

Performance Update all data in %

Fund of Hedge Funds Indices	Mar	Feb	YTD	2007	2006	2005	2004
EDHEC Fund of Funds Index	-2.64	1.57	-3.80	10.07	11.25	6.80	7.07
HFRI FoHF Composite Index	-2.76	1.41	-4.27	10.26	10.39	7.49	6.86
CISDM Fund of Funds Index	-	1.32	-1.24	8.32	9.11	6.47	7.12
InvestHedge Composite	-	1.38	-0.91	8.68	8.67	7.07	6.15
Altvest Sub-Index: Fund of Funds	-2.55	1.40	-3.76	8.63	10.24	7.68	7.39
Eurekahedge Fund of Funds Index	-2.60	1.32	-4.11	10.21	10.38	7.92	7.00
HFN Fund of Funds Aggregated Average	-2.40	1.32	-3.78	9.27	9.60	6.81	6.89
Barclay / Global HedgeSource FoF Index	-2.72	1.27	-4.37	8.86	9.38	6.91	6.65
Average FoHF Indices	-2.61	1.37	-4.02	9.29	9.88	7.14	6.89

Investable Hedge Funds Indices	Mar	Feb	YTD	2007	2006	2005	2004
CS/Tremont Investable HF Index	-2.62	1.07	-2.54	7.42	9.65	3.61	5.31
MSCI Hedge Fund Invest Index	-2.89	1.19	-4.18	3.61	7.63	4.68	3.10
HFRX Global Hedge Fund Index	-2.46	1.77	-2.78	4.23	9.26	2.72	2.69
FTSE Hedge Index	-3.24	0.37	-5.64	0.62	6.28	2.60	3.12
Average Investable HF Indices	-2.80	1.10	-3.78	3.97	8.21	3.40	3.56

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

Average FoHF Indices Current Month **-2.61%**
Average Investable HF Indices Current Month **-2.80%**

Portfolios of Funds of Hedge Funds	Mar	Feb	YTD	2007	2006	2005	2004
PrimFund Diversified (net of fees)	-1.42	0.90	-1.70	8.53	9.54	7.78	8.39
PrimFund Growth (net of fees)	-2.69	1.45	-3.76	13.84	13.85	9.38	15.69
PrimFund Opportunity (net of fees)	-4.24	-0.58	-8.82	10.30	22.12	17.02	17.13

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 weighted composite of the targeted fund managers net of fees. All numbers shown are for illustration purpose only and are no guarantee of future performance.

Industry News
Global hedge fund assets climb 27%

Global hedge fund assets grew by 27% in 2007 to USD 2.65tn, according to Hedge Fund Intelligence (HFI), with more than 390 hedge funds now members of the billion-dollar club. HFI notes that the credit crunch has had an impact on investor appetite for hedge funds, as evidenced by the fact that assets increased by only 6.6% in the second half of the year, when the economic drama began to unfold. The survey found that the 391 hedge funds that manage USD 1bn or more account for USD 2.08tn, roughly 80% of the global total. Hedge Fund Intelligence also revealed: The U.S. was home to 255, or 65%, of the

billion-dollar hedge funds, with New York representing 144 of the total number and close to 47% of global assets. London was the location of choice for 75 hedge funds (16.7% of assets), followed by California (32 hedge funds, 6.4%), Connecticut (30 hedge funds, 9.5%) and Massachusetts (11 hedge funds, 4%). Assets in Asia-Pacific increased by more than 30% to about USD 196bn, with China and India marking major growth. There are now 151 funds of hedge funds belonging to the billion-dollar club and representing more than USD 1.1tn in assets.

Paulson tops another comp survey

A second hedge fund compensation survey puts John Paulson on top as the highest-paid hedgeie, with a stunning USD 3.7bn. That's how much Alpha magazine calculated, slightly more than the guesstimate released in Trader's Monthly version of the ranking. But unlike Trader Monthly's survey, the head of Paulson & Co. is not followed in second place by Philip Falcone of Harbinger Capital Partners, who is credited with USD 1.7bn by Alpha, but by George Soros of Soros Fund Management with USD 2.9bn and James Simons of Renaissance Technologies with USD 2.8bn. In fact, the balance of Alpha's top 10 contain some different names: (5) Kenneth Griffin of Citadel Investment Group (USD 1.5bn), (6) Steven Cohen of SAC Capital Advisors (USD 900mn), (7) Timothy Barakett of Atticus Capital (USD 750mn), (8) Stephen Mandel Jr. of Lone Pine Capital, (9) John Griffin of Blue Ridge Capital (USD 625mn) and (10) O. Andrea Halvorsen of Viking Global Investors (USD 520mn). According to Alpha, the top 25 managers earned on average USD 877mn, up from USD 532mn in 2006, and HF managers needed USD 210mn to make the list, which doubled in this year's annual survey from 25 to 50.

Industry report on hedge funds and commodity trading advisors

Crédit Agricole Structured Asset Management (CASAM) released the 2007 Industry Report on hedge funds and commodity trading advisors (CTAs). CASAM, together with the non-profit academic research center CISDM, estimate total hedge fund assets at the end of 2007 at USD 2.16tn, with a total number of hedge funds of nearly 10,000. The Industry Report reveals that while the majority of funds remain domiciled outside the United States, predominantly in the Cayman Islands, the United States continues to be the principal place of business for an estimated 60% of management companies, with 25% of management companies operating in New York alone. In terms of assets, equity long/short is the single largest hedge fund strategy, with a total of USD 568bn, followed by event driven multi-strategy with USD 245bn, and global macro with USD 221bn. In 2007 hedge funds returned 10.15% on an equal weighted basis, with those invested in emerging markets posting the highest results

of 17.10% for the third consecutive year. The return for funds of funds overall in 2007 was 8.68%. Commodity trading advisers as a whole were up 11.57%, the highest annual performance since 2002.

Big-hedge funds assets surge 34%

The total asset of the largest hedge funds in the U.S. soared 34% in 2007 to more than USD 1.6tn, with JPMorgan Chase remaining in its No. 1 perch again. According to Absolute Return magazine, the increase of USD 407bn to the 262 hedge funds that manage USD 1bn or more comes despite the fact that three of the 10 largest hedge funds – Goldman Sachs Asset Management, JP Morgan and D.E. Shaw – lost a combined USD 24bn in assets in the last six months of the year. Absolute Return reports that JPMorgan Chase saw assets drop 20% since July to USD 44.7bn, though that figure is still 24% higher than a year earlier. Its total assets were still USD 8.7bn more than Bridgewater Associates and Farallon Capital Management, which placed second and third, each with USD 36bn. In fourth place is Renaissance Technologies, recording an increase of 42% to USD 34bn, followed by Och-Ziff Capital Management, whose 58% growth to USD 33.2bn, was enough to move the firm up only one notch to No. 5. D.E. Shaw fell from third place to sixth, and GSAM—the declared biggest loser, as its assets sank 27% in the second half of the year—sagged from second place to seventh. New to the top 10 are Paulson & Co., which saw its assets increase fourfold to USD 29bn, and Avenue Capital Group, replacing Tudor Investment Group and ESL Investments in the rankings.

Fitch rates funds of hedge funds

Fitch Ratings has launched a fund of hedge fund manager ratings service. The ratings aim to provide an independent, professional assessment of fund of hedge funds manager capabilities. Specialised resources, expertise in decision making, risk management and portfolio management processes will be taken into account. The framework for the ratings is based on the same one the agency uses for other sectors such as fixed income, equity and CDOs. The new rating, however, will incorporate extra factors and definitions that reflect the specifics of hedge fund multi-management.

Advisors/People News

Two investment managers join GAM's multi-manager team in New York

GAM, the active asset manager, announced the appointment of Richard Silver as Head of GAM Multi-Manager – New York and Jeffrey Rose as Investment Manager. They both join GAM's New York office, from US-based fund of hedge funds boutique, Condor Capital.

Man Group lifts assets to USD 75bn

UK-listed asset manager Man Group has increased its assets under management from USD 62bn a year ago to USD 75bn, reaffirming its status as the world's largest manager of hedge funds and funds of hedge funds. The firm raised almost USD 16bn of new capital for its funds, with some redemptions. Investment gains added more than USD 5bn to assets under management.

Swiss Bank goes 50/50 with Italian fund of hedge funds

Swiss private bank Union Bancaire Privee (UBP) is joining with Italy's Banco Popolare in an equal partnership for alternatives asset management. UBP will purchase 50% of Banco Popolare's funds of funds group Aletti Gestielle Alternative (AGA). UBP is providing cash consideration at the closing of the deal which the firms said is expected to generate a net capital gain of about EUR 80mn. UBP had over EUR 82bn in assets under management as of Dec. 31, of which more than EUR 36bn is invested in hedge funds. AGA has EUR 3.6bn of assets under management.

ING IM hires William Bonde as co-head of hedge fund of funds group

ING Investment Management announced the appointment of William Bonde as Co-Head of its hedge

fund of funds business. He will work closely with joint Co-Head, Harold Yoon, as ING expands its hedge fund of funds business globally. Mr. Yoon and Mr. Bonde report to Paul Gyra, Head of Alternatives. Mr. Bonde joins from Commerzbank Capital Markets Corp., where he was Co-Head of Alternative Investment Strategies, New York for the firm's international hedge fund of funds business and was a member of the Investment Committee.

Gottex's AUM up 129% to USD 16bn, net profits up 39%

Gottex Fund Management Holdings Ltd announced its preliminary results for the year ended 31 December 2007: AUM was up 129% from 2006 to 2007 to USD 16bn; gross revenues up 59% to USD 193.7bn; profits after tax up 39% to USD 83.7bn.

LGT Capital will acquire KGR Capital

LGT Capital Partners announced that it will acquire KGR Capital, a Hong Kong based manager of Asian fund of hedge funds with approximately USD 350mn in assets under management. Established in 2002 by John Knox, Nicholas George and Christopher Rampton, KGR Capital has offices in Hong Kong and London and a staff of 16 professionals. The firm's flagship fund, KGR Capital Asia Pacific Absolute Return Segregated Fund, provides investors with a diversified, multistrategy, multi-manager portfolio of Asian hedge funds. The firm also manages the KGR Capital Asian Dynamic Fund and KGR Capital China Absolute Return. In addition, it is the investment adviser to KGR Absolute Return PCC Ltd, a closed-end investment company listed on the London Stock Exchange.

Product News

Former Ivy CIO Geiger launches fund of hedge funds vehicle

Adam Geiger, the former chief executive officer of fund of hedge funds firm Ivy Asset Management, has launched his own firm called New Legacy, which has in turn launched its first product called the New Legacy Fund. The new fund of hedge funds vehicle, which launched in January, invests in a diversified range of hedge fund strategies on a global basis.

Stenham launches Global Resources Fund

Stenham Asset Management has launched the Stenham Global Resources Fund which it has been running internally since July 2006. The fund's primary focus is nonenergy related sectors such as water, agriculture and soft commodities, selecting best of breed managers who have long track records trading the underlying commodities. The long biased fund is a concentrated portfolio of 10 – 15 managers with a target return of $\text{libor} + 6 - 8\%$ and volatility of 8-11% per year.

Kenmar launches global agriculture, soft commodities fund of hedge funds

NY-based Kenmar has added to its portfolio of cleantech funds of hedge funds with the launch of a global agricultural and soft commodities fund. The new offering debuted with some USD 50mn in assets and received a USD 100mn capital infusion on March 1. The fund, which currently employs seven underlying managers, is designed to be aggressive.

BlackSquare lines up commodities fund of hedge funds

BlackSquare Capital, a London based alternative asset manager will launch a global commodities fund of hedge funds on June 1. The fund is designed to help diversify the existing commodities holdings of sophisticated investors, while acting as an inflationary hedge, because stocks don't do well in an inflationary environment.

Academic/Research

Why does hedge fund alpha decrease over time? Evidence from individual hedge funds

Zhaodong Zhong

Why has the aggregate level of hedge fund alpha (risk-adjusted return) decreased over the last decade? By studying the distribution of individual hedge fund alphas, they find that the large right tail (funds with positive alphas) that was once present has shrunk over time, while the left tail (funds with negative alphas) has remained unchanged. Thus, the decrease in average alpha is not due to an increasing percentage of funds with unskilled managers and negative alphas, as suggested by the hedge fund bubble hypothesis. Instead, it is due to a decrease in the proportion of funds capable of producing large positive alphas. Our evidence is consistent with the prediction of the capacity constraint hypothesis. Using quantile regression and counter-factual density analysis, they show that a change in fund characteristics combined

with a change in market conditions contributes to the decrease in the proportion of funds with positive alphas. Furthermore, they find that fund-level flow has a positive (negative) impact on a fund's future performance for smaller (larger) funds, while strategy-level flow (flow into the strategy to which a fund belongs) always has a negative impact on the fund's future performance. Their results suggest that the economic reasons for capacity constraints arise both from the "unscalability" of managers' abilities and from the limited profitable opportunities in the market.

A portrait of hedge fund investors: Flows, performance and smart money

G. Baquero, M. Verbeek

They explore the flow-performance interrelation of hedge funds by separating the investment and divestment decisions of investors. They report three main results.

First, they find a weak inflow-performance relation at quarterly horizons together with a very steep outflow-performance relation. At annual horizons, these patterns revert. They attribute this differential response time of inflows and outflows to the combined effect of liquidity restrictions, high searching costs and active investors' monitoring. Second, consistent with the theory that performance persistence is more pronounced where money flows are the least responsive, they find remarkable differences in persistence levels across horizons for the subsets of funds experiencing inflows and outflows. Third, they show that investors' limited response capacity precludes them from investing into the subsequent good performers. Conversely, investors appear to be fast and successful in de-allocating from the subsequent poor performers.

Where do alphas come from?: A new measure of the value of active investment management

Andrew W. Lo

The value of active investment management is traditionally measured by alpha, beta, tracking error, and the Sharpe and information ratios. These are essentially

static characteristics of the marginal distributions of returns at a single point in time, and do not incorporate dynamic aspects of a manager's investment process. In this paper, he proposes a new measure of the value of active investment management that captures both static and dynamic contributions of a portfolio manager's decisions. The measure is based on a decomposition of a portfolio's expected return into two distinct components: a static weighted-average of the individual securities' expected returns, and the sum of covariances between returns and portfolio weights. The former component measures the portion of the manager's expected return due to static investments in the underlying securities, while the latter component captures the forecast power implicit in the manager's dynamic investment choices. This measure can be computed for long-only investments, long/short portfolios, and asset allocation rules, and is particularly relevant for hedge-fund strategies where both components are significant contributors to their expected returns, but only one should garner the high fees that hedge funds typically charge. Several analytical and empirical examples are provided to illustrate the practical relevance of these new measures.

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