

# MSCI<sup>®</sup> press release

## HEDGE FUND INDICES

### MSCI Hedge Fund Indices Performance – September 2003

New York, October 22, 2003 MSCI announced today its September 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

	Sep-03	YTD	1 Year	2002	3 Year Ann. Ret.	3 yr Std Dev.	3 yr Sharpe
<b>MSCI Hedge Fund Composite Index<sup>SM</sup> - Equal Weighted</b>	1.64%	11.22%	14.12%	4.80%	8.32%	3.69%	1.64
<b>MSCI Hedge Fund Composite Index<sup>SM</sup> - Asset Weighted</b>	1.39%	10.27%	13.14%	5.62%	7.96%	3.38%	1.68
<b>Process Groups</b>							
MSCI Directional Trading Index <sup>SM</sup>	1.25%	8.21%	10.12%	13.44%	13.79%	8.87%	1.30
MSCI Relative Value Index <sup>SM</sup>	1.65%	6.35%	8.95%	8.40%	7.61%	1.94%	2.75
MSCI Security Selection Index <sup>SM</sup>	1.76%	13.96%	17.01%	-0.22%	5.78%	6.14%	0.57
MSCI Specialist Credit Index <sup>SM</sup>	1.74%	16.51%	20.44%	5.26%	11.43%	4.30%	2.13
MSCI Multi-Process Group Index <sup>SM</sup>	1.81%	14.90%	18.99%	2.95%	9.62%	4.55%	1.62
<b>Asset Class</b>							
MSCI Hedge Fund Equity Index <sup>SM</sup>	1.68%	11.60%	14.35%	1.11%	5.64%	4.88%	0.69
MSCI Hedge Fund Fixed Income Index <sup>SM</sup>	1.73%	12.76%	15.25%	7.78%	11.55%	2.51%	3.70
MSCI Hedge Fund Diversified Index <sup>SM</sup>	1.35%	9.75%	11.69%	11.14%	13.22%	6.49%	1.69
<b>Geography</b>							
MSCI Hedge Fund Developed Markets Index <sup>SM</sup>	1.59%	10.49%	13.44%	4.79%	8.10%	3.65%	1.60
MSCI Hedge Fund Emerging Markets Index <sup>SM</sup>	1.34%	17.41%	20.37%	5.88%	9.41%	7.25%	0.98
MSCI Hedge Fund Global Markets Index <sup>SM</sup>	2.36%	15.14%	17.55%	4.31%	10.09%	4.19%	1.87
MSCI Hedge Fund Europe Index <sup>SM</sup>	3.52%	10.77%	14.64%	9.46%	7.97%	6.12%	0.93
MSCI Hedge Fund North America Index <sup>SM</sup>	0.92%	11.13%	14.50%	0.08%	5.78%	4.79%	0.73
MSCI Hedge Fund Japan Index <sup>SM</sup>	4.40%	15.65%	14.79%	9.58%	9.75%	5.26%	1.42
<b>Domicile</b>							
MSCI Offshore Hedge Fund Composite Index <sup>SM</sup>	2.15%	10.70%	13.67%	6.61%	8.71%	3.32%	1.94
MSCI Onshore Hedge Fund Composite Index <sup>SM</sup>	0.72%	10.74%	13.61%	1.60%	6.67%	4.38%	1.01

#### MSCI EQUITY AND FIXED INCOME INDICES

<b>MSCI World Equity Index<sup>SM</sup></b>	<b>0.48%</b>	<b>14.82%</b>	<b>23.23%</b>	<b>-21.06%</b>	<b>-11.34%</b>	<b>17.12%</b>	<b>N/A</b>
<b>MSCI World Sovereign Debt Index<sup>SM</sup></b>	<b>5.71%</b>	<b>9.34%</b>	<b>14.50%</b>	<b>19.59%</b>	<b>10.43%</b>	<b>7.83%</b>	<b>N/A</b>

Data as of September 30, 2003. All hedge fund indices listed above are equal weighted and are expressed in US dollars unless noted otherwise.

The equal weighted MSCI Hedge Fund Composite Index<sup>SM</sup> posted a 1.64% return for the month of September outperforming the MSCI World Equity Index<sup>SM</sup> which gained 0.48% and underperforming the MSCI World Sovereign Debt Index<sup>SM</sup> which gained 5.71%. The MSCI Hedge Fund Database has grown to over 1,600 hedge funds. More than 99% of the funds in the database reported performance as of September's index calculation. The MSCI Hedge Fund Indices are composed of more than 190 indices representing more than \$160 billion in assets.

Overall, Security Selection hedge funds performed well with a 1.76% gain in September in spite of a declining U.S. equity market, bringing its year to date return to 13.96%. Variable Bias was the best performing investment process within Security Selection posting a 2.48% gain followed by No Bias which gained 1.92%. In September, Short Bias gained 1.83% bringing its year to date return to -10.25%. By market cap focus, Security Selection Small Cap funds gained 1.52% underperforming Security Selection Mid and Large Cap funds which returned 2.27%. This small cap underperformance is consistent with the performance of the relevant U.S. equity market indices. The MSCI U.S. Small Cap 1750 Index fell -1.61% in September while the MSCI U.S. Prime Market 750 Index, comprised of mid-to-large cap stocks, fell -1.05%. The overall MSCI U.S. Investable Market 2500 Index dropped -1.11% and the MSCI Hedge Fund Equity Index<sup>SM</sup> gained 1.68% in September. At first glance, Security Selection funds focusing on Europe performed extremely well with a 3.68% gain outperforming Security Selection funds focusing on North America which gained only 0.74%. However, on a Euro basis, Security Selection funds focusing on Europe fell -2.25%.

Directional Trading gained 1.25% in September compared with August's -0.04% loss. On an asset weighted basis, Directional Trading funds fell -0.59%. This is consistent with Directional Trading Small Funds which gained 2.21% outperforming Directional Trading Core funds which lost -0.34%. Discretionary Trading had the greatest impact with a 2.63% return in September. On a year to date basis, Directional Trading is up 8.21% while Discretionary Trading has gained 10.93%. Directional Trading funds comprise more than 50% of the MSCI Hedge Fund Diversified Index<sup>SM</sup>, an asset class index, largely contributing to its 1.35% September performance. Directional Trading funds have the highest three year standard deviation at 8.87%, mostly driven by Systematic Trading funds with a 13.43% three year standard deviation. Surprisingly, Discretionary Trading funds only have a three year standard deviation of 3.67%.

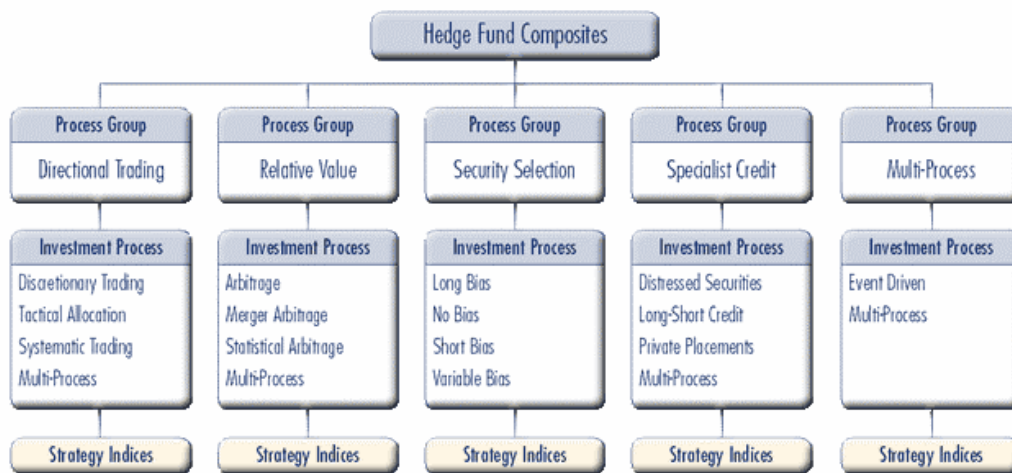
Relative Value funds have continued to perform consistently with a low three year standard deviation of 1.94%, lower than any other process group. The MSCI Relative Value Index<sup>SM</sup> gained 1.65% in September bringing its year to date return to 6.35%. Arbitrage had the greatest impact with a 1.82% return, mostly contributed by Convertible Arbitrage which gained 2.16%.

This month, Specialist Credit returned 1.74%, bringing its year to date performance to 16.51%. Consistent with the MSCI Specialist Credit Index<sup>SM</sup>, which are funds that invest primarily in fixed income, the MSCI Hedge Fund Fixed Income Index<sup>SM</sup> returned 1.73% in September bringing its year to date return to 12.76%. On a year to date basis, both indices are leading their respective process group and asset class indices. In comparison, the MSCI Sovereign Debt Index returned 5.71% and the MSCI Global High Yield Corporate Index gained 2.55% in September.

By geography, funds focusing on Europe gained 3.52% in September on a U.S. Dollar basis, but in Euros, the return was -2.40%. Hedge funds focused on North American markets gained 0.92%. Japanese focused hedge funds performed well on a U.S. Dollar basis gaining 4.40%, but on a Yen basis, the return was -0.04%. The MSCI Hedge Fund Emerging Market Index<sup>SM</sup> gained 1.34% underperforming the MSCI Hedge Fund Developed Market Index<sup>SM</sup>, which gained 1.59%.

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:**

**Dorsey Horowitz, MSCI, New York**  
**Stephen Dunning, MSCI, London**  
**Jammy Chan, MSCI, Hong Kong**  
**Taiki Kimura, MSCI, Tokyo**

**+ 1 212 762 5790**  
**+ 44 20 7425 6660**  
**+ 852 2848 6740**  
**+ 813 5424 5470**

**Daniel Guthrie/Emma Leeds, Luther Pendragon, London**  
**Ed Rowley/Steve Bruce, Abernathy MacGregor, New York**

**+ 44 20 7618 9100**  
**+ 1 212 371 5999**

This information is the property of Morgan Stanley Capital International Inc. (MSCI). It is provided for informational purposes only, and is not a recommendation to participate in any particular trading strategy. The information may not be used to verify or correct data, or any compilation of data or index or in the creation of any indices. Nor may it be used in the creating, writing, offering, trading, marketing or promotion of any financial instruments or products. This information is provided on an “as is” basis. Although MSCI shall obtain information from sources which MSCI considers reliable, neither MSCI, its affiliates nor any other party involved in the making or compiling of the information guarantees the accuracy and/or the completeness of any of this information. Neither MSCI, its affiliates nor any other party involved in the making or compiling of the information makes any representation or warranty, express or implied, as to the results to be obtained by any person or entity from any use of this information, and the user of this information assumes the entire risk of any use made of this information. Neither MSCI, its affiliates nor any other party involved in the making or compiling of the information makes any express or implied warranties, and MSCI, its affiliates and any other party involved in the making or compiling of the information hereby expressly disclaim all warranties of merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall MSCI, its affiliates or any other party involved in the making or compiling of the information have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

Morgan Stanley Capital International, MSCI and all other service marks referred to herein are the exclusive property of MSCI and its affiliates. All MSCI indices are the exclusive property of MSCI and may not be used in any way without the express written permission of MSCI.

MSCI is a leading provider of global indices and benchmark related products and services to investors worldwide. Morgan Stanley, a global financial services firm and a market leader in securities, asset management, and credit services, is the majority shareholder of MSCI, and The Capital Group Companies, Inc., a global investment management group, is the minority shareholder.

**MSCI Client Service can be reached on:**

London	<b>+44 20 7425 6660</b>	New York	<b>+1 212 762 5790</b>	Tokyo	<b>+813 5424 5470</b>
Frankfurt	<b>+49 69 2166 5325</b>	San Francisco	<b>+1 415 576 2323</b>	Hong Kong	<b>+852 2848 6740</b>

And at a further thirteen locations around the world.