

# MSCI<sup>®</sup> press release

## HEDGE FUND INDICES

### MSCI Hedge Fund Indices Performance – May 2003

New York, June 23, 2003 MSCI announced today its May 2003 performance figures for the MSCI Hedge Fund Indices<sup>SM</sup>. Below is a summary of performance data for selected indices.

#### MSCI HEDGE FUND INDICES

	May-03	YTD	1 Year	2002	3 Year Ann. Ret.	3 yr Std Dev.	3 yr Sharpe
<b>MSCI Hedge Fund Composite Index - Equal Weighted<sup>SM</sup></b>	<b>3.56%</b>	<b>7.51%</b>	<b>9.31%</b>	<b>4.66%</b>	<b>8.46%</b>	<b>4.16%</b>	<b>1.26</b>
<b>MSCI Hedge Fund Composite Index - Asset Weighted<sup>SM</sup></b>	<b>3.15%</b>	<b>7.55%</b>	<b>10.83%</b>	<b>5.40%</b>	<b>7.94%</b>	<b>3.78%</b>	<b>1.25</b>
<b>Process Groups</b>							
MSCI Directional Trading Index <sup>SM</sup>	5.12%	10.46%	26.08%	13.81%	15.00%	8.99%	1.31
MSCI Relative Value Index <sup>SM</sup>	1.42%	5.35%	10.23%	8.35%	8.68%	1.89%	2.89
MSCI Security Selection Index <sup>SM</sup>	4.18%	6.95%	3.14%	-0.37%	5.26%	6.83%	0.30
MSCI Specialist Credit Index <sup>SM</sup>	2.79%	9.20%	8.66%	4.49%	10.68%	4.09%	1.82
MSCI Multi-Process Group Index <sup>SM</sup>	3.66%	8.44%	7.68%	3.12%	9.16%	4.72%	1.26
<b>Asset Class</b>							
MSCI Hedge Fund Equity Index <sup>SM</sup>	3.49%	6.09%	4.01%	0.97%	5.59%	5.49%	0.43
MSCI Hedge Fund Fixed Income Index <sup>SM</sup>	2.60%	9.23%	11.84%	8.04%	12.44%	2.64%	3.50
MSCI Hedge Fund Diversified Index <sup>SM</sup>	4.48%	9.01%	19.33%	11.36%	13.61%	6.80%	1.53
<b>Geography</b>							
MSCI Hedge Fund Developed Markets Index <sup>SM</sup>	3.64%	7.52%	9.75%	4.62%	8.47%	4.10%	1.28
MSCI Hedge Fund Emerging Markets Index <sup>SM</sup>	3.35%	8.24%	5.97%	5.87%	7.88%	7.78%	0.60
MSCI Hedge Fund Global Markets Index <sup>SM</sup>	2.93%	6.89%	7.16%	4.33%	8.80%	4.20%	1.33
MSCI Hedge Fund Europe Index <sup>SM</sup>	4.02%	8.41%	13.92%	9.83%	7.50%	6.09%	0.70
MSCI Hedge Fund North America Index <sup>SM</sup>	3.14%	6.68%	3.99%	-0.45%	6.32%	5.56%	0.56
MSCI Hedge Fund Japan Index <sup>SM</sup>	0.97%	2.33%	1.38%	6.63%	3.78%	5.58%	0.10
<b>Domicile</b>							
MSCI Offshore Hedge Fund Composite Index <sup>SM</sup>	3.33%	7.42%	10.53%	6.21%	8.31%	3.54%	1.44
MSCI Onshore Hedge Fund Composite Index <sup>SM</sup>	3.50%	7.18%	7.02%	1.58%	7.58%	5.15%	0.85

#### MSCI EQUITY AND FIXED INCOME INDICES

MSCI World Equity Index <sup>SM</sup>	5.45%	8.26%	-11.39%	-21.06%	-13.69%	17.45%	N/A
MSCI World Sovereign Debt Index <sup>SM</sup>	4.36%	8.97%	24.25%	19.59%	10.21%	7.06%	N/A

Data as of May 31, 2003. All hedge fund indices listed above are equal weighted and are expressed in US dollars unless noted otherwise.

The MSCI Hedge Fund Composite Index<sup>SM</sup>, an equal weighted index, posted a 3.56% return for the month of May, surpassing April's 1.94%. Although hedge fund returns have been positive for the past two consecutive months, hedge funds have underperformed the MSCI World Equity Index<sup>SM</sup> which has returned 8.64% in April and 5.45% in May. However, over the past year, the MSCI Hedge Fund Composite Index has gained 9.31% in contrast to the MSCI World Equity Index, which fell -11.39%. Both hedge funds and equity indices have fallen short of the MSCI Sovereign Debt Index, which has gained 24.25% over the past year. Since last month, the MSCI Hedge Fund Database has grown to over 1,500 hedge funds.

Over the past twelve months, Directional Traders have outperformed other process groups eight times for a one year return of 26.08%. In May, Directional traders gained 5.12% contributed mostly by the performance of Systematic Trading, which gained 6.87%. Systematic Trading has led all other investment processes with a 12.03% year-to-date return. As expected, Relative Value funds have continued to perform within a tight range between 0.49% and 1.57% in 2003. Arbitrage continues to be the best performer within Relative Value over the past year with a 14.98% return, driven mostly by Convertible Arbitrage and Fixed Income Arbitrage, returning 19.28% and 12.60%, respectively. Within Multi-Process, Event-Driven funds, which invest in merger arbitrage, distressed securities, and special situations returned 5.11%. Surprisingly, the two pure strategies, the MSCI Merger Arbitrage Index<sup>SM</sup> and MSCI Distressed Securities Index<sup>SM</sup>, each reported a lower return of 1.61% and 3.23%, respectively.

With the recent up turn in the equity markets, Security Selection funds, and especially Long Bias funds, could be expected to perform well. Long Bias was the best performer within Security Selection in May posting a 5.03% gain followed by Variable Bias at 4.54%, No Bias at 2.37% and Short Bias with a -2.78% decline. Although Security Selection funds performed well in May, they still underperformed the MSCI World Equity Index at 5.45%. However, over the past three years, Security Selection funds have outperformed the equity markets with less volatility as evidenced by a higher Sharpe ratio. By market cap focus, Security Selection Small Cap funds gained 6.08% outperforming Security Selection Mid and Large Cap funds at 3.72%. However, both underperformed their relevant U.S. market indices with the MSCI U.S. Prime Market 750 Index, comprised of mid to large cap stocks, up 5.70% and the MSCI U.S. Small Cap 1750 Index up 10.22%. The overall MSCI U.S. Investable Market 2500 Index gained 6.13% in May.

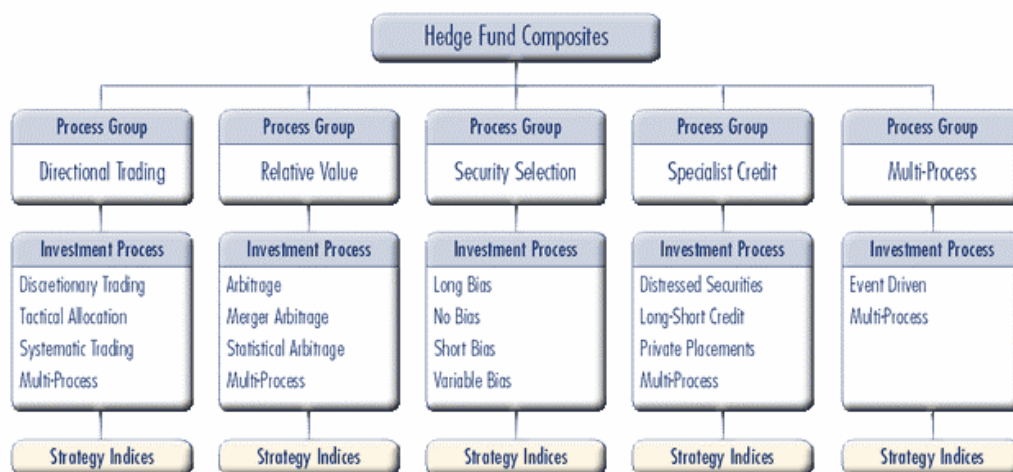
The best performing asset class index in May was the MSCI Hedge Fund Diversified Index<sup>SM</sup> which gained 4.48%. These results were consistent with the process group indices as Directional Traders, which invest mostly in diversified asset classes outperformed all other process group indices. The MSCI Hedge Fund Equity Index<sup>SM</sup> gained 3.49%, while the MSCI Hedge Fund Fixed Income Index<sup>SM</sup> gained 2.60%. These results are consistent with Security Selection funds, which invest primarily in equities, outperforming Specialist Credit funds, which invest primarily in fixed income.

By geography, funds focusing on Europe appear to be the best performing group with a 4.02% U.S. dollar gain in May, however, in Euros, the return drops to -1.30%, underperforming both hedge funds investing in North American markets at 3.14%, and funds investing in Japan at 0.97%. Moreover, the Yen return of funds investing in Japan is even higher at 1.27%. The MSCI Hedge Fund Developed Market Index<sup>SM</sup>, which returned 3.64%, slightly outperformed the MSCI Hedge Fund Emerging Market Index<sup>SM</sup> at 3.35%, but both underperformed their relevant equity indices. These hedge fund results were inconsistent with equity markets given that the MSCI Emerging Markets Free<sup>SM</sup>, which returned 6.90%, outperformed the MSCI World Equity Index, which returned 5.45%.

The MSCI Hedge Fund Indices are composed of more than 160 indices. More than 1,700 hedge funds have agreed to participate in the database and there are over 1,500 hedge funds currently in the MSCI Hedge Fund Indices and Database.

MSCI defines Directional Trading strategies as those based upon speculating on the direction of market prices of currencies, commodities, equities, and bonds in the futures and cash markets. Relative Value strategies focus on spread relationships between pricing components of financial assets or commodities. Security Selection managers combine long positions and short sales with the aim of benefiting from their ability in selecting investments while offsetting systematic market risks. Specialist Credit funds seek to lend to credit-sensitive issuers. The Multi-Process group comprises funds which practice a strategy whereby a single investment process does not account for more than 80% of their risk capital.

**MSCI Hedge Fund Indices – Index Structure**



**For further information on MSCI indices or MSCI data, visit our web site at [www.msci.com](http://www.msci.com) or contact:**

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