

Performance Update

all data in %

Fund of Hedge Funds Indices	Nov	Oct	YTD	2006	2005	2004	2003
EDHEC Fund of Funds Index	-1.49	2.93	9.52	11.25	6.80	7.07	11.46
HFRI FoHF Composite Index	-1.50	3.10	9.83	10.39	7.49	6.86	11.61
CISDM Fund of Funds Index	-	2.76	9.60	9.11	6.47	7.12	10.23
InvestHedge Composite	-	2.76	9.73	8.67	7.07	6.15	9.34
Altvest Sub-Index: Fund of Funds	-1.44	2.68	8.34	10.24	7.68	7.39	11.12
Eurekahedge Fund of Funds Index	-1.58	2.96	9.42	10.41	7.90	6.96	11.79
HFN Fund of Funds Aggregated Average	-1.43	2.92	8.72	9.60	6.81	6.89	11.74
Barclay / Global HedgeSource FoF Index	-1.57	2.98	8.56	9.38	6.91	6.65	10.44
Average FoHF indices	-1.50	2.89	9.22	9.88	7.14	6.89	10.97

Investable Hedge Funds Indices	Nov	Oct	YTD	2006	2005	2004	2003
CS/Tremont Investable HF Index	-1.17	2.64	7.11	9.65	3.61	5.31	11.04
MSCI Hedge Fund Invest Index	-1.62	1.80	3.81	7.63	4.68	3.10	14.70
HFRX Global Hedge Fund Index	-2.41	2.82	4.37	9.26	2.72	2.69	13.39
FTSE Hedge Index	-1.91	0.98	1.24	6.27	2.60	3.12	12.36
Average Investable HF Indices	-1.78	2.06	4.13	8.20	3.40	3.56	12.87

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

Average FoHF Indices Currents Month **-1.50%**
Average Investable HF Indices Current Month **-1.78%**

Portfolios of Funds of Hedge Funds	Nov	Oct	YTD	2006	2005	2004	2003
PrimFund Diversified (net of fees)	-0.84	1.82	8.40	9.54	7.78	8.39	13.68
PrimFund Growth (net of fees)	-2.09	3.72	13.85	13.85	9.38	15.69	20.75
PrimFund Opportunity (net of fees)	-2.07	3.30	10.52	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 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
Hedge fund assets hit USD 2.68tn in third quarter

Institutional Investor News and HedgeFund.net released the 2008 Hedge Fund Asset Flows & Trends Report. The report estimates total hedge fund asset levels increased by 3.3% in the third quarter of 2007 to USD 2.68tn from USD 2.59tn in the second quarter. New allocations to the hedge fund industry increased total asset levels by an estimated USD 339bn through the first three quarters of 2007, but the reduction in assets from liquidations outpaced the increase from new fund launches in the second and third quarters. Total assets in funds of funds rose 15.8%, but losses in the third quarter resulted in the slowest quarterly asset level increase since the second quarter of 2005. Through the

third quarter 2007, total assets in funds of funds reached an estimated USD 1.28tn. As a result, they estimate 47.7% of all assets in hedge funds are allocated through fund of funds, down from 48.2% in the second quarter.

Swiss frankly high on hedge funds

There may be concerns about them and their performance may not be the best, but Swiss institutional investors prefer hedge funds over other forms of alternatives. According to a survey by consultant Lusenti Partners, hedge funds were ranked the most popular asset class, with investments largely through funds of hedge funds. Lusenti did not offer an explanation why it thought hedge funds ranked highest,

especially since respondents expressed concerns over exorbitant costs and low liquidity, and feelings that the level of transparency, or lack thereof, was "inappropriate." What's more, hedge funds aren't even the best performing alts for institutional investors. Lusenti – which notes that more than two-thirds of pension funds have some level of exposure to alternative investments - said HFs returned a net average last year of 5.8%, while private equity was tops at 7.8% and commodities gained 6%.

Half of european institutions are `convinced non-investors` in hedge funds

On the heels of Deutsche Bank's recent report "Alternative Investments In Perspective", JP Morgan came out with a European perspective called "Are Alternative Mainstream?". The two reports are similar in that they both cover the various pillars of "alternative investments" such as real estate, private equity, infrastructure, commodities and, of course, hedge funds.

JP Morgan's headline number is 107bn Euros. As in, European institutions will add 107bn Euros to their alternative portfolios in the next "2-4 years" according to the firm's survey of nearly 300 institutional investors. While that sounds impressive, only 17bn of that will actually be in the form of hedge funds. With around 1.9tn in assets managed by the survey respondents, this amounts to an increase of around 1%. Not huge, but still considered a dramatic change for mega-pensions known for their glacier-like speed. In contrast to JP Morgan's 2003 survey that revealed a large number of institutions were "undecided" on hedge funds, this edition shows that investors are now settling into two camps: those who invest in hedge funds already (42%) and "convinced non-investors" - those who have no plans to do so at all (51%). This leaves only 7% with yet-unexecuted plans to invest and it begs important questions about the industry's growth assumptions.

Hedge fund assets jump 13% in six months, fund of hedge funds up 19%

Hedge fund asset levels jumped 13% in the six months from April to November, buoyed in part by an increase in pension fund allocations to alternative strategies. Hedge funds increased by 11% for the period, according to the ninth bi-annual HFMWeek Hedge Fund Administrators Survey. Citco Fund Services topped the division with USD 440bn (€300.7bn) in assets under management, a 13% increase in the past six months and a 40% leap from November 2006.

Citi's Hedge Fund Services showed the most dramatic growth. Citigroup's USD 1.47bn acquisition of Bisys, a provider of administration services for fund management companies, including its USD 170bn alternative investment services fund, boosted the asset pool more than tenfold to USD 229bn.

Fund of hedge fund assets under management soared 19% in the six months to November. Fortis Prime Fund Solutions led the survey's fund of fund table with an 18% rise in the past six months to USD 200bn. JP Morgan Hedge Fund Services surged 224% to USD 13.3bn, while BNP Paribas Securities Services rocketed 104% to USD 52.8bn

Hedge fund investors looking for customized approach

Fund of hedge funds managers are encountering increasing demand from institutional investors for customized or separate accounts. Between 20% and 30% of new hedge fund of hedge funds searches this year are for firms that can accommodate more customized investment vehicles, vs. 10% to 20% in 2006. With USD 47.9bn in new flows to funds of hedge funds this year as of Sept. 30, according to Hedge Fund Research Inc. in Chicago, that 30% would translate to roughly USD 14bn going into the accounts. Among the pension funds that have selected or are considering custom or separate fund of hedge funds this year are the USD 18bn Doctors Pension Funds Services, Utrecht, Netherlands, and the USD 24bn Iowa Public Employees' Retirement System, Des Moines. It is believed the USD 42.3bn Teachers' Retirement System of the State of Illinois, Springfield, used separate accounts for its USD 500mn allocation to hedge funds earlier this year.

Hedge funds experiencing back office staffing shortages

Nearly 70% of hedge funds are having difficulty retaining back-office personnel, according to a new survey conducted by CPA firm Rothstein Kass. Just below 60% of hedge funds polled also indicated that they do not have enough people working in the back-office currently. Findings are summarized in "The Compensation Conundrum," co-authored by Russ Alan Prince, a leading authority and counselor on private wealth, and Hannah Shaw Grove, a widely recognized expert on behaviors and finances of high-net-worth individuals.

Advisors/People News

Key Asset Management to be acquired by SEB

Key Asset Management Group ("KAM"), a London-based fund of hedge funds manager, announced that SEB has entered into an agreement to acquire 100 per cent of the shares in KAM. As a part of the SEB group, KAM will benefit from a broader distribution platform and additional resources in order to grow its business further. The acquisition is an important step in SEB's strategy to grow its alternative investments business and to strengthen its asset management product offering. KAM will become a wholly-owned subsidiary of SEB, operating as a separate unit within its Wealth Management division. KAM's senior management and executives will continue in their existing roles, and the KAM product range and investment process

will be unaffected by the transfer of ownership. The business will be rebranded SEB Key.

La Fayette seeks to expand faster with offices in Geneva and New York

After years of keeping a low profile, La Fayette Investment Management has decided it is time to step into the spotlight. The fund of hedge funds firm, set up in 1992 by André Pierre Visser, is looking to expand faster than in the past and opened a sales and marketing office in Geneva this year to further that aim. It also set up an investment office in New York, and aims to be in a position to take on US investors soon.

Product News

Dexion Absolute share offer makes it world's largest listed fund of hedge funds

Dexion Absolute, the biggest listed fund of hedge funds, announced it has raised an extra £ 460mn (USD 946bn) from investors, more than double its original target, as it aims eventually to become one of the UK's biggest publicly traded investment funds. The fundraising for Dexion Absolute, taking its total assets to £ 1.35bn, already makes it the biggest listed hedge fund vehicle, surpassing London-based Marshall Wace's Amsterdam-listed MW Tops hedge fund, which has assets of USD 2.3bn.

Vaughan-Smith sets Q1 launch for maiden fund of hedge funds

SilverStreet Capital, the London fund of hedge funds firm co-founded earlier this year by Gary Vaughan-Smith, will launch its first strategy, a 'best ideas' fund of funds in Q1.

The global multi-strategy fund, tentatively named Hedge Fund Leaders, will allocate to around 20 managers. Many of these will be high-profile, 'closed' hedge funds with which SilverStreet has been able to negotiate capacity.

JANA offers new fund of funds at lower cost

JANA Investment Advisers has launched of new multi-manager hedge fund that costs half as much as a typical fund of hedge fund manager. The JANA Triplepoint Fund represents a new approach to hedge fund investing by directly addressing the three main challenges with many absolute return strategies; high fees, poor transparency, and poor liquidity. The fund took two years to develop and aims to deliver a return of cash plus 5 per cent per annum (post fees, pre-tax) over a five year period with a volatility of around 6 per cent per annum.

Academic/Research

130/30 funds: what is behind the commercial offensive?

Walter Gehin

High-conviction funds, beta-one funds, short extension funds, limited-shorting funds, long-enhanced funds, active extension funds, hedge-fund lite: there is a wide range of terms for what is most frequently called 130/30. Broadly, this strategy initially invests 100% in an index, sells short 30%, and uses the proceeds from the shorts to buy an additional 30% likely to beat the benchmark. In this paper, they examine some crucial points related to these funds: their theoretical foundation, the optimal level of shorting, the distinction between the quantitative and fundamental approaches, whether these funds are natural extensions of long-only funds, and finally the risk of neglecting their risk.

Are pipes a bet on growth options?

Ellis Twite

Despite their “toxic” reputation Private Investments in Public Equity (PIPEs) remains an important source of financing providing in excess of USD 10bn of capital to US firms per year over the five years to 2005. In this paper, they argue that there is more to PIPE funding than hedge funds killing companies, exploring the possibility that the firm size, performance and information asymmetry contribute to the use of PIPE financing. They conjecture that PIPEs are investments in firms with large growth opportunities that are highly uncertain. They find that the dominant PIPE structure is a plain-vanilla PIPE with positive returns during the 12 months prior to the issue.

Both PIPE issuers and SEO issuers are investing heavily in future growth opportunities but with negative cash flow relying heavily on outside financing during the year prior to the equity issue. They find that traditional common stock PIPEs are more likely to be issued by smaller research and development intensive firms. The likelihood of undertaking a PIPE issue decreases with asset size and profitability, and increases the greater the proportion of firms assets represented by patents.

An alternative approach to alternative beta

Roncalli and Teiletche

Hedge fund replication based on factor models is encountering growing interest. In this paper, they investigate the implications of substituting standard rolling windows regressions, which appear ad-hoc, with more efficient methodologies like the Kalman Filter. They show that the copycats constructed this way offer risk-return profiles which share several characteristics with the ones posted by hedge funds indices: Sharpe ratios above buy-and-hold strategies on standard assets, moderate correlation with standard assets and limited drawdowns during equity downward trends. An interesting result is that the shortfall risk seems less important than with hedge fund indices and regressions based-trackers. They finally propose new breakdowns of hedge fund performance into alpha, traditional beta and alternative beta.

This document is for informational purpose only, and does not represent an offer to acquire any of the funds or other investment vehicles listed or described herein, none of the funds or investment vehicles listed or described herein is or have been recommended by Primores Ag. No representations are made by Primores AG about the accuracy or completeness of the data contained herein. Primores AG accepts no responsibility for calculation of the rates of return herein, or for any investment allegedly made on the bases of this document. Primores AG draws readers' attention to the fact that the funds and investment vehicles listed or described herein carry substantial risks and are not suitable for all types of portfolios. Past performance of these funds and investment vehicles is necessarily an indication of future performance. This factsheet is intended for the exclusive use of the subscriber or addressee, and may not be reproduced or distributed to any other person without the express permission of Primores AG.