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GFIA
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Standard Edition

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*Wittenham Asia Core is the second-best performing Asian fund of funds over three years.**

This is the standard edition of GFIA's *Research Insights* newsletter. March'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 size versus returns and commentary on fees and liquidity**
- **Details of GFIA's manager meetings for the month**

To subscribe to the premium edition of *Research Insights* and enjoy GFIA's full monthly coverage, contact Angus Hume at angus.hume@gfia.com.sg.

Highlights

- Generally poor economic news coming from the markets
- Currency depreciation the main loss driver in Japan and Korea
- Concerted interest rate cuts in Latin America
- Much dispersion in MENA Plus even though aggregate indices were down
- How is March doing?

Market Review

Generally poor economic news coming from the markets
The spectre of global economic contraction continued to weigh down on the markets, with developed Asia (i.e. Japan and Korea) faring much worse than the rest of the region. The MSCI Asia Pacific ex Japan saw a loss of 6.2% over the month, while the MSCI Asia Pacific lost 9.5%.

Currency depreciation the main loss driver in Japan and Korea
Whilst the Japanese market displayed signs of a possible bear rally in the early days of February, it did not persist. The weakening of the Japanese yen by 9.0% was the root cause of the severe decline in the Japanese indices. On top of speculation that this could be due to the death of the long-running but frequently buried and resuscitated carry trade, the shocking fall in exports in January and the Q4 y-o-y GDP contraction simply sent investors scuttling to sell yen. After adjusting for the US$/yen movement, the Nikkei 225 ended the month down 13.2%, and the smaller cap Mothers index ended the month down 19.7%.

Korea was among the worst performers as the Kospi fell 17.4 %, largely due to a currency depreciation of 10.8%. Vietnam suffered just as much, falling 18.4%, though currency

CONTINUED ON PAGE 2

New research paper: GFIA will shortly publish a major new white paper titled "Investing in hedge funds in emerging markets: the prudent approach", which examines the case for investing in emerging markets through hedge funds versus conventional long exposure. Please contact us at gfia@gfia.com.sg for your complimentary copy.

* *According to Bloomberg, the Wittenham Asia Core Fund, advised by GFIA pte ltd., is the second-best performing Asian fund of funds over the three years since its inception, with the A shares giving a return of 16.78%. The correlation with Asian hedge funds is 0.58, and with Asian equities, 0.42, meaning that the fund has also been an excellent diversifier.*

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

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movements had no part to play in arriving at this loss, as the dong strengthened 0.7% over the month. It was general risk aversion that drove prices down.

India fared no better as the country was awash with bad news on the economic front, from GDP and export declines to headline news such as one million new job losses. The BSE Sensex ended the month down 8.8%, with just under half of the losses coming from currency weakness. Despite the poor environment, there were a couple of bright spots. The additional stimulus plans introduced by the government at the beginning of the month, coupled with reports of strong loan growth, were a boost for the Greater China markets. The Shanghai AB Composite rose 3.9% on the back of the buoyant sentiment. The other market to turn in positive returns was Taiwan (Taiex: +3.5%) due to interest rate cuts, though this was more surprising given the collapse in exports and GDP declines.

Concerted interest rate cuts in Latin America

Recession is accelerating in Latin America, with economic indicators pointing to the downside. Brazil's unemployment rate jumped by 1.4% to 8.2% from last December to January this year[1], while posting net job losses for the first time in seven years. Argentina experienced the most severe month-to-month decline in industrial production at 6.1%, a level not seen since 2001.

Reeling from the onslaught of bad news, the bleeding continued in February with the MSCI Latin America dropping 5.2%. Mexico's IPC remains the region's worst performer this year, sliding down 13.8% for the month, and ending YTD down 27.3% in the space of two months. Brazil's Bovespa and Argentina's Merval fared relatively better at -5.3% and -7.0%, respectively, for the month. Only Chile's IPSA escaped unscathed at -0.4%; the returns have been attributed to the support provided by the larger than expected interest rate cut of 250bps.

Mexico moved to cut interest rates by 25bps to 7.5%, which was less than the forecast 50bps. Although inflation remains a strong barrier against aggressive rate cuts, the Central and South American governments have been fairly consistent in their intentions to bring rates down gradually. On a brighter note, the high interest rates maintained throughout the region last year provide governments with room for more cuts. The Mexican peso continues to depreciate against the US dollar, dropping a further 5.2% in February and prompting authorities to announce their intention to defend the depreciating peso.

Much dispersion in MENA Plus even though aggregate indices were down

The MENA Plus region continued to slump in February, though the disparity between the underlying markets was huge. At one extreme, we saw the MSCI FM Africa surging 8.3%, and on the other hand, the MSCI Central/Eastern Europe + CIS declined 7.4%.

Even within the Arab countries, the differences were just as significant. The UAE, buoyed by the central bank's decision to inject capital into markets through the purchase of US$10bn of long-term bonds issued by the government of Dubai, ended the month up 1.6% (MSCI UAE) even though the aggregate MSCI Arabian Markets index ended the month down 6.9%.

Morocco had a surprise upside rally as interest poured into the local brewer, real estate company and telco. The MSCI Morocco returned +12.5% on the back of this rush.

Whilst we saw a decline in the MSCI Central/Eastern Europe + CIS index in February, the Russian market stood out strongly as it rallied 5.7%. The rebound has been attributed to some slight recovery in oil and steel prices, though the market expectation is that this is a short-term bounce.

1 Reported by Brazil's national statistics agency (http://www.ibge.gov.br/)

How is March doing?

The emerging markets have been staging a fierce rally over the second and third weeks of March. As of the time of writing, many of the emerging markets were already showing double-digit gains. The MSCI Emerging Markets index is showing a month-to-date gain of 17.7%. Even the developed markets like the S&P 500 are up double digits on the month! It is starting to become difficult to distinguish between emerging and developed market returns.

We are also seeing some news articles commenting on how this recent rally signifies the coming of the bull market. For everyone's sake we hope the authors of those articles are right, but we are not so optimistic and feel instead that we're seeing a substantial bear market rally. There's no doubt that good stock pickers are finding value to accumulate for the medium term, and that's a very real story, but this is not the time to invest in simple market direction.

Performance

	Feb-09 "flash" return	2008	Rolling 12 months	YTD
Wittenham Asia Core Fund (gross)	-0.92%	-12.30%	-13.56%	-1.35%
Wittenham MENA Plus Fund (gross)	-1.71%	-22.76%	-26.07%	-4.29%
HFRI HF Composite	-1.13%	-18.36%	-18.31%	-1.17%
AsiaHedge Composite	-0.87%	-14.12%	-13.01%	-1.66%
AsiaHedge Asia ex-Japan	-2.14%	-25.13%	-24.24%	-4.17%
Nikkei 225 (local currency)	-5.32%	-42.12%	-44.36%	-14.57%
MSCI AC Asia Pacific	-9.54%	-43.23%	-49.04%	-16.07%
MSCI AC Asia Pacific ex-Japan	-6.16%	-53.30%	-55.78%	-13.39%
AfricaHedge MENA (US$-adjusted)	-0.92%	-57.38%	-58.73%	-14.52%
MSCI FM EMEA	-4.73%	-55.35%	-66.62%	-22.53%

Manager Meetings

In March, GFIA met with 17 managers from Almaty, Bermuda, Bethesda, Dubai, Greenwich, Hong Kong, London, Moscow, Mumbai, New York, Seoul, Shanghai, Singapore, Sydney, Tashkent, Tokyo and Zurich. Further details are available in the premium edition of the GFIA *Research Insights* newsletter.