Fund of Hedge Funds Review

22nd April 2009

Performance Update all data in %

Fund of Hedge Funds Indices	Mar	Feb	YTD	2008	2007	2006	2005
EDHEC Fund of hedge funds Index	0.16	-0.37	0.39	-19.73	10.07	11.25	6.80
HFRI FoHF Composite Index	0.06	-0.32	0.47	-21.30	10.25	10.39	7.49
CISDM Fund of hedge funds Index	-	-0.13	0.81	-17.04	8.68	9.11	6.47
InvestHedge Composite	-0.05	-0.10	0.72	-16.63	8.90	9.12	6.99
Eurekahedge Fund of hedge funds Index	0.08	-0.39	0.20	-19.75	10.36	10.48	7.97
HFN Fund of hedge funds Aggregated Average	0.02	-0.30	0.21	-20.01	9.27	9.60	6.81
Barclay / Global HedgeSource Fund of hedge funds Index	0.08	-0.35	0.46	-22.18	8.86	9.38	6.91
Average FoHF Indices	**0.06**	**-0.28**	**0.41**	**-19.52**	**9.48**	**9.90**	**7.06**

Investable Hedge Funds Indices	Mar	Feb	YTD	2008	2007	2006	2005
CS/Tremont Investable HF Index	0.34	-1.54	-0.49	-26.31	7.42	9.65	3.61
HFRX Global Hedge Fund Index	-0.03	-0.38	0.68	-23.25	4.23	9.26	2.72
FTSE Hedge Index	-1.93	-1.34	-4.55	-19.76	0.62	6.28	2.60
RBC Hedge 250 Index	0.50	-0.96	0.80	-21.21	8.22	10.62	-
Average Investable HF Indices	**-0.28**	**-1.06**	**-0.89**	**-22.63**	**5.12**	**8.95**	**2.98**

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

Average FoHF Indices Last Month 0.06

Average Investable HF Indices Last Month -0.28

Portfolios of Funds of Hedge Funds	Mar	Feb	YTD	2008	2007	2006	2005
PrimFund Diversified (net of fees)	-0.40	0.08	0.02	-18.19	8.53	9.54	7.78
PrimFund Growth (net of fees)	-0.22	-0.29	-0.14	-25.08	13.84	13.85	9.38
PrimFund Tactical (net of fees)	-0.76	-0.46	-1.04	-6.58	13.05	18.87	14.49
PrimFund Opportunity (net of fees)	-0.09	-0.26	-0.22	-35.81	10.30	22.12	17.02

Inception of PrimFund Diversified was July 2004, of PrimFund Growth April 2005, of PrimFund Tactical April 2008, 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 will reach USD 2.6tn by 2013

Hedge fund assets will bottom out at roughly USD 1tn in 2009, after which capital appreciation and USD 800bn in net inflows over the next four years will push global levels to USD 2.6tn by 2013, according to a new study of institutional investors, investment consultants and hedge funds released by Bank of New York Mellon and Casey, Quirk & Associates. The study, entitled "The Hedge Fund of Tomorrow: Building an Enduring Firm," found that institutions remain firmly committed to hedge fund investing.

Inflows seen ahead for funds of hedge funds

Funds of hedge funds could soon start to see renewed inflows of cash, as investors react to the minimal interest environment and the poor returns from global equities, according to the latest sector update from Standard & Poor's Fund Services. 'The first quarter of 2009 provided a much needed confidence boost, after what was the worst ever year for fund of hedge funds in 2008,' said Standard & Poor's Fund Services lead analyst Randal Goldsmith, pointing out that absolute returns had stabilised, with around one per cent achieved by the median Standard & Poor's rated fund of hedge funds to the end of March.

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Top UK fund may invest up to 20% in alternatives

The UK's largest pension scheme, the BT Pension Scheme (BTPS) could invest up to 20% of its assets in alternative asset classes including hedge funds. Frank Naylor, head of investments at Hermes Pensions Management, told that the pension fund had also reallocated USD 1.2bn to two new fund of hedge funds launched by its hedge fund boutique Hermes BPK.

Hedge fund assets to fall 11% in 2009

The global hedge fund industry may shrink by 11% this year as funds liquidate and investor withdrawals persist, a Deutsche Bank AG survey said. Industry assets may fall to USD 1.33tn by December, according to 68 of the 1,000 investors surveyed by Germany's largest bank last month. The respondents, which hold a combined USD 1.1tn of hedge fund assets, on average expect outflows from the industry to accelerate to USD 168bn this year, 8% faster than last year.

Dutch pension fund increases hedge funds weighting

Dutch pension fund ABP has increased its exposure weightings to hedge funds by 1% in an attempt to cut its investment risk profile over the next five years. This increased hedge fund exposure is part of a wider recovery plan submitted by ABP to the regulator, the De Nederlandsche Bank (Dutch Central Bank), to achieve a cover ratio of at least 105 after five years.

Advisors/People News

Cheyne buys fund of hedge funds AltEdge

Hedge fund firm Cheyne Capital Management is to buy fund of hedge funds manager Altedge Capital as the once-booming industry consolidates in the face of client outflows. Under the deal, Altedge Chief Executive and Chief Investment Officer Chris Goekjian will become partner and chief investment officer at Cheyne. Altedge, whose business will be integrated into Cheyne's over the next six months, hopes to benefit from Cheyne's distribution.

Crosby to shutter fund of hedge funds range

Crosby Asset Management will shut its range of fund of hedge funds. The move comes as its Forsyth operations, which have closed 11 funds since August 2008, continued to receive redemption requests. The decision comes four months after the company said it would reorganize the Crosby Forsyth business around its fund of hedge funds range and multi-asset funds of funds. Crosby Asset Management acquired Forsyth in 2007 and was hoping to restore the business, but abandoned the idea as it needed to shift focus to its operating losses in 2008.

Man Group forms integrated hedge fund business

Man Group has launched an investment management business to address evolving investor requirements for increased transparency, governance and risk management. The new business builds on the RMF's infrastructure and disciplined investment process, Glenwood's bottom-up manager selection philosophy and Man's managed account expertise to create an integrated business providing transparent access to hedge fund investing through fund of fund portfolios and customized solutions. The new investment management business will be offered to both institutional and private investors.

Archery Capital shuts down operations, returns cash

Archery Capital will shutter three of its onshore funds of hedge funds in the next few months and will also close its New York office. Founder Erinch Ozada decided to halt the U.S. operations because he wants to move back home to Istanbul, where he will continue to run Archery Capital's sole remaining fund of funds, Helios Opportunities Fund.

Assets, profits fall, but Gottex ups dividend

Swiss fund of hedge funds shop Gottex Fund Management saw its profit fall by 41% last year and assets under management by 40%. Despite the setbacks, the firm is pleased enough with its performance during the first few months of the year to boost its dividend by a third. Gottex's assets under management fell to USD 9.6bn, and the firm warned it was unlikely that assets would rise until "towards the end of the year."

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Hermes fund of hedge funds arm appoints chairman

Fund of hedge funds boutique Hermes BPK Partners said it has appointed Glyn Jones, former chief executive officer of Thames River Capital and Gartmore, as its new chairman.

Ramius fund of hedge funds group and Hatteras Capital Investment Management announce Joint Venture

Ramius Fund of Funds Group LLC, an investment adviser that provides discretionary investment management services to U.S. and international clients in the alternative investment space and Hatteras Capital Investment Management, LLC, a provider of alternative investment solutions for financial professionals, announced that they have entered into a joint venture to develop and manage an institutional quality fund of funds product for the U.S. financial adviser market.

GAM outflows slow, recovery predicted

GAM has become the latest hedge fund manager to report a dramatic decrease in redemptions, with the Julius Baer hedge fund arm predicting that outflows should end by the second half of this year. Julius Baer CFO Dieter Enkelmann told that GAM's withdrawals slowed substantially in the first quarter, as compared to the fourth quarter of last year. What's more, the firm expects its assets under management to not only stabilize in the second half, but to begin to recover.

Product News

Unigestion plans distressed debt funds of hedge funds

Unigestion Holding is readying a new distressed debt fund of hedge funds. The Geneva-based firm said the new offering, which will launch with USD 150mn in assets, aims to return at least 20% annually. It will invest in “specialized” credit hedge funds, possibly beginning with those betting on first-lien bank loans.

Sail Vet teams with Rockhampton on fund of hedge funds

A former Sail Advisors fund manager is embarking on a voyage of her own. Denise Hu, who recently left the Hong Kong-based fund of hedge funds shop, has set up a fund of funds joint venture with Rockhampton Management, which specializes in Japan-focused hedge funds. Rockhampton is providing seed and working capital to the new venture, with additional initial capital coming from other internal sources, including Rockhampton staffers' own money.

Seven fund of hedge funds downgraded by S&P

Standard & Poor's Fund Services has downgraded five fund of hedge funds to the category of "not rated" because of their exposure to Madoff exposed vehicles and lax due dilligence. The funds affected are Bonhote Alternative Multi-Arbitrage, Constantia Composite, the Constantia Low Volatility, DGC Pendulum, Dinvest Concentrated Opportunities, Dinvest Total Return and RMF Four Seasons.

Peak Partners has announced the forthcoming launch of the Mont Blanc Dynamic Fund

The fund aims to combine the advantages of active hedge fund style picking, continual risk monitoring, segregated trust structure, enhanced liquidity (bi-monthly) and full transparency by using managed accounts. The fund of funds is actively rotated (up to twice a month) using the HFR Managed Account Platform which offers enhanced liquidity to asset allocators.

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Academic/Research

Segregated accounts "best way for investors to access hedge funds"

International Asset Management has published a paper exploring the advantages and disadvantages of the different options open to investors who want to access the hedge fund space. The access options open to investors, other than investing directly in hedge funds, are: purchasing units in commingled fund of hedge funds; setting up a series of managed accounts managed by hedge fund managers; investing in hedge funds across a number of managed accounts via platforms; and investing in hedge funds via a segregated account. The paper says that only fund of hedge funds and segregated accounts can access the entire hedge fund universe (including hedge funds on managed account platforms) and sensibly be used to manage a diversified portfolio of hedge funds. In terms of liquidity, under normal market circumstances a fund of hedge funds has the best liquidity as, on aggregate, its terms are typically better than the underlying hedge funds.

Short-put exposures in hedge fund returns: Are they really there?

(Lucas, Siegmann, Verbeek)

Previous studies have shown that systematic risk in hedge fund returns is partly captured by short positions in put option returns. This is suggestive of a potential `peso problem' in hedge fund returns: a series of steady returns may alternate with an occasional crash. In this paper, they analyze whether equity option-exposures are actually there, and find they are not. Although some hedge fund indices show some exposure to put or call-returns, several robustness analysis as well as an analysis of individual hedge fund returns show that exposures are not consistent with fundamental characteristics of options, such as put-call parity and the positive relation between option prices and volatility.

About Primores

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Primores is an independent and research driven advisory firm exclusively dedicated to the fund of hedge funds universe.

Through a unique blend of qualitative and quantitative analysis Primores is able to provide investors with the highest quality investment solutions in the fund of hedge funds world.

As a leading specialist Primores offers:

- Advice regarding single fund of hedge funds investments
- Customized Solution for institutional investors (white label, sub advisory)
- PrimFunds: one stop shop solutions

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