Performance Update

Fund of Hedge Funds Indices	Mar	Feb	YTD	2006	2005	2004	2003
EDHEC Fund of Funds Index	0.90%	0.96%	3.11%	11.25%	6.80%	7.07%	11.46%
HFRI FoHF Composite Index	0.86%	0.80%	2.98%	10.43%	7.49%	6.86%	11.61%
CISDM Fund of Funds Index	-	0.72%	1.90%	9.11%	6.47%	7.12%	10.23%
InvestHedge Composite	-	0.70%	1.88%	8.67%	7.07%	6.15%	9.34%
Altvest Sub-Index: Fund of Funds	0.93%	0.68%	2.86%	10.24%	7.68%	7.39%	11.12%
Eurekahedge Fund of Funds Index	0.79%	0.73%	2.79%	10.13%	7.81%	7.00%	11.68%
Barclay/Global HedgeSource FoF Index	0.96%	0.72%	2.94%	9.38%	6.91%	6.65%	10.44%
Average FoHF Indices	0.89%	0.76%	2.64%	9.89%	7.18%	6.89%	10.84%

Investable Hedge Funds Indices	Mar	Feb	YTD	2006	2005	2004	2003
CS/Tremont Investable HF Index	0.99%	0.09%	2.33%	9.65%	3.61%	5.31%	11.04%
MSCI Hedge Fund Invest Index	0.17%	0.23%	1.54%	7.63%	4.68%	3.10%	14.70%
HFRX Global Hedge Fund Index	0.28%	-0.21%	1.58%	9.26%	2.72%	2.69%	13.39%
FTSE Hedge Index	0.71%	-0.60%	1.22%	6.20%	2.60%	3.12%	12.36%
Average Investable HF Indices	0.54%	-0.12%	1.67%	8.19%	3.40%	3.56%	12.87%

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	2006	2005	2004	2003
PrimFund Diversified (net of fees)	0.97%	0.76%	2.56%	9.54%	7.78%	8.39%	13.68%
PrimFund Growth (net of fees)	1.50%	2.08%	4.66%	13.85%	9.38%	15.69%	20.75%
PrimFund Opportunity (net of fees)	1.22%	1.62%	4.62%	22.12%	17.02%	17.13%	25.09%

Inception of PrimFund Diversified was July 2004, of PrimFund Growth April 2005, of PrimFund Opportunity September 2006. The simulated data prior reflects the net performance of a weighted composite of the targeted fund managers net of fees. All numbers shown are for illustration purposes only and are no guarantee of future performance.

Industry News

Global hedge fund assets top USD 2 trillion — **HedgeFund Intelligence**

Global hedge assets have surged 30% to $2.079 trillion with three-fourths of that amount managed by the world's largest hedge funds, according to HedgeFund Intelligence. The survey found that between January 2006 and January 2007, the industry added more than $500 billion to its coffers, and saw the number of hedge funds with more than $1 billion AUM – the so-called Global Billion Dollar Club -- rise to 351. Of that membership, 241 are located in the U.S., with more than 100 in Europe and 35 in Asia. Nearly $1.5 trillion of the total assets reside in the U.S., HedgeFund Intelligence reports, with $1.198 trillion of that amount, or 80% of the total, held by billion-dollar club members in the U.S.

Cash floods hedge fund industry in first quarter — **Euromoney**

The hedge fund industry saw USD 60bn flow into its coffers in the first quarter of 2007 – nearly triple the previous quarter's USD 15.7bn, and nearly half of the record USD 126bn in new assets for all of 2006, according to Hedge Fund Research. Of the USD 60bn, one-third (USD 20.4bn) went to equity hedge, with relative value arbitrage a distant No. 2 with USD 10.3bn. In general, says HFR, all strategies recorded growth, and funds of hedge funds brought in USD 8bn for its fifth consecutive positive quarter.

50 largest US public funds have invested 2% of assets in hedge funds — **Investhedge**

The 50 largest US public pension funds have only invested an average of 2% of their assets in hedge funds, according to the latest InvestHedge survey. Fewer than 50% of the 50 largest public funds in the US currently invest in hedge funds, according to the survey. The 44% that do have so far together invested more than USD 23bn. But this still represents only a tiny proportion – less than 1% -- of the USD2.4 trillion in assets managed by US pension funds.

That said, survey responses indicate that the coming year could see at least another USD 12.6bn invested by these institutional investors if they choose to meet their target asset allocations. Amounts invested range from USD 3.7bn by the California Public Employees' Retirement System to USD 50mn from the Ohio Public Employees' Retirement System.

1,518 new funds introduced in 2006, 717 liquidated **HFR**

During 2006, 1,518 funds were introduced and 717 funds liquidated, compared to 2,073 new funds and 848 liquidations in 2005. The overall fund attrition rate for 2006 was 8.28 percent, the second-highest rate recorded by HFR since 1995 when it began tracking launches and liquidations. The highest attrition rate was 11.40 percent in 2005. For 2006, hedge fund launches returned to a level closer to the 2004 total of 1,435, while liquidations remained near historically high levels. By way of comparison, the total number of liquidations in 2004 was just 296.

Funds of funds accounted for 323 of the new launches in 2006, or 21.3 percent of the 2006 total. In 2005, there were 498 new funds of funds launches, or 24.0 percent of the total. There were 98 funds of funds liquidated in 2006, representing an attrition rate of 4.93 percent, down from last year's 156 liquidations, representing an attrition rate of 9.43 percent.

Advisor/People News

K2 announces strategic investment by TA Associates

K2 Advisors, a USD 5.5bn fund of hedge funds, and TA Associates, a leading private equity and buyout firm, announced that TA has bought a minority interest in K2. Terms of the transaction were not disclosed.

As a result of the transaction, K2 will invest approximately USD 100mn of the proceeds in existing K2 strategies as well as incubate new strategies. The firm will also broaden ownership to a greater number of K2 employees. K2 management will retain full operating authority and control and there will be no changes to the firm's investment philosophy, operations or personnel.

AGF Alternative Asset Management and Allianz Hedge Fund Partners to join forces

AGF Alternative Asset Management (AAAM) and Allianz Hedge Fund Partners (AllianzHFP) both subsidiaries of Allianz Group, have finalized their agreement from October 2006 to join forces in the fund of hedge funds business. With effect of April 2, 2007, the combined operations will be under the management responsibility of Jean-François Vert, Chief Executive Officer and Chief Investment Officer of AAAM. Clients will benefit from the combination of the longstanding expertise and track-record of the European-based AAAM team and the US presence of AllianzHFP.

The creation of one single platform for the fund of hedge funds assets also supports Allianz's strategy to reduce complexity in its operations. The headquarters of the combined entity will be in Paris with an office in New York. It has over USD 10bn in assets under management. Madhav Misra, Philippe Collot and Johan Ahlstrom, the Founders and Managing Partners of Allianz Hedge Fund Partners, who actively supported the combination, have decided to resign effective March 31st, 2007 to follow entrepreneurial interests.

Cedar Partners close to being acquired to Erste Bank

Philippe Bonefoy's Cedar Partners is in the throes of being acquired by Austria's second largest bank, Erste Bank, which manages $1.5bn in alternative investments. Cedar Partners has decided to sell its fund of hedge fund business in an effort to concentrate on its single managed hedge fund business, Scott noted. The acquisition, which is expected to complete in the next three months, will give Erste Bank control over the management of Cedar's flagship fund of hedge fund, the Cedar Diversified Macro Fund. Christoph Kampitsch, head of Erste's alternatives business, will assume responsibility of the FoHF's management once the deal has been finalised.

Integrated Asset Management appoints CIO

Integrated Asset Management (Integrated), the global alternative investment group quoted on the Alternative Investment Market of the London Stock Exchange, announced the appointment of Peter Rose as Chief Investment Officer of its fund management division, Integrated Alternative Investments. Peter joins Integrated from Ivy Asset Management, a subsidiary of the Bank of New York, where he was Director of Research with responsibility for the company's Relative Value, Credit, and Tactical Trading strategy groups.

Illinois State Board hires EnTrust

Illinois State Board of Investment, Chicago, hired EnTrust Capital to run USD 120mn in a hedge fund of funds, said William R Atwood, executive director of the USD 11.9bn fund. The move completes the fund's 5% target hedge fund allocation, a process that began in 2005, he said.

Octane appoints Culross

Octane Management BVI Limited announced the appointment of Culross Global Management Limited as an Investment Advisor on a conservative risk fund of funds mandate. Culross will manage a separate account for Octane, to mirror the Culross Global Fund Limited, a global multi strategy fund of hedge funds. The two principals at Culross, Nigel Blanshard and Christopher Keen, have been managing money for over 25 years. Culross Global Management is based London and was established in 1992.

Citadel adds fund of hedge funds

Citadel Investment Group LLC, one of the most famous names in the hedge fund industry, is building an institutional quality hedge fund of funds and emerging manager incubation business. The Chicago-based company, best-known for its USD 13.5bn family of high-octane multi strategy hedge funds, stands a pretty good chance of attracting significant institutional assets, given the reputation of Kenneth C. Griffin, its founder, president and chief executive officer, sources said.

Citadel Alternative Asset Management, which will manage both hedge funds of funds and incubator funds, and a sister firm, Citadel Solutions, an alternative investments administration platform, were established in the first quarter and are in the early stages of recruiting their teams.

Product News

Sagres launches dedicated China vehicle

China Century Fund Limited, the first Cayman-based fund of hedge funds specialized in China, will start trading on April 1st, 2007. The Fund's advisor, Sagres Advisory S.A., is based in Lugano (Switzerland) and has been active in hedge fund consulting and funds of funds portfolio construction since 2001. China Century Fund Limited aims to exploit the inefficiencies and opportunities offered by the Chinese equity market through a diversified portfolio of carefully selected long-short managers.

Parker Global launches energy fund of hedge funds

Alternative investment firm Parker Global Strategies has launched its first energy and natural resources fund of funds, PGS Global Energy Edge. The sector-focused fund has initially invested in 23 managers in the various energy and natural resources sectors.

Each of the selected managers is focused on different segments within the sector to diversify the portfolio across energy, utilities, natural resources, power, materials, infrastructure and alternative and clean technologies.

Kenmar to launching Kenmar Global ECO Fund, an environmentally friendly, sustainable fund of hedge funds

Kenmar announced the Kenmar Global ECO Fund SPC Limited, a socially responsible investment vehicle. Investors are increasingly favoring corporate practices that are environmentally responsible, support workplace diversity, and increase product safety and quality. The Fund’s objective is to address the attainable merger of ECOnomic, environmental, ECOlogical and socially responsible stakeholder concerns with the concurrent goal of capital appreciation. The Fund will primarily invest with asset management companies whose approach to underlying investments are within sustainable and ECOlogical guidelines.

Vision plans listed vehicle
Hong Kong-based fund manager will today announce plans for the world's second publicly traded Asian fund of hedge funds.Vision Asia Opportunities Fund aims to raise £100m with an initial public offering on the Dublin Stock Exchange on April 23. Vision is wooing investors in Europe and the Middle East. Although the fund is open to retail investors, because the minimum investment is just one share, it is mostly targeted at institutional investors.

Academic/Research

Value at risk and the cross-section of hedge fund returns **Bali, Gokcan & Liang**
Using two large hedge fund databases, this paper empirically tests the presence and significance of a cross-sectional relation between hedge fund returns and value at risk (VaR). The univariate and bivariate portfolio-level analyses as well as the fund-level regression results indicate a significantly positive relation between VaR and the cross-section of expected returns on live funds. During the period of January 1995 to December 2003, the live funds with high VaR outperform those with low VaR by an annual return difference of 9%. This risk-return tradeoff holds even after controlling for age, size, and liquidity factors. Furthermore, the risk profile of defunct funds is found to be different from that of live funds. The relation between downside risk and expected return is found to be negative for defunct funds because taking high risk by these funds can wipe out fund capital, and hence they become defunct. Meanwhile, voluntary closure makes some well performed funds with large assets and low risk fall into the defunct category. Hence, the risk-return relation for defunct funds is more complicated than what implies by survival. We demonstrate how to distinguish live funds from defunct funds on an ex ante basis. A trading rule based on buying the expected to live funds and selling the expected to disappear funds provides an annual profit of 8–10% depending on the investment horizons.

Pertrac 10 year-study confirms widely held belief that emerging hedge funds perform better than older (17.5% vs. 11.84%) and larger (15.46% vs. 11.93%) funds
Two different analyses were done; one based on fund asset size, and another on fund age. In each analysis, funds were re-categorized each month from January 1996 through July 2006 into one of three size groups: up to $100 million, over $100 million and up to $500 million, and over $500 million. They were also categorized into one of three age groups: up to 2 years, 2 to 4 years, and over 4 years. The mean fund return was calculated for each group in each month, creating three size-based monthly indexes and three age-based monthly indexes. Various risk and return statistics were calculated on the returns of each index to evaluate historical performance while Monte Carlo simulations were run on each index to indicate probable ranges of future returns and drawdowns.
Among the size-based indexes, both the annualized return and annualized standard deviation were greatest for the smallest funds, at 15.46% and 6.31%, respectively. They were lowest for the largest funds, at 11.93% and 5.72%, respectively. Those statistics suggest that, as funds get larger, monthly returns decrease in magnitude but also become steadier, or less risky. Monte Carlo simulations of future returns produced a similar pattern, showing better probable long-term returns for the smallest funds but also larger probable drawdowns, or losing periods.
The age-based indexes revealed a somewhat different pattern. While the index of youngest funds generated better returns over the 127 month period than either than mid-age or oldest funds, they also had the best risk profile of the three groups. The index of youngest funds produced an annualized return of 17.5%, versus 11.84% for the oldest index, and an annualized standard deviation of 5.97%, versus 6.39% for the mid-age index, which ranked worst of the three on volatility.