

Performance Update

Fund of Hedge Funds Indices	Mar	Feb	YTD	2005	2004	2003
EDHEC Fund of Funds Index	1.25%	0.37%	4.53%	6.48%	7.07%	11.46%
HFRI FoHF Composite Index	1.45%	0.34%	4.73%	7.52%	6.86%	11.61%
CISDM Fund of Funds Index	-	0.45%	2.01%	6.47%	7.12%	10.23%
InvestHedge Composite	-	0.38%	3.01%	7.07%	6.15%	9.34%
Altvest Sub-Index: Fund of Funds	1.59%	0.33%	4.85%	7.68%	7.39%	11.12%
Eurekahedge Fund of Funds Index	1.52%	0.39%	4.78%	7.75%	7.76%	11.49%
Barclay/Global HedgeSource FoF Index	1.66%	0.42%	5.00%	6.85%	6.65%	10.44%
AAC Fund of Hedge Fund Benchmark	-	0.36%	3.22%	7.54%	6.43%	11.32%
Average FoHF Indices	1.49%	0.38%	4.02%	7.17%	6.93%	10.88%

Investable Hedge Funds Indices	Mar	Feb	YTD	2005	2004	2003
CSFB/Tremont Investable HF Index	1.53%	0.26%	3.68%	3.61%	5.31%	11.04%
MSCI Hedge Fund Invest Index	1.13%	0.24%	3.59%	4.68%	3.10%	14.70%
S&P Hedge Fund Index	1.16%	0.80%	4.03%	2.28%	3.88%	11.10%
HFRX Global Hedge Fund Index	1.15%	0.17%	3.81%	2.72%	2.69%	13.39%
FTSE Hedge Index		0.46%	2.60%	2.60%	3.12%	12.36%
Average Investable HF Indices	1.24%	0.39%	3.54%	3.18%	3.62%	12.52%

Numbers prior to the date of inception of the Investable Indices are pro forma. Fees may not be included.

Fund of Funds of Hedge Funds	Mar	Feb	YTD	2005	2004	2003
PrimFund Diversified (net of fees)	1.51%	0.41%	4.38%	7.78%	8.39%	13.68%
PrimFund Growth (net of fees)	2.04%	0.37%	5.90%	9.34%	15.69%	20.75%

Inception of PrimFund Diversified was July 2004, of PrimFund Growth April 2005. The simulated data prior reflects the net performance of a weighted composite of the targeted fund managers net of fees.

Industry News

Global hedge fund assets surge to USD1.5 trillion

Assets in global hedge funds have now reached more than USD 1.5 trillion according to new research compiled by HedgeFund Intelligence (HFI), publishers of Absolute Return magazine in the U.S. The HFI research found that the U.S. Billion Dollar Club have reached combined total assets of more than USD 850 billion. The research also found smaller funds in the US – below USD 1 billion - have reached combined assets of at least USD 200 billion, leading to a total asset figure of well over USD 1 trillion for the US hedge fund industry.

European hedge funds have also seen strong growth in assets, with total funds under management for the region reaching more than USD 325 billion. This represents an increase of over 25% from the year before. In the Asia-Pacific region hedge fund assets almost doubled during the survey period. Total FUM for the region is now over USD 115 billion. Added to the three largest regions, research suggests there is at least a further USD 50 billion of assets being managed by hedge funds in other markets in the rest of the world. Markets showing asset growth include Canada, Brazil and South Africa.

Starting a hedge fund gets harder

Morgan Stanley

A Morgan Stanley survey of global hedge fund trends, based on interviews with 40 large US institutional investors, suggests that starting a new hedge fund is more difficult now, even as the overall industry continues to expand. The report projects hedge fund assets growing to USD3 trillion by 2010, having passed the trillion mark in 2005, assuming the pace of growth continues as it has since 1999, when the industry was USD 456 billion. For start-up funds, the miracle of birth is getting even tougher. Unlike 2003 and 2004, when launches exceeded their day-one target fundraising to the tune of 25%, in 2005 there were shortfalls of about half the envisaged amounts to be raised for both multi-arbitrage funds of all sizes and long/short equity funds of less than USD 100 million. Long/short equity funds greater than USD 100 million barely hit their targets.

Advisor/People News

Close Asset Management acquires Fortune

The asset management division of Close Brothers Group plc, the independent British merchant bank, announced the acquisition, subject to regulatory approval, of a majority stake in Fortune Group, the London-based hedge fund manager.

Founded in 1996, Fortune manages approximately USD 800 million in a range of single and multi-manager products, for private wealth management groups, insurance companies, banks and pension funds, and has advisory mandates for substantial additional hedge fund assets.

Caledonia invests in Liberty Ermitage

Caledonia has agreed to invest in a joint venture to acquire Liberty Ermitage Jersey Limited ("Ermitage") from Liberty Group Limited of South Africa. The company is being acquired by a new vehicle to be owned 60% by Caledonia and 40% by Ermitage's management and Paul Myners, who will be chairman. Ermitage will move forward with USD 2.4bn of assets under management in its funds of hedge funds platform.

Ed Robertiello joins Credit Suisse

Ed Robertiello has been named to lead Credit Suisse's global hedge fund research and selection. He will report to Nils Tuchs Schmid, who recently was promoted to head Multi Manager Portfolios, the firm's global fund of hedge funds unit. Mr. Robertiello brings considerable experience to the table, having been previously responsible for investments and research for multi-manager portfolios at Asset Alliance. Prior to that he set up Blackstone Alternative Asset Management Group's manager and identification and selection team for the firm's USD 8 billion fund of hedge funds.

Tremont appoints director of manager research

Tremont Capital Management, Inc., announced its hiring and appointment of Thomas Sandlow as Director of Manager Research. Mr. Sandlow will assume responsibility for managing Tremont's 20-person hedge fund manager research group across its New York, London and Hong Kong offices. Mr. Sandlow will report to Cynthia Nicoll, Tremont's Chief Investment Officer, who previously oversaw this function.

Eden Rock appoints new CIO

Eden Rock Capital Management ("ERCM") announced the appointment of Michael Staveley as Chief Investment Officer. Staveley replaces Santo Volpe in the role, although Volpe remains Chairman of ERCM and a member of the Investment Committee. Staveley has 18 years experience in the financial markets and has run a variety of businesses involving the trading and structuring of credit risk. Most recently, Staveley spent five years at Commerzbank where he was global head of credit markets. Prior to that he spent three years at General Re Financial Products as Managing Director and global head of credit trading. Staveley also spent six years with SBC Warburg in London and New York where he was global head of structured credit trading and four years at Citicorp in fixed income derivatives.

Pullaro joins Blackstone from UBS

Blackstone Alternative Asset Management ("BAAM"), a fund of hedge funds with approximately USD12 billion dollars under management, announced that Ray Pullaro, Senior Investment Officer of UBS Fund of Funds, will join BAAM as Managing Director on June 1, 2006. He will be reporting to Bruce Amlicke, Chief Investment Officer.

Prior to joining Blackstone, Ray Pullaro was a Senior Investment Officer of the Alternative Investment Solutions (AIS) team, a key multi-manager provider within UBS Alternative and Quantitative Investments. Ray served on the investment committee of AIS and his responsibilities there included manager research and portfolio construction. Mr. Pullaro began his career at O'Connor & Associates in 1991. He had extensive derivatives trading and risk management experience with UBS and then later at PriceWaterhouseCoopers. Mr. Pullaro holds an undergraduate degree from Yale University and MBA from New York University.

Product News

La Fayette launches Asian Fund

La Fayette Asia Fund will be launched on 1st May as a diversified portfolio of Asian hedge fund strategies, aimed at producing superior risk-adjusted absolute returns. The geographical focus will mainly be Japan, China, Hong Kong, Korea, Taiwan and Australia. The managers will generally be based in the region. The structure of the Fund will be totally identical to that of the other La Fayette Funds.

Man Group raises over USD 2.3bn with latest launch

Man Group's latest hedge fund product launch has raised over USD 2.3 billion of client money, well in excess of the company's own USD 2 billion estimate. The launch was structured as multiple offerings of the Man IP 220 product in a number of different currencies targeting different regions. The Man IP 220 concept has proved to be one of the group's most successful product launches, and like its predecessor, the latest launch provides investors with access to two of Man's most successful investment approaches, the Man-AHL Diversified Programme and the Man-Glenwood Portfolio.

Academic/Research

On the Decision to Regulate Hedge Funds: The SEC's Regulatory Philosophy, Style, and Mission

Paredes

In a controversial move in late 2004, the Securities and Exchange Commission (SEC) decided to require hedge fund managers to register with the agency as investment advisers. Until then, the SEC had largely refrained from ramping up hedge fund regulation, even after the collapse of Long-Term Capital Management in 1998.

Although this article takes some issue with the SEC's decision to regulate hedge funds, its primary focus is not on the particular costs and benefits of regulating hedge funds. The inquiry is broader: what can we learn generally about SEC decision making and securities regulation from the SEC's decision to regulate hedge funds now by subjecting fund managers to the registration requirements of the Investment Advisers Act? Since the SEC consciously shifted direction in deciding to regulate hedge funds - and in doing so overstepped the traditional boundary of securities regulation by looking past the ability of sophisticated and wealthy hedge fund investors to protect themselves - the hedge fund rule prompts reconsideration of SEC decision making, particularly in the aftermath of Enron and the other recent corporate scandals that marked the early 2000s.

Although nobody knows for sure what motivates a regulator, the SEC's decision to adopt its new hedge fund rule is consistent with two views - one political; the other, psychological. First, the SEC did not want to get caught flat footed and embarrassed again, as it had been by Enron, WorldCom, the mutual fund abuses, and securities analyst conflicts of interest; and second, after the earlier scandals, the risk of fraud and other hedge fund abuses weighed disproportionately on the agency, prompting it to act when it had not in the past. The particular concern is that such political and psychological influences result in overregulation.

This article concludes with a suggestion. To mitigate the risk of overregulation, the SEC should increasingly consider using default rules instead of mandatory rules. Defaults at least give parties a chance to opt out if the SEC goes too far. Indeed, in some cases, perhaps the SEC could exercise an even lighter touch and simply articulate best practices.

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