

**Performance Update** all data in %

By clicking on the index name you will be able to access a fact sheet containing more detailed information

<b>Fund of Hedge Funds Indices</b>	<b>July</b>	<b>June</b>	<b>YTD</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
EDHEC Fund of hedge funds Index	0.77	-0.79	-0.47	10.67	-19.73	10.07	11.25
HFRI FoHF Composite Index	0.74	-0.88	-0.47	11.46	-21.37	10.25	10.39
CISDM Fund of hedge funds Index		-0.65	-0.55	10.34	-17.04	8.68	9.11
InvestHedge Composite	-0.58	-0.84	-1.53	9.21	-17.13	8.84	9.11
Eurekahedge Fund of hedge funds Index	0.06	-0.71	-1.13	9.78	-19.79	10.36	10.48
HFN Fund of hedge funds Aggregated Average	0.63	-0.98	-0.70	9.56	-19.97	9.27	9.60
Barclay / Global HedgeSource Fund of hedge funds Index	0.70	-0.89	-0.75	10.24	-22.18	8.86	9.38
Hedgagate Swiss FoHF Index USD		-1.00	-2.16	8.61	-19.84	10.99	9.81
<b>Average FoHF Indices</b>	<b>0.39</b>	<b>-0.84</b>	<b>-0.80</b>	<b>10.18</b>	<b>-19.63</b>	<b>9.67</b>	<b>9.89</b>

<b>Investable Hedge Funds Indices</b>	<b>July</b>	<b>June</b>	<b>YTD</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
CS/Tremont Blue Chip Index	1.56	0.14	6.86	17.38	-26.31	7.42	9.65
HFRX Global Hedge Fund Index	1.23	-0.94	0.02	13.40	-23.25	4.23	9.26
RBC Hedge 250 Index	0.92	-0.94	0.36	19.25	-21.21	8.22	10.62
<b>Average Investable HF Indices</b>	<b>1.24</b>	<b>-0.58</b>	<b>2.41</b>	<b>16.68</b>	<b>-23.59</b>	<b>6.62</b>	<b>9.84</b>

<b>Replication Indices</b>	<b>July</b>	<b>June</b>	<b>YTD</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Hedge Fund Replication Index	1.70	0.20	0.03	9.06	-13.80	8.10	13.30

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

**Average FoHF Indices Last Month 0.39**
**Average Investable HF Indices Last Month 1.24**
**Industry News**
**Rabobank pension fund pulls USD 500mn from fund of hedge funds**

Rabobank Pensioenfond has withdrawn over USD 500mn from the fund of hedge funds sector. The USD 15.4bn pension scheme will invest in equities instead of the alternative asset class. The scheme's investments in the troubled sector were valued at USD 502.4mn at the start of 2010. The average performance of the five undisclosed funds of hedge funds it invested in was a loss of 12.5%. In early 2009, it decided to stop adding to its investment in fund of hedge funds.

**80% of fund of hedge funds managers considering UCITS wrapper**

A survey by London-based KDK Asset Management has found that the vast majority of fund of hedge funds

managers are heading down the UCITS road. A total of 47 managers representing a combined AuM of more than USD 300bn participated, 80% of whom said they've either already rolled out a UCITS-compliant fund or plan to do so over the coming months. Of those running NEWCITS, two thirds currently follow a multi-strategy approach. The survey showed that 70% of managers plan to launch a UCITS fund within the next two years, with fund of UCITS funds by far the most popular investment structure (65%).

**Fund of funds sales rocket in Q2**

Retail sales of funds of funds hit record levels in the second quarter of 2010, totaling USD 3.6bn – double the levels in the previous three months. According to the quarterly Investment Management Association (IMA) report, fund of funds now account for almost USD 1 in every USD 10 of gross retail sales. Funds under management for funds of

funds remained at the record level seen in the previous quarter, with USD 72bn at the end of the second quarter, up 40 percent on quarter 2 last year.

## Advisors/People News

### **Fund of hedge funds Eddington to close**

Eddington Capital is closing its doors after watching its assets under management dwindle by more than half over the past two years. The seven-year-old London fund of hedge funds shop will liquidate its funds and return assets to investors. The firm's assets under management have fallen to USD 115mn from their peak of USD 265mn in 2008, a year in which its Macro Opportunities fund rose 22%—while the average hedge fund lost a similar amount. Eddington is a joint venture of the hedge fund's management and Caledonia Investments.

### **Former Mellon chiefs said to launch fund business**

Two former heads of one of Bank of New York Mellon's fund of hedge funds units are planning to hang their own shingle. Derek Stewart and Scott MacDonald, who previously ran BNY Mellon's Mellon Global Alternative Investments, have formed Carduus Capital and plan to raise money for a fund of funds later this year.

### **Prisma wins USD 80mn Denver fund of hedge funds mandate**

Denver Employees Retirement Plan has appointed Prisma Capital Partners to oversee USD 80mn. The alternative investment specialist will manage the plan's first fund of hedge funds allocation. Loomis Sayles and Neuberger Berman, which ran USD 77mn each, and NCM Capital Management, which ran USD 31mn, were terminated to fund the fund of hedge funds allocation. Summit Strategies was appointed by the pension fund to assist in selection.

### **New Mexico picks Crestline**

Crestline Investors has been handed a fund of hedge funds mandate by the New Mexico State Investment Council, which also plans to hire another fund of funds. Crestline will manage USD 80mn for the system. The firm replaces TAG Associates' Vintage Classics, which the New Mexico fund

fired in April due to poor performance. New Mexico will hire another fund of funds, which will manage USD 150mn, by the end of September. A request for proposals has been issued.

### **Knoxville picks Blackstone**

Blackstone Alternative Asset Management has won the competition to manage USD 10mn for Tennessee's third-largest city. The firm won the fund of hedge funds mandate from the Knoxville City Employees' Retirement Pension Fund. The hire follows the termination of one of Knoxville's fund of funds managers, Union Bancaire Privée, last year, and the reduction of its fund of hedge funds allocation from 7% to 5%. Cadogan Management continues to hold Knoxville's other fund of hedge funds mandate, also running USD 10mn.

### **Sanlam Investments strengthens hedge fund offering**

Sanlam Investments, a division of the JSE-listed Sanlam Group, announced it had realigned its hedge fund cluster in order to extract value and synergies across its existing fund of hedge funds businesses, Blue Ink Investments and Octane Holdings. The realignment adds weight to SI's strategy of actively growing its holistic hedge fund offering. It follows a September 2009 announcement that the business had increased its stake in Swiss-based international fund of hedge funds manager, Octane, to 100% and in Blue Ink Investments, a local fund of hedge funds manager, to 75%.

### **Gen2 Partners to take over two Infiniti Capital-owned fund of hedge funds**

Hong Kong-based Gen2 Partners have appointed Xavier Fanjaud from Infiniti Capital. Fanjaud will continue to run the Invenio and Conquistador II Sub-Trust funds, increasing Gen2 Partners' fund of hedge funds to six with AUM north of USD 500mn.

**Product News**
**Duet floats fund of hedge funds**

Duet Alternative Investments (DAI) has floated a commodity trade advisory fund of funds. The London-based firms DAI Dynamic Trading fund will invest in a diversified group of CTA funds with different investment styles. The fund will have investments in global currencies, equities, interest rates and commodities.

**Key plans UCITS fund of hedge funds**

Fund of hedge funds shop Key Asset Management is getting on the UCITS III bandwagon. The London-based firm plans to launch its first UCITS-compliant in October. The fund will offer daily liquidity and have no maximum capacity, at least initially, Chris Jones, the firm's chief investment officer, said.

**Gottex launches new Fund of UCITS III Hedge Funds**

London-based Gottex Fund Management is preparing to launch a Fund of UCITS III Funds using a SICAV structure. Entitled the Gottex Absolute Return Fund, it will seek out a variety of investment strategies with low sensitivity to major stock and fixed income market indices, giving investors regular liquidity and daily NAV. With a UCITS wrapper, hedge funds registered in their home state have the right to be marketed across all European Economic Area member states.

**Credit Suisse launches UCITS fund of hedge funds**

Credit Suisse, has made its first foray into the Fund of UCITS-III Hedge Funds arena with the launch of its Credit

Suisse Solutions (Lux) Prima Multi-Strategy Fund. The fund, which will be passported into several European markets over the coming months, is expected to launch with initial subscriptions north of EUR 100mn and provide weekly liquidity. As its name suggests, multiple strategies will be explored including: Equities, Managed Futures, Fixed Income, Convertibles, Macro and Event Driven.

**Listed Swiss fund of hedge funds ALTIN launches new share buyback programme**

The Swiss alternative investment company ALTIN AG, listed on the London and Swiss stock exchanges, announced the launch of a new share buyback programme. This programme is part of a wider set of discount reduction measures put in place by ALTIN's Board of Directors, which is determined to maintain the share price within close range of NAV. The share buyback, combined with a compelling track record, should enable ALTIN's stock market price to come closer to the NAV.

**JP Morgan launches fund of absolute return funds**

JP Morgan has launched a multi-strategy fund, which invests in a basket of more than 20 absolute return strategies. The Alternative Series Multi-Strategy 10 fund will offer access to 26 absolute return strategies from the JP Morgan Alternative Index Series. The series covers three absolute return styles: momentum, which exploits the behavioural trends of assets; carry, which capitalises on yield differentials; and satellite, which covers mean reversion and short volatility strategies.

**Academic/Research**
**Hedge fund characteristics and performance persistence**

Ammann, Huber, Schmid

In this paper, they investigate the performance persistence of hedge funds over time horizons between 6 and 36 months based on a merged sample from the Lipper/TASS and CISDM databases for the time period from 1994 to 2008. Unlike previous literature, they use a panel probit regression

approach to identify fund characteristics that are significantly related to performance persistence. They then investigate the performance of two-way sorted portfolios where sorting is based on past performance and one of the additional fund characteristics identified as persistence-enhancing in the probit analysis. They find statistically and economically significant performance persistence for time horizons of up to 36 months. Although they identify several

fund characteristics that are strongly correlated with the probability of observing performance persistence, they find only one fund characteristic, a strategy distinctiveness index that attempts to measure manager skills and the uniqueness of the hedge fund's trading strategies, to have the ability to systematically improve performance persistence up to a time horizon of 24 months. The economic magnitude of this improvement amounts to a sizeable increase in alpha by approximately 4.0% and 2.3% p.a. for annual and biennial rebalancing, respectively.

### **Hedge fund leverage** Ang, Gorovyy, Van Inwegen

They investigate the leverage of hedge funds using both time-series and cross-sectional analysis. Hedge fund leverage is counter-cyclical to the leverage of listed financial intermediaries and decreases prior to the start of the financial crisis in mid-2007. Hedge fund leverage is lowest in early 2009 when the leverage of investment banks is highest. Changes in hedge fund leverage tend to be more predictable by economy-wide factors than by fund-specific characteristics. In particular, decreases in funding costs and increases in market values forecast increases in hedge fund

leverage. Decreases in fund return volatilities also increase leverage.

### **Dynamic prediction of financial distress in hedge funds and funds of hedge funds** Hee Soo Lee

This study establishes survival/hazard models with time-varying covariates, as well as fixed covariates, under three specifications of the Cox Proportional Hazards (CPH) model for hedge funds and funds of hedge funds. With the development of the SAS Macro program for generating survival probabilities, the dynamic changes in survival probabilities are predicted over the lifetime of hedge funds and fund of hedge funds after the estimation of baseline hazards using mixed CPH model. This model incorporates both fixed and time-varying covariates. The resulting dynamic survival probabilities show that the mixed model developed in this study is effective for real-time prediction of the cumulative survivals of hedge funds and fund of hedge funds. The estimated models exhibit satisfactory predictive accuracy in forecasting the occurrence of failures in hedge funds and fund of hedge funds.

## About Primores

### **About Primores**

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:

- Selection and monitoring of funds of hedge funds to achieve optimal results within your overall portfolio.
- Single recommendation of fund of hedge funds to cover a specific strategy (e.g. commodity) or another specialization.

- Optimize the fee structure of your existing fund of hedge funds investments.
- Develop, document and manage a matrix of funds of hedge funds to provide your clients a range of investment opportunities.

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