of funds
- management of discretionary accounts investing into funds
- due diligence and manager analysis
- portfolio construction and discretionary management
- advisory services

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**Shorting ban to be lifted  
in Korea**

The **Kospi** gained 9.0% in May, but this was largely attributed to the 6.4% appreciation of the KRW against the US\$. The rally was mainly led by consumer discretionary and materials stocks, which are the beta plays of many local investors. Foreign investors have been net buyers of Korea for 12 consecutive weeks—where they bought US\$7.1bn worth of shares since March—but still remain underweight in Korea after net selling of nearly US\$65bn between 2007 and 2008. The ban on shorting is expected to be lifted for non-financial stocks on the 1<sup>st</sup> of June; however, anecdotal evidence indicates a lack of willingness to lend by the local institutions.

**Best month for India  
in 17 years**

According to Bloomberg, May was the best month for the Indian market in 17 years. The Indian **BSE30** ended the month up 35.8%, though approximately half the performance came on Monday the 18<sup>th</sup>—or, more specifically, two minutes within the same day—as the results of the election were known. There was then a buying panic on the following day as market players that failed to get their trades done on the 18<sup>th</sup> rushed to get in on the 19<sup>th</sup>. According to one manager, a broker they knew started the Tuesday with US\$200m of buy orders and one sell order, and it was a story that played across all the Indian brokers.

**Average returns of more  
than 20% in Latin  
American equities**

It was yet another rewarding month for Latin American investors. Argentina's **Merval**, Brazil's **Ibovespa** and Chile's **IPSA** shot up 23.5%, 23.6% and 23.1%, respectively. Mexico's **IPC** was the laggard of the region; even so, it was up 16.1%.

While fears have receded into the background, the impact of swine flu on Mexico's tourism industry still persists. Tourism is the country's third-largest source of revenue. The closure of bars, night-clubs, movie theatres and churches is estimated to be costing at least US\$55m a day. Mexico's GDP reportedly shrank 8.2% in the first quarter of 2009, and another 5.6% in May. Credit agencies have been alerted to the nation's long-term credit standings, and reiterated a negative outlook.

Monetary easing continues unabated in Brazil and the central bank cut Selic interest rates to a record low of 10.25%. Meanwhile, Brazil and China ties increased with the signing of a US\$10bn loan-for-oil deal. Under the agreement, China will lend US\$10bn to Brazil's Petrobras in return for a guaranteed supply of 200,000 barrels of oil per day. The money will go to helping Petrobras develop oil reserves in the Santos Basin off Brazil's southern coast.

**Zimbabwe best performing  
market in MENA Plus  
region**

The MENA Plus region was a strong performer in May with the **MSCI EFM EMEA** up 18.0%, though returns could be largely attributed to the Africa and CIS regions (**MSCI FM Africa**: +34.7% and **MSCI Central/Eastern Europe + CIS**: +27.7%). The **MSCI Arabian Markets** index returned a more muted +8.9% during the month. (How perspectives have changed! High single-digit returns now fail to excite...)

Rising oil prices have been identified as a primary driver behind the rally, though the impact has been much greater in Russia than in the Arab countries. The sharp rally in Africa was further attributed to the recovery in commodity prices, especially in Zambia, which relies heavily on copper exports.

Interestingly, the dynamics amongst oil-producing countries are shifting, with the MENA region's share of the world's proven oil reserves slowly shrinking, although its share of global proven gas reserves is increasing. Within the region, Iran has surpassed Saudi Arabia when both oil and oil equivalent gas reserves are combined; and Qatar's revenues from oil and gas are the highest at US\$119,000 per capita versus Saudi Arabia's US\$29,000 per capita, the lowest.

Emerging market currencies experienced strong appreciation against the US\$ over the month, with the Brazilian real being the largest mover, appreciating 9.0%. Although the growth in global risk appetite is a factor in boosting demand for emerging market currencies, the out-performance

**Strong month for emerging  
market currencies**

### How is June doing?

was driven more by sharp increases in commodity prices. Other commodity currencies such as the AUD, NZD and ZAR experienced similarly large moves, appreciating 11.9%, 12.8% and 7.2%, respectively.

The scepticism with regards to the rallying market that had been prevalent in the last couple of months seems to be abating amidst the market euphoria, and we are hearing of market participants who had been sitting on the sidelines feeling increasingly pressured to participate. That said, the markets are seeing some consolidation as we write this report, so the jury is—still—out on whether this is the beginning of a recovery or a bear market rally.

We are starting to see some pullback in the markets with month-to-date numbers of the market indices showing flattish to negative numbers. Worst hit are the Central and Eastern European markets, with the MSCI EM Eastern Europe index down 11.2% as of June 26<sup>th</sup>. Fears of an “Asian Crisis” in the Central/ Eastern European region are increasing as current account deficits threaten to overwhelm the region. Much of the liabilities are in the form of foreign-denominated debt, which is similar to Asia in the 1990s, and will have a crippling effect on the issuers should the local currencies plunge.

## Performance

	May-09 “flash” return	2008	Rolling 12 months	YTD
Wittenham Asia Core Fund (gross)	1.11%	-12.30%	-3.15%	0.82%
Wittenham MENA Plus Fund (gross)	6.55%	-22.76%	-19.31%	4.47%
HFRI HF Composite	5.58%	-18.36%	-9.97%	10.24%
AsiaHedge Composite	4.35%	-14.12%	-4.89%	6.91%
AsiaHedge Asia ex-Japan	10.83%	-25.13%	-5.13%	16.16%
Nikkei 225 (local currency)	7.86%	-42.12%	-33.59%	7.48%
MSCI AC Asia Pacific	12.18%	-43.23%	-31.98%	13.90%
MSCI AC Asia Pacific ex-Japan	13.93%	-53.30%	-33.06%	30.06%
AfricaHedge MENA (US\$-adjusted)	13.66%	-55.72%	-40.32%	17.03%
MSCI FM EMEA	17.94%	-55.35%	-53.72%	4.49%

## Manager Meetings

In June, GFIA met with 30 managers from Chicago, Hong Kong, London, Melbourne, New York, San Francisco, Shanghai, Singapore, Sydney, Taipei, Tel Aviv and Tokyo. Further details are available in the premium edition of the GFIA *Research Insights* newsletter.

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