

## Performance Update

<b>Fund of Hedge Funds Indices</b>	July	June	YTD	2006	2005	2004	2003
EDHEC Fund of Funds Index	0.46%	0.82%	8.36%	11.25%	6.80%	7.07%	11.46%
HFRI FoHF Composite Index	0.43%	0.68%	8.32%	10.39%	7.49%	6.86%	11.61%
CISDM Fund of Funds Index	-	0.50%	6.92%	9.11%	6.47%	7.12%	10.23%
InvestHedge Composite	-	0.58%	7.01%	8.67%	7.07%	6.15%	9.34%
Altvest Sub-Index: Fund of Funds	0.26%	0.69%	7.61%	10.24%	7.68%	7.39%	11.12%
Eurekahedge Fund of Funds Index	0.50%	0.73%	8.15%	10.22%	7.87%	7.06%	11.80%
HFN Fund of Funds Aggregate Average	0.37%	0.66%	7.67%	9.60%	6.81%	6.89%	11.74%
Barclay/Global HedgeSource FoF Index	0.39%	0.58%	7.75%	9.38%	6.91%	6.65%	10.44%
<b>Average FoHF Indices</b>	<b>0.40%</b>	<b>0.66%</b>	<b>7.72%</b>	<b>9.86%</b>	<b>7.14%</b>	<b>6.90%</b>	<b>10.97%</b>

<b>Investable Hedge Funds Indices</b>	July	June	YTD	2006	2005	2004	2003
CS/Tremont Investable HF Index	-0.88%	0.32%	5.46%	9.65%	3.61%	5.31%	11.04%
MSCI Hedge Fund Invest Index	-0.38%	0.41%	4.28%	7.63%	4.68%	3.10%	14.70%
HFRX Global Hedge Fund Index	-0.93%	-0.07%	5.40%	9.26%	2.72%	2.69%	13.39%
FTSE Hedge Index	0.49%	0.29%	4.46%	6.20%	2.60%	3.12%	12.36%
<b>Average Investable HF Indices</b>	<b>-0.42%</b>	<b>0.24%</b>	<b>4.90%</b>	<b>8.19%</b>	<b>3.40%</b>	<b>3.56%</b>	<b>12.87%</b>

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

<b>Portfolios of Funds of Hedge Funds</b>	July	June	YTD	2006	2005	2004	2003
PrimFund Diversified (net of fees)	0.44%	0.85%	7.68%	9.54%	7.78%	8.39%	13.68%
PrimFund Growth (net of fees)	1.17%	1.20%	12.80%	13.85%	9.38%	15.69%	20.75%
PrimFund Opportunity (net of fees)	0.46%	0.89%	11.37%	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

### Hedge funds collect USD 58.7bn in new flows in Q2

**HFR**

The hedge fund industry continued to see near-record inflows of new money in the second quarter of 2007, adding USD 58.7bn in assets during the period, according to data released by Hedge Fund Research (HFR). This follows record inflows of USD 60bn in Q1, and brings overall industry assets to USD 1.74tn. Hedge fund strategies that experienced the largest capital inflows in Q2 include: Relative Value Arbitrage, which gathered USD 16.4bn in new assets; Equity Hedge, USD 12.6bn; and Event-Driven, USD 9.48bn. Top-performing Emerging Markets funds saw an inflow of USD 3.6bn in the period, up from USD 978mn in Q1 2007. Funds of hedge funds raised USD 17.4bn in new assets in Q2 2007, more than double the USD 7.9bn collected in Q1, bringing total fund of hedge funds assets to a record USD 745bn.

### Hedge fund assets reach an estimated USD 2.5tn in Q2 2007

**Hedgefund.net**

HFN estimates total hedge fund asset levels increased by 8.0% in the second quarter of 2007 to USD 2.5tn from USD 2.4tn in the first quarter of 2007. New assets allocated to the industry were estimated at USD 107.3bn in Q2 while performance gains accounted for an additional USD 89.6bn, the second largest gains on record. In the first six months of 2007, hedge funds assets rose 20.4% including USD 268bn in new allocations. Total fund of fund assets increased 9.4% to an estimated USD 1.25tn including USD 74.5bn in new assets, the largest quarterly new allocation on record.

### S&P backs funds of hedge funds

Funds of hedge funds are still a good investment option, according to Standard & Poor's. Despite recent losses, the ratings agency said the risk associated with a black-box quant hedge fund can be immense. However, it said a fund of hedge fund strategy reduced risk by spreading investments across a diversified portfolio.

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## Advisor/People News

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### **Falling HFA share price to delay Lighthouse merger**

A fall in the share price of hedge fund manager HFA Holdings Ltd has forced it to hold up its takeover of US-based Lighthouse Partners. HFA's cash and scrip offer for the US hedge fund manager was worth about USD 750mn when it was announced on July 24, but HFA's shares have since plummeted in the wake of the US sub-prime mortgage fallout. The cash component of the takeover was to be funded with about USD 400mn in cash, which HFA wants to raise through a combination of debt, and an equity raising. The two companies remained "absolutely committed" to merge their businesses under the originally agreed terms, and that HFA's current share price was not a good reflection of the company's value.

### **Rock Creek Group announces strategic investment in Halogen Partners**

The Rock Creek fund of hedge funds Group announced that it has agreed to make a strategic investment in Halogen Partners, a value event-driven hedge fund firm based in New York City. In addition to providing Halogen's investment team with stable, long-term capital, Rock Creek seeks to enhance its investment in Halogen by advising in a variety of areas. Rock Creek will make this strategic investment through its Partners Fund, a private equity fund.

### **Silver Creek hires Prince**

Silver Creek announced it has hired Pivot Capital founding partner Stephen Prince. He will be based in the firm's New York office and will oversee a long-short fund of hedge funds portfolio. At Pivot, Prince was responsible for sourcing investments, constructing models, assessing strategies and evaluating management teams. Prior to Pivot, he worked for Claiborne Capital and Tiger Management.

### **RMF CEO retiring**

RMF Investment Management Chief Executive Officer Fred Siegrist is retiring. Siegrist joined RMF, the Switzerland-headquartered fund of fund provider, in 2002. He had worked for Swiss Life from 1974 until 2002. He will remain at RMF until Sept. 30. RMF said Herbert Item, chief investment officer, will succeed Siegrist as CEO. Item will remain CIO, a role he has had since 2005. Under Siegrist, RMF grew its asset base from USD 14bn to USD 25bn.

### **FRM implements new management structure**

FRM is making several adjustments to align senior management on global, functional reporting lines: Blaine Tomlinson (formerly Group CEO) becomes Group Chairman, focusing on business strategy development and important investment opportunities and initiatives. Brian Robinson (formerly Global Business Manager) becomes Group CEO, executing FRM's business strategies and developing the firm's institutional-quality infrastructure. Paul Dunning, CEO of FRM's London operations will take on the additional responsibility of leading marketing and client servicing teams worldwide, which includes Europe, North America, Australia and Asia (excluding Japan and Korea which continue to be led by Akio Shimazu, Branch Manager of FRM International Tokyo). FRM's investment group continues to operate under the leadership of John Beech, Chief Investment Officer, based in FRM's New York office. Concurrent with these changes, Andy Brindle, CEO of FRM Americas, will be leaving FRM.

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## Product News

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### **Ermitage launches long short fund of funds**

Ermitage Group, a fund of hedge funds operator, has launched a long/short equity fund targeting institutional investors looking to offset the volatility of their long-only investments. Ermitage has received USD 70mn in day-one investments for the Aug. 1 launch. The Global Long Short Fund is Ermitage's latest offering in its USD 600mn long/short equity funds of funds program. It also will have exposure to a lesser extent to currency and debt markets.

### **Deutsche offers portable alpha to the U.S. retail market**

DWS Scudder, the U.S. retail unit of Deutsche Bank's asset management arm, announced the launch of a fund of funds that will invest in a variety of alternative strategies while using derivatives to get exposure to certain markets. DWS Alternative Asset Allocation Plus Fund, an open-ended mutual fund, will invest in other Deutsche vehicles that pursue commodities, market neutral, global real estate, emerging markets and other strategies. After assets reach USD 50mn, the fund will add tactical asset allocation as an overlay via Deutsche's portable alpha program.

### **JPMorgan launches emerging market fund of funds with Redi & Partners**

The Londinium JPM Emerging Market Fund is a Fonds Commun de Placement governed by French Law, established in France by JPMorgan. Redi & Partners will be the Investment Advisor. The Fund has been launched on July 23 funded with Private Banking funds. The Fund will invest 5% in 19 carefully selected Hedge Funds and initially 5% in cash. The geographical allocation breakdown will be 30% Eastern Europe, Russia and CIS, 20% Greater China, 5% India, 5% Brazil, 5% South Africa, 30% spread among Turkey, Israel, other Asian Countries, other Latin American Countries.

## **Academic/Research**

### **Downside risk analysis applied to the hedge funds universe**

**Josep Perello**

Hedge Funds are considered as one of the portfolio management sectors which shows a fastest growing for the past decade. An optimal Hedge Fund management requires an appropriate risk metrics. The classic CAPM theory and its Ratio Sharpe fail to capture some crucial aspects due to the strong non-Gaussian character of Hedge Funds statistics. A possible way out to this problem while keeping the CAPM simplicity is the so-called Downside Risk analysis. One important benefit lies in distinguishing between good and bad returns, that is: returns greater or lower than investor's goal. They revisit most popular Downside Risk indicators and provide new analytical results on them. They compute these measures by taking the Credit Suisse/Tremont Investable Hedge Fund Index Data and with the Gaussian case as a benchmark. In this way an unusual transversal lecture of the existing Downside Risk measures is provided.

### **Dynamic risk exposure in hedge funds**

**Billio, Getmansky, Pelizzon**

This article investigates dynamic risk exposure of hedge funds using regime-switching beta models. This approach allows for the analysis of changes in hedge fund exposure to various risk factors, conditional on the change in mean and volatility of the market risk factor, characterized by normal, up-market and down-market regimes. In the down-market regime most of the strategies are negatively and significantly exposed to the Large-Small and Credit Spread risk factors. This suggests that liquidity risk and credit risk are potentially common factors for different hedge fund strategies in the down-state of the market, when volatility is high and returns are very low. They further explore the possibility that all hedge fund strategies exhibit idiosyncratic risk in a high volatility regime and find that the joint probability jumps from approximately 0% to almost 100% only during the Long-Term Capital Management (LTCM) crisis. Out-of-sample forecasting tests confirm the economic importance of accounting for the presence of market regimes in determining hedge funds risk exposure.

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