Performance Update

Fund of Hedge Funds Indices	Nov	Oct	YTD	2004	2003	2002
EDHEC Fund of Funds Index	1.61%	-1.49%	4.81%	7.07%	11.46%	1.25%
HFRI FoHF Composite Index	1.74%	-1.26%	5.52%	6.86%	11.61%	1.02%
CISDM Fund of Funds Index	1.35%	-1.49%	4.72%	7.12%	10.23%	1.05%
InvestHedge Composite	-	-1.47%	3.66%	6.12%	9.28%	1.99%
Altvest Sub-Index: Fund of Funds	1.66%	-1.45%	5.66%	7.39%	11.12%	1.23%
Eurekahedge Fund of Funds Index	1.65%	-1.51%	5.43%	6.69%	11.50%	2.22%
Barclay/Global HedgeSource FoF Index	1.53%	-1.64%	4.84%	6.61%	10.36%	1.79%
Average FoHF Indices	1.59%	-1.47%	4.95%	6.84%	10.79%	1.51%

Investable Hedge Funds Indices	Nov	Oct	YTD	2004	2003	2002
CSFB/Tremont Investable HF Index	0.77%	-0.76%	2.98%	5.31%	11.04%	5.67%
MSCI Hedge Fund Invest Index	1.58%	-0.75%	3.66%	3.10%	14.7%	5.30%
S&P Hedge Fund Index	0.07%	-0.47%	2.01%	3.95%	11.12%	4.14%
HFRX Global Hedge Fund Index	1.69%	-1.85%	1.23%	2.69%	13.39%	-
FTSE Hedge Index	1.71%	-1.32%	1.65%	3.12%	12.36%	2.05%
Average Investable HF Indices	1.16%	-1.03%	2.31%	3.63%	12.52%	4.29%

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	Nov	Oct	YTD	2004	2003	2002
PrimFund Diversified	1.41%	-0.73%	5.94%	8.39%	13.68%	-
PrimFund Growth	2.17%	-0.93%	7.45%	15.69%	20.75%	-

Inception of PrimFund Diversified was July 2004, of PrimFund Growth April 2005. The simulated data prior reflects the net performance of a weighted composite of the targeted fund managers net of fees.

Industry News

20% of UK schemes invest in hedge funds

Around one in five large UK pension funds have some exposure to hedge funds, the National Association of Pension Funds says. The NAPF's annual survey – which asked about hedge funds for the first time due to its topicality - found that around 20% have some form of investment in the asset class. And a "significant minority" had increased their allocation, a spokesman said – adding that none of the schemes who responded had decreased their allocation. The NAPF surveyed 420 funds.

Funds of hedge funds see low alpha ahead

With 100 to 150 hedge funds starting up every month, sources of alpha are likely to decline and the excess returns of hedge funds in the 1990s are unlikely to come back over the next three to five years, according to a new report from Mercer Investment Consulting.
Large fund of hedge funds managers had a tough year finding good returns in 2005, and the survey from Mercer Investment Consulting shows they're grumpy about the future, too, at least in the near-term. According to the survey, 65% of the funds of hedge funds said they expected gross hedge fund returns to equal only cash plus up to 5% in the next 12 months. Longer-term, their outlook is more positive, but most managers still see only average or slightly better-than-average returns ahead for most hedge fund strategies.

Edhec study compares funds of hedge funds to mutual funds

A new study from the Edhec Risk and Asset Management Research Centre finds that funds of funds add value through strategic allocation, but then destroy some of that value through their efforts at active management. As study authors Noël Amenc and Mathieu Vaissié observe, this means that funds of funds have greater similarity with mutual funds than many investors (or managers) realize. Yet a regression analysis on a sample of 97 funds of funds in the period 1997-2004 didn't support this hypothesis. It indicated that 86 (89%) of the funds of funds in the sample added value at the allocation level but only 30 (31%) added value at the active management level.

Advisor/People News

Bank Vontobel acquires stake in Harcourt from NIB
Harcourt Investment Consulting announced that Vontobel Holding AG is acquiring from NIB Capital NV its participation of 56% in Harcourt. Harcourt will become the centre of competence for the Vontobel Group with regard to the provision of multi-hedge and fund of hedge fund solutions. Harcourt's Management Team will maintain autonomy over the business including operational and investment decisions and Harcourt will be run as a separate brand. Harcourt's Management and employees will continue to be shareholders of the company.

Strathmore Capital adds 2 analysts
Strathmore Capital hired Ontario Teachers Plan Board analyst Stephen Harvey and scholar Sergei Sontchick. Harvey spent five years as a senior analyst for OTPP. Sontchick just completed his post-doctoral fellowship at Goethe University. He has a PhD in financial engineering from the University of Lausanne. Risk management specialist Stephen Harper founded Strathmore Capital in 2003 following a stint as chief operating officer of event-driven fund VHC.

FRM appoints George Jamgochian as head of marketing and client services
Financial Risk Management ("FRM") announced that George Jamgochian has joined its New York office as Head of Marketing and Client Services of its U.S. company, FRM Research LLC. Mr. Jamgochian's responsibilities will include leading the North American marketing effort and managing client relationships. He will also be responsible for new business development with institutional investors and consultants across North America.

Bank of Ireland buys US fund of hedge funds firm
Bank of Ireland has agreed to pay $184 million for 71.5% of Guggenheim Alternative Asset Management, a US fund of hedge funds manager focused on institutional and high net-worth clients. The New York-based company, with around $2.8 billion under management, is part of leading private wealth and investment management firm Guggenheim Partners.
Ireland's second-biggest company by market value, Bank of Ireland said the acquisition was part of its strategy to expand its portfolio of niche skill-based businesses internationally.

Cadogan announces new hires
Cadogan Management LLC said that Joel Gantcher and Dorothy Carmel have joined the firm, each as directors in research, working closely with the investment committee.
Mr. Gantcher began work Nov. 1. He joins from Safra Asset Management Corp., New York, where he was responsible for long/short equity, global macro, and commodity trading adviser investments. He has an MBA from the Wharton School, and an MA in international studies with a concentration in Latin America, from the University of Pennsylvania.
Ms Carmel began work Dec. 1. She joins from GAM Fund Management Ltd., London, where she was an investment manager. She launched and managed the GAM multi-arbitrage fund of funds, and was responsible for an additional US$1.5 billion in credit and event-driven investments held in GAM's other fund of funds. Ms. Carmel has a law degree from Harvard.

Product News

PdMV Capital launches new fund of hedge funds
Paolo di Montorio-Veronese, an alumnus of Goldman Sachs and Man Group, is launching a boutique fund of hedge funds that plans to take a concentrated, theme-based approach to fund selection, such as riding the bull market in commodities. Other themes will be corporate restructuring in Europe and Japan. It will aim to achieve double-digit annual returns with little correlation to the broader markets.

Academic/Research

Diversification and persistence in hedge funds **French, Ko, Abuaf**

They examine the current fund of hedge funds universe, and find that funds of hedge funds report holding between 1 and 200 underlying funds, and generally hold 10-30, with close to 20 on average. They regress the performance of this universe on the number of holdings and find that return is practically orthogonal to the number of underlying hedge funds held. However, when they regress risk-adjusted return measured by the ex post Sharpe ratios of funds of hedge funds, they find a statistically significant positive relation over 5-year periods; this seems consistent with the findings that diversification reduces volatility.

They also examine the diversification effect on total risk reduction in a variety of hedge fund strategies, and they report the total risk as a function of the number of underlying hedge funds for four strategies: Equity Long/Short, Arbitrage, Event-Driven and Distressed, and Global Macro. They find that the asymptotic level of total intra-strategy systematic risk varies across the strategies, from about 3% to about 10% annualized standard deviation, while diversification across funds within each strategy reduces total portfolio annualized standard deviation by about 40% - 50%, at 15 to 25 holdings.

Finally, they examine whether there is persistence in the risks and returns of hedge funds, and find persistence in returns at up to 2-year horizons and strong persistence in total risk at up to 4 year horizons.

Autocorrelation and Fat Tails - Are Hedge Funds Really Attractive Investments? **Eling**

In the literature, hedge funds often are evaluated by Markowitz portfolio selection theory, under which hedge funds appear to be a remarkable opportunity, seeing as they are characterized by low correlations to stock and bond markets and therefore offer the chance of better portfolio diversification. However, this approach neglects three problems concerning the returns of this alternative type of investment. When comparing the returns of hedge funds to those of traditional investments, the former show a significant extent of autocorrelation, bias, and fat tails. When these problems are incorporated in a performance evaluation of hedge funds, this type of fund loses most of its attraction.