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Opalesque Exclusive: Russia funds rebounding in current recovery following 2008 liquidity crisis

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While the MSCI Central/Eastern Europe + CIS index declined in February, the Russian market stood out strongly. According to Singapore-based consulting firm GFIA, the rebound was attributed to some slight recovery in oil and steel prices, though the market expectation is that this is a short-term bounce.

In March-09, the Russia MSCI Index was up 20.30% (it returned -0.9% in Feb and -11.6% in January), the RTS 26.64%, the IFX-CBonds (US$) 9.07% and the EMBI+ Russia Index 6.44%.

YTD (and Q1-09), the MSCI Russia Index was up 5.4% with a volatility of 46.2 (it returned -74.2% in 2008), the RTS 9.14%, the IFX-CBonds -7.36% and the EMBI+ Russia Index 9.12%.

Russia and Eastern Europe hedge funds Comparatively, the Eurekahedge Eastern Europe & Russia Hedge Fund Index returned -54.24% in 2008 (worse than the Emerging Market index at -24%), 5.68% (est.) in March-09, its first positive monthly performance since May-08, and -2.72% YTD.

The HFRX Russia/Eastern Europe Index is negative at -8.62% YTD (to Feb-09) and -35.91% in 2008 (compared to 16.3% in 2007 and 40% in 2006). The HFRX Russia Index stands at -11.69% YTD (to Feb-09), and -47.10% for 2008 (21% in 2007 and 46% in 2006).

According to HFR, Russia being the most volatile of all emerging markets regions, funds investing in Russia and Eastern Europe have realized an cumulative gain in excess of 47% over the last five years; this was achieved inclusive of losses exceeding 57% in 2008.

More than 160 hedge funds invest with a dedicated Russia/Eastern Europe focus, with an average fund size approaching $100m.

It has been reported that hedge funds were generally steering away from Russia and Eastern Europe, and waiting for more attractive cheap buys to emerge. But not all have lost hope, as the long term picture looks more attractive. Speaking to Reuters in London last month, fund manager Waj Hashimi said his Brazil, Russia, India and China (BRICs) fund was cautious about the short term, but saw little in the future to detract from what has been a major investment play. "BRICs look medium term better than developed," he said. "Longer-term, we know it is a strong theme."

Pharos: hedge fund up 8% following -37.7% last year According to a communication received by Opalesque, the Pharos Russia Fund, a hedge fund focused on securities in Russia and the former Soviet Union, returned +8.2% YTD (after a down performance of -37.7% in 2008 – although 1998 was a worst year for the fund).

Pharos Financial Group, a 12-year old fund management firm specializing in the securities markets of Russia and the former Soviet Union, is based in Moscow, Russia.

In an interview with Time magazine last month (Is the Worst of the Economic Crisis Over For Russia?), Kevin Dougherty, one of Pharos' fund managers, commented on Russia's not having any chance of recovering until demand for steel and raw commodities increases: "There will not be a recovery anywhere until demand recovers. The horrible statistics are showing no signs of stopping. All it really comes down to are commodity prices and demand. The government looks at the market price for oil and predicts that it will bottom out now and go up for the rest of the year."

The article also stated that Russia was already through the most difficult period — the run on banks at the end of 2008. This was confirmed last week, according to Reuters, by Russia central bank's First Deputy Chairman Alexei Ulyukayev, who said that the sharpest phase of the crisis was over, and the macro-economic situation was balanced.
