

## The Case for Emerging Markets Macro

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## **Introduction**

Recently, the Global Macro style of investing has returned to favor after a long period in which investors have focused on niche or specialized products. The allure of Global Macro has always been its simple premise: To find imbalances in the pricing of securities on a global basis and make investments to exploit these imbalances. The macro manager has typically had free reign to vary investment style based on current and projected market conditions in order to seek out these opportunities. In this paper, we make the case that an Emerging Markets focused Global Macro strategy offers significant opportunity, and perhaps even more so than its global cousin. However, unlike traditional macro investing, Emerging Markets investment requires additional specialized skills and knowledge to capture these opportunities. We argue that these skills and knowledge form the basis of Gramercy's competitive advantage in pursuing the opportunity available in Emerging Markets Macro.

The paper is organized as follows: Section 1 describes the writ for traditional Global Macro investing. Section 2 chronicles the evolution of the Global Macro space. Section 3 highlights the opportunity for Emerging Markets focused Global Macro. Section 4 discusses some of the pitfalls that require a specialist in Emerging Markets to capture the opportunities in the space. Section 5 details the advantages that Gramercy brings to bear in Emerging Markets Macro investing. Finally, Section 6 has the summary and conclusions. Charts and tables are provided in the Appendix starting on page 10.

## **Section 1: The Writ for Traditional Global Macro**

HFR describes the Global Macro strategy as one where:

“Investment Managers ...trade a broad range of strategies in which the investment process is predicated on movements in underlying economic variables and the impact these have on equity, fixed income, hard currency and commodity markets. Managers employ a variety of techniques, both discretionary and systematic analysis, combinations of top down and bottom up theses, quantitative and fundamental approaches and long and short term holding periods. Although some strategies employ RV<sup>1</sup> techniques, Macro strategies are distinct from RV strategies in that the primary investment thesis is predicated on predicted or future movements in the underlying instruments, rather than realization of a valuation discrepancy between securities. In a similar way, while both Macro and equity hedge managers may hold equity securities, the overriding investment thesis is predicated on the impact movements in underlying macroeconomic variables may have on security prices, as opposed to EH (Equity Hedge), in which the fundamental characteristics of the company are the most significant and integral to investment thesis.”

We at Gramercy identify equity, credit, currency, interest rate, commodity, and real estate as the broad asset classes among which a traditional macro operator invests. These can be further targeted through the use of exchange traded or customized derivative instruments on these assets to focus on the specific market moves or economic changes that the investor anticipates. Among these asset classes, the Gramercy Emerging Markets Macro Fund will focus on equity, credit, currency, and interest rate investments. Macro investing is asset class and instrument agnostic; the strategy seeks to use the best instrument available to profit from the imbalances that have been identified in any particular asset class.

Typically, the Global Macro investor runs a concentrated book, identifying a few themes at any given time that merit investment consideration. When the manager is unable to identify compelling opportunity, he is content to remain in cash until such opportunities are unearthed. Much of the

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Global Macro research is fundamental in nature, though there are a number of successful macro investors using a quantitative framework that have enviable 20+ year track records of generating significant alpha with low correlation to traditional investments.

Within the fundamental framework, typically the macro investor is primarily a “top-down” investor. They analyze current market conditions, which can include economic, political, and investment criteria. Based on their reading of current conditions and expected future developments, they identify which assets will benefit or be harmed by their expectations, and positions are taken accordingly. A macro investor anticipating an increase in global savings rates might position his portfolio in investment managers, savings banks, and perhaps in global bonds that would benefit from an increase in demand.

In contrast, a few macro investors might overlay a “bottom-up” approach, in which they analyze in detail the specific fundamentals of individual companies or securities that they expect to profit from their “top-down” macro view and use their insights to position the portfolio accordingly.

These investment styles are not mutually exclusive, and are better described as a continuum rather than a binary choice that the manager makes on investment style. In summary, the Global Macro investor has the widest leeway in seeking out investment opportunity, and also the most flexibility in determining which assets to use in order to profit from insights into economic and market imbalances. They generally run a concentrated, theme oriented book that evolves along with the markets that they invest in.

## **Section 2: Evolution of the Macro Space**

### **A New Discipline – circa 1960s**

The 1<sup>st</sup> hedge fund was formed in 1949, when A.W. Jones began managing money on a “hedged” basis including both long and short equity positions. The closed nature of global markets and the high transactions costs kept innovation to a minimum during the early days of absolute return investing. However, in the 1960s, the environment began to change, opening the window for a different type of investment strategy: Global Macro. During the early days, Global Macro investing tended focus on equity and commodity investments on a directional basis, primarily in the United States and to a lesser extent Western Europe. Most currencies were still bound to the gold standard via their link to the USD under the Bretton Woods framework established in early 1944. In addition to fixed currencies, many countries used capital controls to further restrict the free flow of investment. During this period, investment legends such as Michael Steinhardt and George Soros (along with partner Jim Rogers) operated nimble funds, primarily using a “top down” manner of analysis, in pursuit of the highest returns possible. Leverage and concentrated portfolios were critical to their success. To a large extent, the artificial barriers imposed on investment and capital flows by governments created the very imbalances on which these early pioneers sought to profit.

### **The Golden Age (Part I) – 1969 to 1979**

In 1971, faced with chronic trade and budget deficits, the United States suspended the redemption of specie for gold bullion and allowed a small devaluation in the dollar. In 1972 several currencies gradually began to abandon their peg to the semi-floating US dollar, and in 1973 the Bretton Woods system collapsed altogether. By 1976, all major currencies were fully free floating without any value anchor. This sea-change in economic policy ushered in the next wave of development in Global Macro investing. Almost overnight, a new asset class became accessible. Fully floating foreign exchange prices provided a bonanza for macro players, as central banks inexperienced in dealing with

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this new variable struggled to maintain an appropriate monetary policy. Long shielded from market forces, the currency markets were unleashed with a vengeance. Between December 1969 and December 1979, the US Dollar lost 30 % of its value when measured against a basket of foreign currencies. The resulting inflationary pressures sent commodity prices soaring, with the CRB index nearly tripling during the same timeframe. For the leveraged Global Macro investor, it was a gift from heaven. Several macro managers posted eye popping returns, including Soros who compounded at 36.6% (net of fees) from 1972-1979.

### **Growth Spurt – 1980 to 1993**

Lured by the tale of high returns and rich rewards, the Global Macro field saw tremendous growth in both the assets managed and the number of managers plying the trade. The period from 1980 to 1995 witnessed the arrival of several macro giants including Julian Robertson (Tiger), Mark Kingdon (Kingdon), Paul Tudor Jones (Tudor), and Bruce Kovner (Caxton). Most of these managers sought to build larger businesses than the early Soros/Steinhardt models, with multiple managers deploying portions of the fund's capital in various sub-strategies within Global Macro. Contrary to the early macro model, diversification played a larger role, while at the same time cultivating specialization among the portfolio managers within the firm. The first widespread use of bespoke derivatives arrived during this period. Concurrent with the “institutionalization” of hedge fund managers was the arrival in mass of the first wave in institutional money. Endowments and family offices, powered by portfolio gains during this period, had more capital to allocate to absolute return strategies, and also became more interested in diversifying their assets. This period was also marked by several market events that would cement the reputation of macro investing, including Soros’ spectacular gains during the ERM crisis of 1992.

### **Crisis of Confidence - 1994**

Perhaps lulled into complacency by their recent successes, many macro managers were caught off guard during the interest rate and mortgage crises of 1994. Several managers suffered stunning losses on European bond convergence positions, including Tiger alumni David Gerstenhaber, down more than 25% by August of that year. Kingdon and Tiger both suffered only their 2<sup>nd</sup> losing year in 1994, while Soros Quantum Fund had its worst year since 1984. In early 1995, Steinhardt announced his retirement from the hedge fund industry. There was a quick move to write the obituary for Global Macro investing.

### **End of an Era – 1995 to 1999**

The post 1994 crisis period was a fruitful one for Global Macro. Returns rebounded for the strategy, and money continued to pour into the industry. More competition began to arise, as younger managers left the established funds to build their own business. However, during this period, macro began to lose market share to specialty funds that focused on equity long-short, convertible arbitrage, and other monoline strategies. The G-7 equity bull market led by US high technology companies made it difficult for macro to outperform what would later turn out to be bubble driven returns. In the 5 years ending December 1999, the NASDAQ composite index compounded at 40% per year, a rate that no macro manager was able to match. During the later part of the bubble move, there was a divergent response by macro funds. Julian Robertson threw up his hands in frustration, saying he didn't understand the market, which only fueled the pressure from clients to redeem. At the opposite end of the spectrum, Soros' Quantum fund, then led by Stanley Druckenmiller, loaded up on high tech issues just in time to watch the bubble burst. Within a few months of each other, Tiger would shut down while Soros would convert his fund to an endowment model that sought to temper volatility and seek much lower returns. Conviction grew that Global Macro investing was no longer a viable strategy. Investors believed that specialists in various niche strategies could be assembled into a

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hedge fund portfolio that generated attractive returns without the volatility that came with Global Macro investing.

### **Seeking Relevance – 2000 to 2007**

Macro investors were quick to rebound from their early 2000 losses. This coincided with the stunning growth in the hedge fund industry in the wake of the 2000-2003 bear market. However, much of this growth came from pension funds which were less comfortable with the Global Macro strategy. Instead, they sought out equity long-short, fixed income and convertible arbitrage, and other lower volatility strategies that represented themselves as market neutral. While Macro did increase AUM, the strategy continued to lose market share in the hedge fund industry. Multi-strategy funds such as Amaranth, Citadel and GLG grew to sizes barely imaginable only a few years earlier. The unusually long global equity bull market of 2003-2007, led by Emerging Markets and commodities, removed from memory the painful experiences of 1994 and 2000, and Macro investors struggled to explain their relevance during the “Great Moderation” which was characterized by lower volatility in economic growth rates and inflation. Macro was often the “box that didn’t get checked.”

### **Resurgence – 2008**

The underpinning for the “Great Moderation” ended up being two self-reinforcing developments: the strength of the American consumer and the relentless buildup in debt. In 2007, the cycle began to turn as the consumer began to groan under debt levels never before seen in U.S. history. A vicious cycle set in, with consumer defaults on mortgage and other debt leading to large impairments in bank balance sheets and reduced industrial demand globally. The U.S. equity market peaked in October 2007, and by early 2008, Bear Stearns, on the verge of bankruptcy, had to be rescued by JPMorgan with a backstop from the Federal Reserve Bank. By late 2008, the crisis had become a global one, with governments rushing to provide emergency funding and equity infusions to banks and industrial companies while central banks raced to lower interest rates and flood the system with liquidity. The various hedge funds strategies that investors had relied upon to provide low volatility and uncorrelated returns delivered the exact opposite result. Correlations soared towards 1.0, and capital accounts were eviscerated.

In 2008, the hedge fund industry had its worst year on record, with only three hedge fund strategies delivering positive returns: Short Selling, Global Macro and Commodity Trading Advisors, many of which pursue a specialized, quantitative version of Global Macro.

### **The Golden Age (Part II) – 2009 and beyond**

In the wake of 2008, which can only be characterized as catastrophic for the hedge fund industry, investors are beginning to reassess their assumptions for absolute return strategies. Macro investors have, for the most part, demonstrated an ability to prosper at exactly the moments when diversification is needed most. As such, pension funds, endowments, and family offices are slowing beginning to allocate increasing fractions of their portfolio to Global Macro investors. The scars of the 2007-2009 bear market will take time to heal, but a new generation of investors has learned that low volatility delivered through the combination of leverage and illiquid assets is not the path to delivering long-term absolute returns. The simplicity of the Global Macro method is witnessing a new appreciation with investors. As such, the stage has been set for renewed growth and development of the Global Macro industry.

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### Section 3: The Opportunity - Emerging Markets Focused Global Macro

There is widespread acceptance that the recent 25 year process of global growth driven by the U.S. consumer has come to an end. Macro-economic imbalances are the largest they have been in generations, and will take time to unwind. The last debt super cycle, which peaked in 1933-1934, took 20 years of restructuring, repayment, and repudiation of debts to bring balance back into the U.S. economy. During that time, the peak of credit debt to GDP was 260%. At the end of Q1 2009, the ratio was 375%, up from the 350% level (Chart 1) in Q1 2008. This leaves the environment ripe for Macro investors to profit as these imbalances are unwound.

The imbalance in debt is occurring at the same time that a demographic imbalance has built up in G7<sup>2</sup> economies. Japan is at the leading edge of this de-population wave, with the number of Japanese dropping each year since 2005. Other countries with poor demographics include Italy, Austria, Germany, and to a lesser extent, the United States and China.

These population and economic imbalances have arisen in concert with the opposite developments in many Emerging Markets. With the notable exceptions of Russia and China, demographic trends support a generation of growth in the working age population and consumption (Table 1). Even China's demographic problems do not materially arrive until the later half of this century. Additionally, a combination of debt crises and restructurings through most of the Emerging Markets (Latin America in the 1980s, Asia and E. Europe/Russia in the 1990s) consumer, corporate, and government balance sheets are healthy and able to support the transition to a global economy less reliant on the U.S. consumer for growth (Table 1 and Chart 2). The United States still has the largest GDP and capital markets, and this will likely not change during our lifetimes. However, its "market share" is dropping in favor of Emerging Markets, leading to opportunity for nimble macro investors.

In addition, emerging equity markets typically are capitalized at a smaller proportion to GDP than in G7 and many have lower tax burdens (Tables 2 & 3).

As shown, many demographic and debt figures are favorable for Emerging Markets countries going forward, while Emerging Markets equities remain relatively under-developed. Generally lower tax rates are facilitating the accumulation of capital for investment. In addition, the opportunity in Emerging Markets assets is amplified because market participants are less certain in pricing assets within these countries. In all major asset classes, volatility and yearly ranges are higher within emerging countries when compared to G7. This creates opportunity for nimble EM focused macro managers to profit from the imbalances that they successfully identify.

For example, the average range between high and low values in a group of EM equity markets is nearly 50% higher than in G3<sup>3</sup> counterparts (Table 4 & Chart 3). Similarly, EM currencies are priced with less certainty than G3 counterparts, showing a 38% wider average annual trading range (Table 5 & Chart 4). Finally, credit instruments in Emerging Markets also demonstrate less efficiency than U.S. high yield bonds, with a 36% increase in annual ranges (Table 6 & Chart 4).

In summary, from an opportunity standpoint, an Emerging Markets focused macro strategy offers higher potential rewards compared to a traditional Global Macro book. In addition, demographic and economic conditions also favor investments in Emerging Markets.

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## Section 4: Some Pitfalls in Emerging Markets

Notwithstanding the opportunities that are available in Emerging Markets, there are many pitfalls that await the inexperienced investor. Political, regulatory, volatility and liquidity characteristics are very different in the emerging space, and Global Macro players unaccustomed to these differences will be ill-prepared to manage their portfolio during the periodic crises that roll through the capital markets.

### **Political**

While tremendous strides have been made in the past 15 years, emerging nations are still relatively politically unstable. Periodic coups, parliamentary crises and political manipulation by regional powers leave many emerging nations a risky place to do business. A number of nations suffer from artificial international borders that are a relic of the Colonial Era, and the next generation will likely be spent altering these artificial borders to better reflect national identity. Historical conflicts in Sudan, Congo, Turkey/Iraq, and Indonesia are just some examples of artificial boundaries colliding with nationalist aspirations. In addition, the use of nationalist rhetoric to obscure economic mismanagement can be seen in the Andean conflicts involving Ecuador, Venezuela and Colombia. These are just some of the political pitfalls that await an experienced macro manager unfamiliar with the vagaries in Emerging Markets.

### **Regulatory**

Closely linked to the political uncertainty is the regulatory environment. In many emerging nations, political power is used to accumulate economic wealth through either overt corruption or implicit favoritism for certain businesses associated with government officials and their circle of advisors, friends and relatives. This can be reflected in the periodic “Corruption Index” calculations released by Transparency International (<http://www.transparency.org/>), showing that most emerging nations still suffer from higher and, in some cases, endemic levels of corruption. For example, the manager is aware of one case in which a foreign investor began to buy shares listed on an Asian bourse. The shares were tightly held, and it quickly became apparent to the broker that there was insufficient supply to fill the investor’s appetite. Unknown to the investor, the family owners of the company simply had more shares surreptitiously printed and issued, and this “freshly minted” supply was used to fill the order at the same time that the buyer was unknowingly being diluted.

However, perceptions often lag reality, and in many cases emerging nations have made great strides in improving the business environment. Experienced Emerging Markets investors are constantly watching for shifts in the business environment as a catalyst for changing valuations. In fact, very often this is the only change that will lead to a revaluation in securities prices. In nations that fail to make regulatory progress, “cheap” assets will remain “cheap” as the periodic expropriation of property makes value an ephemeral concept.

### **Volatility**

As described above, Emerging Markets assets have been more volatile than G7 investments. They are also subject to more gap risk associated with sudden political and regulatory changes. Macro investors without sufficient experience in Emerging Markets can be prone to errors in position management and trade sizing, creating a blind spot in their risk management schemes. Recent market events of 2007-2008 demonstrate that having the right position but in the wrong size can doom an investment strategy. Staying power has been vastly underappreciated among investment managers; however experienced Emerging Markets investors are much more attuned to the risk of events that lead to permanent impairment of the investment book.

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## **Liquidity**

Another aspect of investment management that can be misjudged by traditional macro investors is liquidity. Accustomed to transacting in G7 assets, liquidity can be very misleading in Emerging Markets. Putting money into an investment is often much easier than getting it out, and the asymmetry in EM is much more pronounced than in G7. Many Global Macro and commodity investors in African mines or Central Asian property and bank bonds have recently discovered this to their chagrin. These types of details that are somewhat ancillary to the G7 investment process can become the central issue in Emerging Markets.

These are just some of the many areas in which an experience Emerging Markets investor has a competitive advantage over their Global Macro competitors when evaluating opportunity within the EM space.

## **Section 5: Emerging Markets Macro – The Gramercy Advantage**

We at Gramercy are advantageously positioned to capitalize on the opportunities to be found in Emerging Markets Macro:

### **a) Unique Approach to Emerging Markets**

In the Gramercy Emerging Markets Macro Fund, we are unique in our blending of discretionary and quantitative measures into our investment processes across all Emerging Markets asset classes on a global basis. This combination of data and experience are in stark contrast to other funds that are focused on the discretionary aspect of investment management, and often only on an asset class or regional basis. Our extensive use of both public and proprietary data (“facts before feelings”) allows us to remove our biases from the process, and in turn take advantage of flawed decisions that others make. It also allows us to seek out opportunities across the entire Emerging Markets spectrum. Gramercy’s global presence, with offices in Greenwich, Singapore, London (ca. 2010), Mexico City, Sofia, and San Juan, improves our ability to capitalize on rapidly changing market conditions.

### **b) No Direct Competitors**

Global Macro funds are estimated have about 10% of AUM within the hedge fund industry. Of these funds virtually none have a dedicated focus to the opportunity in Emerging Markets. Thus, one advantage we have is that there is very little competition within our space. Most Emerging Markets hedge funds pursue asset class or geographic focused strategies. There are very few funds pursuing an EM centric Global Macro approach. Those few in operation displayed poor returns during the 2007-2008 crises, often posting losses of -25% or more, and in several high profile cases, much, much worse. In contrast, the portfolio manager for the Gramercy Emerging Markets Macro Fund delivered a return of +7% during 2008<sup>4</sup>, fulfilling the promise of protecting capital during difficult environments.

As described later in the paper, Gramercy believes that macro style investing is in the early stage of resurgence. Based on this outlook, macro funds are under represented relative to the investment opportunities going forward. The vast majority of macro funds are focused on developed market opportunities. In our experience, less crowded strategies tend to perform better over time, and Emerging Markets focused macro currently has very little competition.

### **c) Experience**

The portfolio manager and the principals of Gramercy have spent the bulk of their careers (averaging 20+ years) focused on seeking opportunity within the Emerging Markets space. Emerging markets is

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not an opportunistic asset class for us, but the lifeblood of our firm. Having this experience and focus is crucial in identifying the pitfalls that a less experienced crossover investor from Global Macro might stumble upon.

Our experience spans across all asset classes within Emerging Markets, from simple foreign exchange trades to developing green field real estate projects and investments in private equity. While many of these activities are beyond the scope of the Gramercy Emerging Markets Macro Fund, the political and regulatory insights gained from actually doing business in a country are invaluable when evaluating the “macro-political” framework.

#### **d) Specialized Skills**

Emerging markets investments require specialized skills that many traditional macro investors have not developed. In contrast to developed markets, political and regulatory risk are often more important than economic conditions when evaluating investment opportunities. This comes naturally to an Emerging Markets investor, while G7 players are often blindsided by what we term “macro-political” events that send their investment plans awry. As previously demonstrated, Emerging Markets assets display much higher levels of volatility than G7 assets, and the portfolio manager for the Gramercy Emerging Markets Macro Fund has particular experience in using data and models to quantify position sizing under this volatility regime. The experience that the portfolio manager and principals of Gramercy gained while investing successfully during every major Emerging Markets crisis over the past 2 decades works to our advantage as we build investment portfolios going forward.

#### **e) Efficient Harvesting of Opportunity**

While traditional macro funds have proved reasonably adept at capturing returns in their space, Gramercy has been more efficient in capturing Emerging Markets opportunities (Table 7). In addition, as previously shown in Section 3, the opportunities in Emerging Markets are more plentiful (Tables 4-6 & Charts 3-5). Here we can observe two salient facts. First, the average range from low to high among the 3 major asset classes (equity, foreign exchange, credit) is above 52% in Emerging Markets, or nearly 1/5 greater than the average ranges seen in G3. Second, the Gramercy Emerging Markets Macro Fund has been able to capture more than 36% of the annual range in Emerging Markets assets<sup>5</sup>, compared to the 26% captured by macro funds in G7. This combination of greater opportunity combined with Gramercy’s higher efficiency demonstrates the value proposition of Gramercy’s Emerging Markets focused macro product.

### **Section 6: Summary & Conclusions**

In this paper, we have described the traditional strategy of Global Macro investing. We then discuss how this style of portfolio management can be even more lucrative when applied to the Emerging Markets space. Liberalization in trade and capital flows, advances in Emerging Markets economic and political management and a relative improvement in demographic and balance sheet positions all have led to a staggering increase in the opportunity available within Emerging Markets assets. At the same time, we show that the market continues to have difficulty pricing these opportunities as witnessed by the higher volatility of Emerging Markets assets.

We demonstrate that the Gramercy framework combining discretion with data has historically proven extremely efficient at harvesting the opportunities within the Emerging Markets space, especially when compared to trading Global Macro funds. We describe some of the pitfalls that are

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commonplace in Emerging Markets but rare elsewhere, and how Gramercy is well placed to help investors navigate the opportunities and challenges presented by these investments.

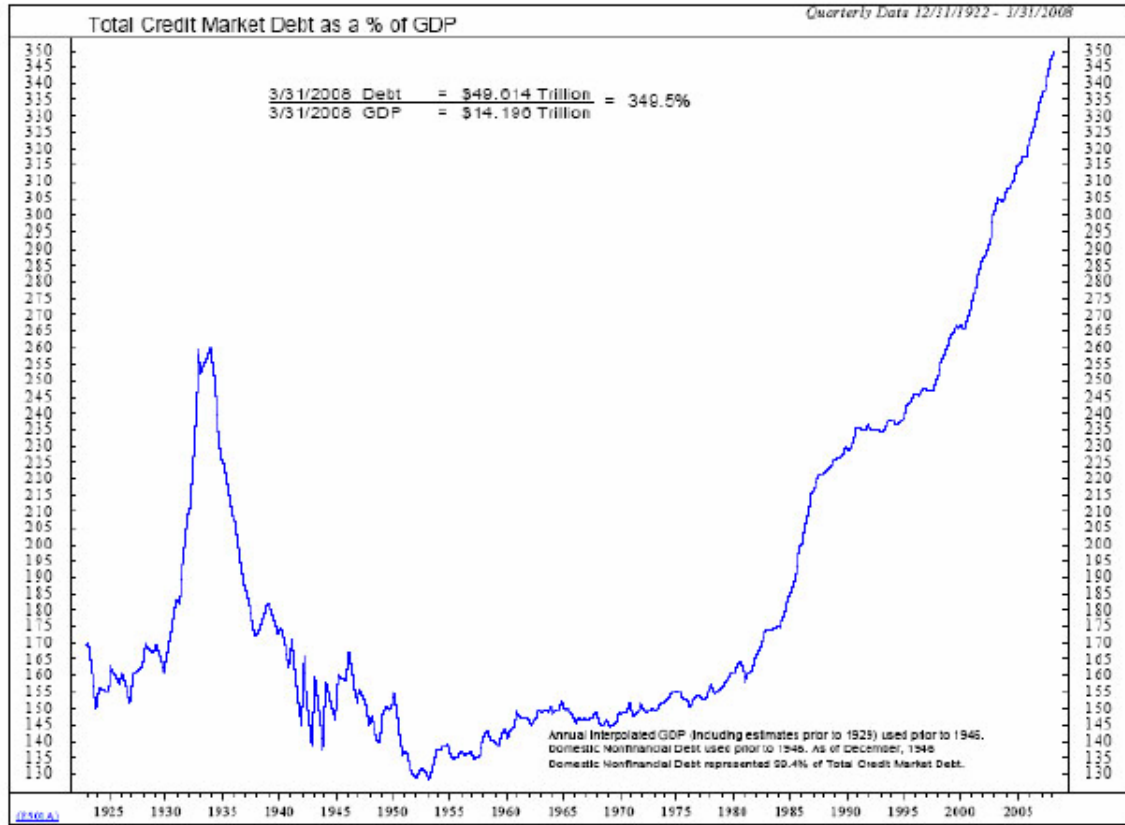
For historical reference, we also provide some background on the birth and development of the Global Macro style of investment management. Luminary pioneers George Soros, Paul Tudor Jones and Bruce Kovner developed and perfected a strategy to capitalize on the various mispriced assets they identified on a global basis. A confluence of events has led to an environment in which the next phase of development in macro strategy is beginning to move forward.

Given the current favorable outlook for both the macro investing style and Emerging Markets, Gramercy is unusually well positioned to profit from the intersection of these opportunities within our space.

## Appendix

**Chart 1**

**Total Credit Market Debt as a Percent of GDP**



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Source: Ned Davis Research.

**Table 1**

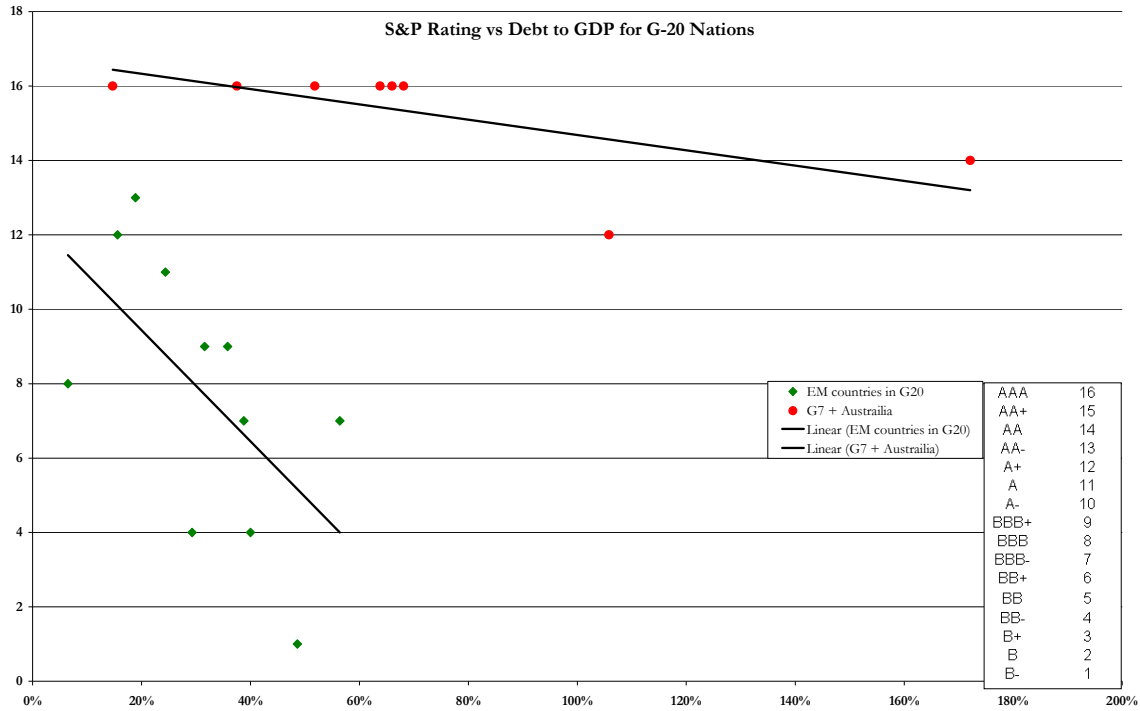
**Selected Debt and Demographic Statistics:**

Country	Public Debt / GDP (’08 estimate)	Rank	Fertility Rate (’09 estimate)	Rank
Japan	170.40%	2	1.21	218
Italy	103.70%	6	1.31	206
France	67.00%	17	1.98	132
Germany	62.60%	20	1.41	195
United States	60.80%	22	2.05	125
Malaysia	42.70%	46	2.95	74
Brazil	40.70%	50	2.21	116
Turkey	37.10%	58	2.21	117
Indonesia	30.10%	73	2.31	109
Peru	24.10%	83	2.37	106
China	15.70%	101	1.79	158

Source: CIA World Factbook.

**Chart 2**

**S&P Ratings vs. Debt to GDP for Nations in the G20<sup>6</sup>**



Source: CIA World Factbook, Bloomberg.

**Table 2**

**Equity Market Capitalization as a % of GDP**

Country	Ratio
Russia	21%
Poland	22%
Indonesia	22%
Brazil	45%
India	54%
China	55%
S. Africa	86%
Taiwan	112%
Japan	75%
U.S.	77%
U.K.	72%

Source: Bloomberg, (as of December 2008).

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**Table 3**

**Top Marginal Tax Rate on Personal Income. National Rate, excluding Local Taxes**

Germany	45.0%
Italy	43.0%
Japan	50.0%
Sweden	57.0%
U.S.	35.0%
Brazil	27.5%
China	45.0%
India	30.0%
Indonesia	30.0%
Mexico	28.0%
Poland	32.0%
Russia	13.0%
Bulgaria	10.0%

Source: Worldwide-tax.com.

**Table 4**

**Annual Range from Low to High in Benchmark Equity Index:**

Market	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
H.K.	161%	71%	35%	16%	31%	53%	37%	83%	35%	90%	82%	92%	36%	46%
Taiwan	135%	35%	26%	19%	36%	53%	69%	82%	128%	61%	51%	51%	52%	57%
Brazil	151%	62%	39%	44%	49%	124%	76%	89%	44%	257%	170%	101%	64%	131%
Mexico	96%	29%	61%	55%	48%	54%	38%	39%	64%	120%	84%	62%	26%	96%
Poland	137%	26%	40%	50%	25%	64%	45%	88%	70%	51%	94%	40%	93%	61%
S. Africa	98%	33%	41%	49%	32%	42%	38%	59%	42%	77%	74%	35%	15%	18%
USA	99%	16%	17%	12%	15%	41%	53%	46%	24%	22%	36%	35%	28%	36%
Germany	102%	27%	26%	32%	18%	83%	117%	92%	33%	50%	62%	57%	28%	23%
Japan	117%	25%	25%	53%	18%	48%	47%	55%	58%	45%	36%	44%	21%	40%

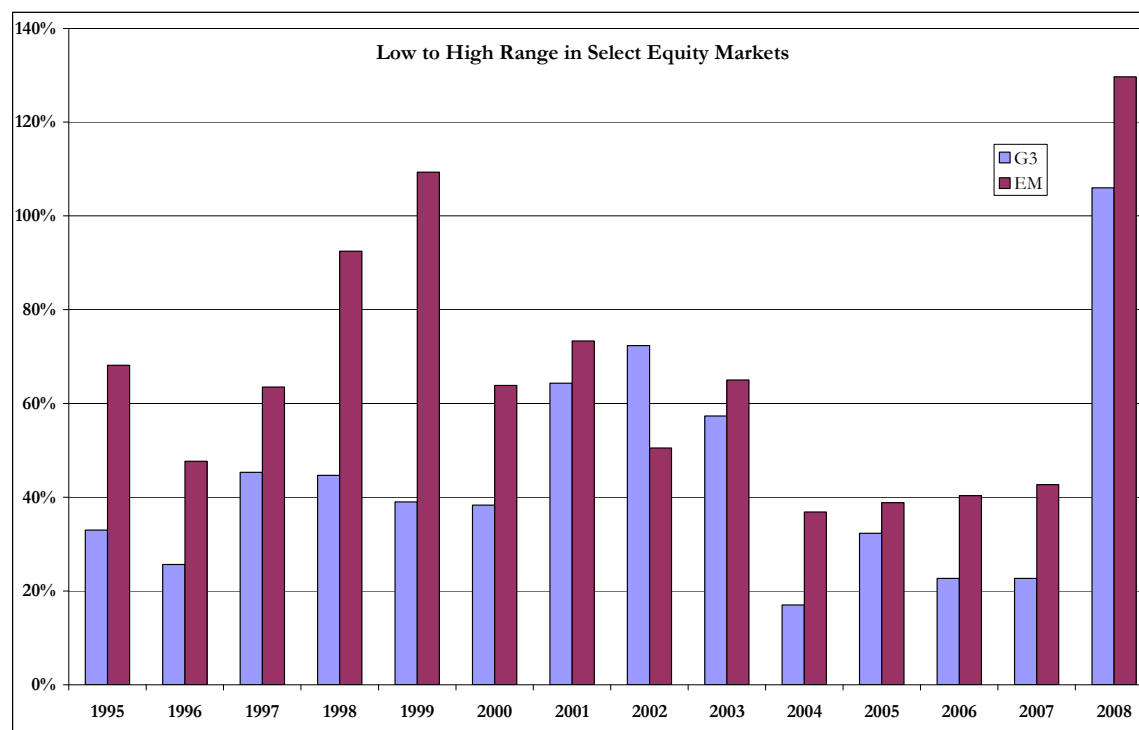
**Average for EM Countries listed above<sup>7</sup>: 65.9%**

**Average for G3: 44.3%**

Source: Bloomberg, Gramercy.

**Chart 3**

**Average Annual Range from Low to High in G7 and Select EM Equity Markets**



Source: Bloomberg, Gramercy.

**Table 5**

**Annual Range from Low to High in National Currencies versus U.S. Dollar:**

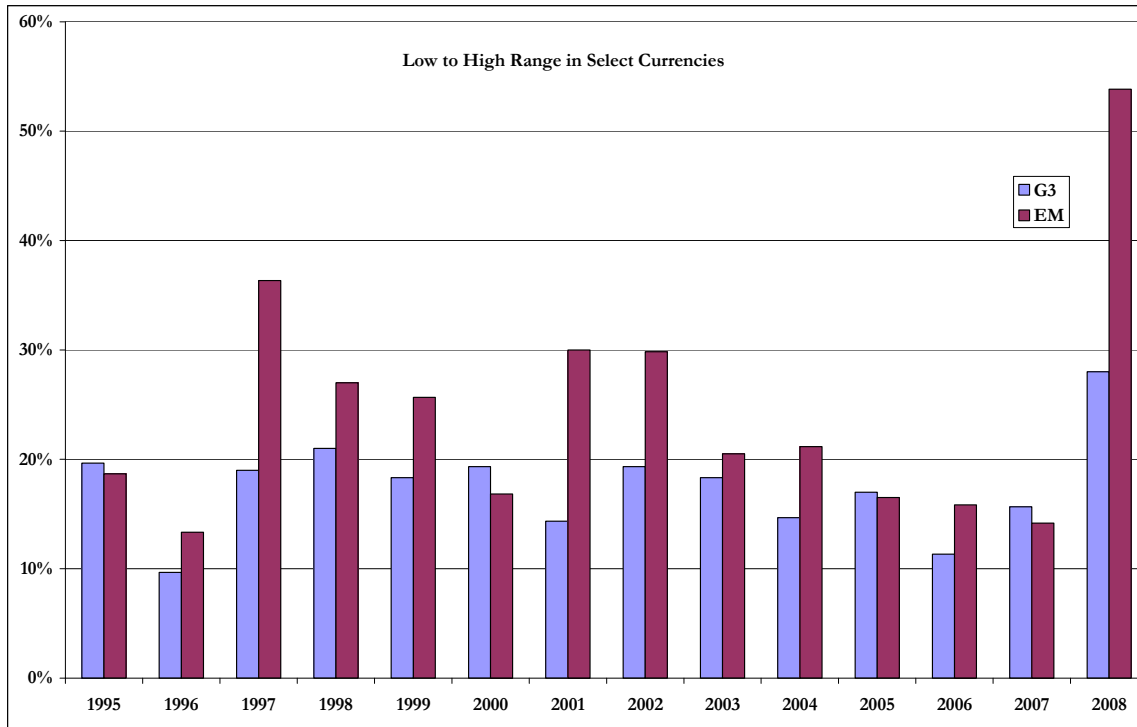
Market	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Korea	64%	6%	11%	7%	16%	10%	15%	11%	16%	11%	56%	138%	10%	5%
Taiwan	12%	4%	6%	10%	8%	4%	8%	9%	10%	6%	11%	23%	3%	9%
Brazil	9%	25%	17%	29%	22%	31%	78%	47%	16%	79%	8%	8%	7%	17%
Mexico	45%	6%	11%	10%	9%	14%	17%	12%	11%	17%	32%	12%	11%	66%
Poland	56%	26%	16%	19%	37%	15%	12%	16%	18%	29%	14%	24%	17%	10%
S. Africa	77%	18%	34%	24%	35%	49%	49%	85%	30%	12%	41%	13%	32%	5%
USA	25%	15%	11%	15%	15%	19%	18%	12%	19%	13%	14%	15%	6%	12%
Germany	30%	16%	13%	17%	16%	22%	23%	15%	26%	19%	17%	23%	10%	16%
Japan	29%	16%	10%	19%	13%	14%	17%	16%	13%	23%	32%	19%	13%	31%

**Average for EM: 24.3%**  
**Average for G3: 17.6%**

Figures for the U.S. \$ are versus the Dollar Index published by the Federal Reserve.  
 Source: Bloomberg, Gramercy.

**Chart 4**

**Average Annual Range from Low to High in G7 and EM Currencies listed in Table 5**



Source: Bloomberg, Gramercy.

**Table 6**

**Annual Range from Low to High for Respective Spread Indices:**

Market	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
EM	49%	84%	73%	231%	64%	27%	34%	74%	95%	46%	48%	31%	50%	269%
HY	23%	32%	15%	116%	22%	88%	35%	56%	82%	31%	33%	18%	118%	194%

**Note: EM Spreads measured using the JPMorgan EMBI Index. U.S. credit spreads measured using the Merrill Lynch high yield index. Both calculations use monthly observations.**

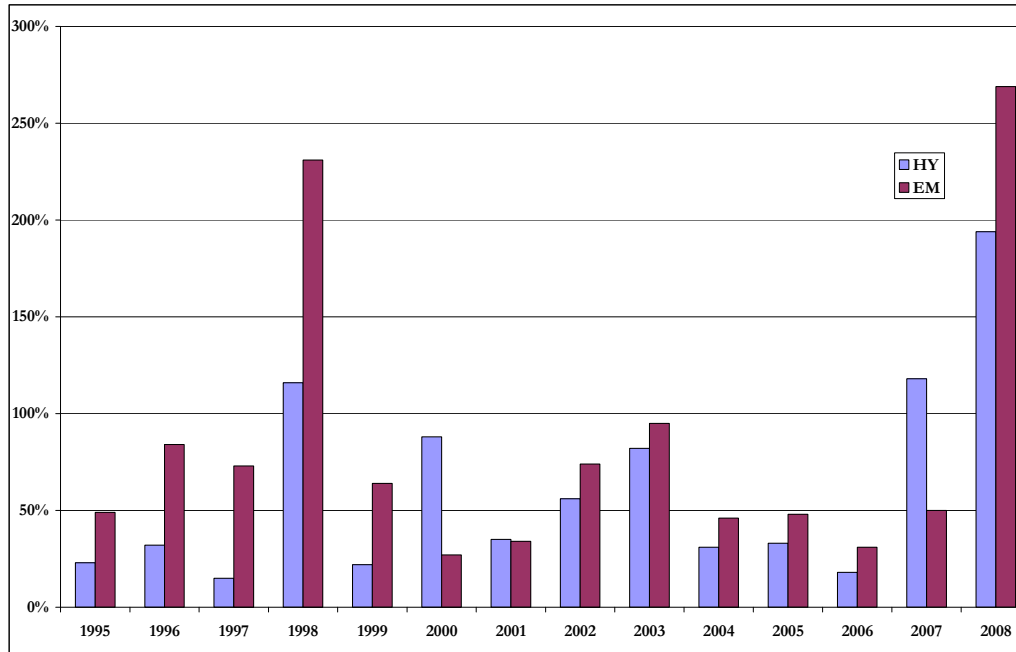
**Average for EM: 83.9%**

**Average for HY: 61.7%**

Source: Bloomberg, Gramercy.

**Chart 5**

**Average Annual Range from Low to High in US High Yield vs. EM Credit**



Source: HY = Merrill Lynch high yield index, EM = JPMorgan EMBI Index, Gramercy.  
 Source: Merrill Lynch, JPMorgan, Gramercy.

**Table 7**

**Comparison of HFR Macro Index and Gramercy Macro Trading Efficiency**

HFR Index Macro Efficiency				Gramercy EM Macro* Efficiency			
Year	HFR Macro	Avg. Range	% Capture	Year	GEMMF	Avg. Range	% Capture
1999	10.66%	14.72%	72.42%	1999	3.36%	33.30%	10.09%
2000	1.97%	48.85%	4.03%	2000	38.00%	56.34%	67.45%
2001	6.87%	37.80%	18.17%	2001	34.35%	45.97%	74.72%
2002	7.42%	49.26%	15.06%	2002	1.39%	45.39%	3.06%
2003	21.44%	52.53%	40.81%	2003	24.34%	55.77%	43.64%
2004	4.64%	21.01%	22.08%	2004	14.87%	29.83%	49.85%
2005	6.81%	27.41%	24.84%	2005	0.81%	29.50%	2.75%
2006	8.17%	17.41%	46.93%	2006	15.80%	24.68%	64.02%
2007	11.11%	52.02%	21.36%	2007	7.99%	58.46%	13.67%
2008	4.83%	109.35%	4.42%	2008	24.23%	126.02%	19.23%
Average	8.39%	43.04%	27.01%	Average	16.51%	50.53%	34.85%

**Notes:**

**Avg. range:** The average low to high range for currency, equity, and credit within G3 or EM respectively.

**% Capture:** Net return expressed as a % of the average range for asset classes within each domain.

\* Reflects combined results of backtested and live performance.

Source: Bloomberg, Gramercy.

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The forward-looking statements made in this document are subject to the safe harbor of the Private Securities Litigation Reform Act of 1995.

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## Endnotes

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1. Relative Value.
2. G7 countries include Canada, France, Germany, Italy, Japan, United Kingdom and U.S.
3. G3 countries include Germany, Japan and US.
4. This performance reflects investments made from January 2008 until September 2008. The portfolio manager was not allocated investment funds for the remainder of 2008 due to capital constraints of the investment advisor.
5. Actual performance periods by the portfolio manager include August 1999 – February 2005 while at BNP Paribas, and July 2007 – September 2008 while at London Diversified Fund Management. Highlighted periods indicated time periods of back-tested performance including March 2005 – June 2007 and September 2008 – September 2009. All performance is net of transactions costs, a 1.5% management fee and 20% performance fee. Performance includes benefit of proprietary dynamic risk allocation framework and assumes reinvestment of earnings. Historical portfolio asset range has been \$20 - \$100 million. Backtested results reflect the current investment models applied to market conditions that existed in the past in order to arrive at hypothetical results, do not represent actual trading results and may not reflect the impact material economic and market factors might have had on the investment manager's decision-making process. Actual results reflect the use of investment models that have been modified overtime. The current investment models may be materially different than the investment models used when the actual results where achieved. For the same time period, compound annual return for the HFR Macro Index was 8.58%, HFR Emerging Markets Index was 12.46%, S&P 500 Index was - 2.22%, MSCI Emerging Markets Index was 8.42% and the JP Morgan EMBI was 12.27%. The volatility of the return of these indices may differ materially from those of the fund.
6. G20 countries include Argentina, Australia, Brazil, Canada, China, European Union, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, United Kingdom and US.
7. EM countries selected represent those with highly liquid futures markets that are expected to be the most likely candidates for inclusion in the Fund.