

# The Pioneers

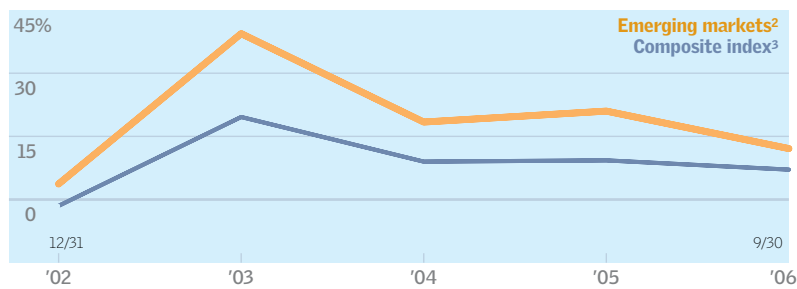
Emerging markets are on a tear—and so are funds that invest in them.

## Strategy: Emerging markets

These funds buy stocks and bonds in less-developed countries.

TOP U.S.		3-year return <sup>1</sup>
1	<b>Tradewinds Russia Partners I</b>	Tradewinds Financial <b>80.2%</b>
2	<b>Tradewinds</b>	Tradewinds Financial <b>54.2</b>
3	<b>Deltec Emerging Market Equities</b>	Deltec Asset Mgmt. <b>29.5</b>
4	<b>Kuroto</b>	Equinox Mgmt. Partners <b>27.5</b>
5	<b>Cornerstone Emerging Markets</b>	Cornerstone Partners <b>22.0</b>
6	<b>Senvest Israel Partners</b>	Rima Mgmt. <b>21.6</b>
7	<b>Asian Select Equity Investment Partnership</b>	Pacific Capital Mgmt. <b>15.2</b>
8	<b>GLS Global Opportunities</b>	GLS Capital Mgmt. <b>11.6</b>
9	<b>Gramercy Emerging Markets</b>	Gramercy Advisors <b>11.3</b>
10	<b>OCM Emerging Markets</b>	Oaktree Capital Mgmt. <b>7.2</b>
TOP NON-U.S.		
1	<b>Ukraine Value Opportunities</b>	GEM Global Equities Mgmt. <b>154.6%</b>
2	<b>Prosperity Quest Sub</b>	Prosperity Capital Mgmt. <b>71.3</b>
3	<b>Prosperity Quest Power</b>	Prosperity Capital Mgmt. <b>69.4</b>
4	<b>Russian Opportunities</b>	Equinox Finance Mgmt. <b>58.2</b>
5	<b>Kaltchuga</b>	Inrus Mgmt. <b>51.5</b>
6	<b>Firebird Republics</b>	Firebird Mgmt. <b>49.6</b>
7	<b>Quorum</b>	Quorum Asset Mgmt. <b>49.5</b>
8	<b>Prosperity Cub</b>	Prosperity Capital Mgmt. <b>48.8</b>
9	<b>Russian Prosperity</b>	Prosperity Capital Mgmt. <b>48.4</b>
10	<b>Greater Europe</b>	<b>Standard Bank</b> <b>43.5</b>

**Performance** Returns for emerging-market funds have exceeded all other strategies since 2002.



<sup>1</sup>Annualized; as of Sept. 30. <sup>2</sup>HFRI Emerging Markets (Total). <sup>3</sup>HFRI Fund Weighted Composite Index.  
Sources: Bloomberg, Hedge Fund Research

◆ “For the rest of our lives, the developing world will be capturing an ever increasing slice of the global economic pie,” says Scott Peters, co-manager of the \$82 million, Sausalito, California-based Tradewinds Fund LP.

That theme, playing out in countries from Peru to Pakistan, has fueled white-hot performance of emerging-market hedge funds. Such funds posted an average annualized return of 21 percent during the three years ended on Sept. 30, more than any other category of hedge fund, according to Hedge Fund Research Inc. During the first nine months of 2006, they returned 12.4 percent. Peters’s fund returned 54.2 percent annualized over the three years.

Zeroing in on one market can bring even greater rewards—and risks. Peters’s \$132 million Tradewinds Russia Partners I LP returned 80.2 percent annualized over three years. Peters calls that fund a wager that the political and economic landscape in Russia will continue to improve. “Our bet in Russia has been that it would go from a really chaotic situation to a less chaotic situation,” Peters says. “It’s actually done better than that.”

To hold down risk, Peters tends to invest in big companies that often have ties to the government. And he uses no borrowed money.

Other markets have proven almost as profitable as Russia. By the time Workers’ Party candidate Luiz Inácio Lula da Silva donned Brazil’s presidential sash in 2003, many foreign investors had run for cover. Greg Lesko, manager of Deltec Emerging Market Equities LP, a \$41 million New York-based fund, and his colleagues instead poured 10 percent of the fund’s assets into Brazilian bonds that were trading for as little as 40 cents on the dollar. “It was clear to me that Lula was not going to be a traditional leftist,” Lesko says.

In general, Lesko focuses on a dozen or so markets benefiting from what he sees as stable political situations, responsible economic policies and healthy competitive environments. He began unloading the Brazilian debt a year or so later at 85–100 cents on the dollar—when he was confident enough to shift more heavily into equities.

Today, 20.3 percent of Deltec is in Brazilian stocks. The fund has also built up holdings in Taiwan, at 15.2 percent of assets, and the Philippines, at 7.4 percent. Deltec was up 29.5 percent annualized over the three years.

Going against the crowds is the key to market-beating gains. Richard Mashaal opened Senvest Israel Partners LP in April 2003, during a wave of violence between Palestinians and Israelis. “Many stocks were trading below their cash holdings,” Mashaal says. “We felt this was the deal of a lifetime.”

**RICHARD TEITELBAUM**