PRIMNEWS

Fund of Hedge Funds Review

22nd December 2008

Performance Update

all data in %

Fund of Hedge Funds Indices	Nov	Oct	YTD	2007	2006	2005	2004
EDHEC Fund of Funds Index	-1.65	-6.00	-18.53	10.07	11.25	6.80	7.07
HFRI FoHF Composite Index	-1.93	-6.07	-19.40	10.25	10.39	7.49	6.86
CISDM Fund of Funds Index	-	-5.32	-15.19	8.68	9.11	6.47	7.12
InvestHedge Composite	-	-5.00	-14.69	8.90	9.12	6.99	6.39
Altvest Sub-Index: Fund of Funds	-1.78	-6.13	-18.83	8.63	10.24	7.68	7.39
Eurekahedge Fund of Funds Index	-1.59	-5.99	-18.41	10.26	10.49	7.97	7.08
HFN Fund of Funds Aggregated Average	-1.92	-6.31	-18.74	9.27	9.60	6.81	6.89
Barclay / Global HedgeSource FoF Index	-1.79	-6.70	-20.25	8.86	9.38	6.91	6.65
Average FoHF Indices	**-1.78**	**-5.94**	**-19.03**	**9.37**	**9.95**	**7.14**	**6.93**

Investable Hedge Funds Indices	Nov	Oct	YTD	2007	2006	2005	2004
CS/Tremont Investable HF Index	-3.52	-11.35	-25.85	7.42	9.65	3.61	5.31
DJ Hedge Fund Balanced Portfolio Index	-	-8.47	-16.40	7.54	9.94	1.60	-
MSCI Hedge Fund Invest Index	-3.40	-9.16	-24.27	3.61	7.63	4.68	3.10
HFRX Global Hedge Fund Index	-3.04	-9.35	-22.30	4.23	9.26	2.72	2.69
FTSE Hedge Index	-1.04	-3.01	-19.32	0.62	6.28	2.60	3.12
RBC Hedge 250 Index	-1.50	-6.28	-20.28	8.22	10.62	-	-
Average Investable HF Indices	**-2.50**	**-7.98**	**-22.40**	**5.27**	**8.90**	**3.04**	**3.56**

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

Average FoHF Indices Current Month -1.78%

Average Investable HF Indices Current Month -2.50%

Portfolios of Funds of Hedge Funds	Nov	Oct	YTD	2007	2006	2005	2004
PrimFund Diversified (net of fees)	-1.57	-4.55	-15.22	8.53	9.54	7.78	8.39
PrimFund Growth (net of fees)	-2.52	-6.99	-22.98	13.84	13.85	9.38	15.69
PrimFund Tactical (net of fees)	-0.20	-3.53	-6.45	13.05	18.87	14.49	-
PrimFund Opportunity (net of fees)	-3.30	-10.53	-33.65	10.30	22.12	17.02	17.13

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

Lipper TASS Report shows Q3 2008 hedge fund industry losses of USD 170bn

After the hedge fund industry continued to gain assets through the second quarter of 2008, the third quarter saw an industry wide decrease in assets, to the tune of USD 170bn according to the Lipper TASS Asset Flow Report for Q3 2008. The losses were a combination of record breaking negative performance across indices (-10.33% according to the Credit Suisse/Tremont Hedge Fund Index) and asset outflows (USD 18.6bn or -1.21%). The volatility of Q2 2008 followed by market illiquidity resulted in hedge fund substrategies reporting negative returns across the board for Q3 2008. The range of returns ran from emerging markets indices returning -15.06% up to equity market neutral returning -2.04%. Average inflows for the industry since January 1994 have been 2.52%, with the last negative industry inflows in December 2005, and those strategies hardest hit by redemptions in Q3 2008 included L/S equity, fixed income arb, multi strategies and emerging markets. However, there were strategies which managed to see inflows during Q3 2008 and they include global macro (USD

Primores AG
CH-8001 Zürich
Niederdorfstrasse 88
www.primores.com
T +41 43 497 24 70
info@primores.ch
PRIMORES

2.89bn), managed futures (USD 1.34bn), equity market neutral (USD 244mn) and dedicated short bias (USD 124mn).

Pooled fund of hedge funds post negative Q3 results

Statistics released by BNY Mellon Asset Servicing show that pooled fund of hedge funds failed to achieve positive returns during the third quarter of 2008. Over this period the median return for these funds was -9.7%, the lowest return that BNY Mellon has seen since the company started to measure pooled fund of hedge fund performance in 2003. In the second quarter, pooled fund of hedge fund managers had been back in positive territory, with the median fund returning 2.4%. Results were also negative over a one year period with pooled fund of hedge funds returning -8.8%.

Advisors/People News

Paamco recruits KBC Alpha pan-Asian fund of hedge funds team

Pacific Alternative Asset Management Company, an Irvine, California-based fund of hedge funds manager with USD 9bn in assets has announced the recruitment of the investment team of KBC Alpha Asset Management, a USD 700mn Asia-focused fund of hedge funds manager. KBC Alpha was established in 2001 by chief investment officer Neale Safaty as the fund of hedge funds division of KBC Alternative Investment Management. The fund investment team will be integrated into Paamco's global portfolio management team and will initially operate as a separate division within the firm known as Pan Asia Alpha Strategies.

TriAlpha to merge with ACP

The Stonehage Group said its alternatives asset management arm TriAlpha is merging with ACP Partners. Newly dubbed ACP TriAlpha will have about USD 2.5bn in assets under management. Stonehage and ACP will each own half of the new company. The transaction is still subject to regulatory approval. Goldman Sachs alumni Joseph Sassoon and Alok Oberoi founded ACP in 2001. Oberoi will be co-chief executive officer of ACP TriAlpha along with Brett Lankester, who joined ACP last year. Sassoon is returning to academia as a visiting scholar at Georgetown University, but he will act as a consultant for the new company.

Combining the strengths of Glenwood and MGS to form Man Glenwood Strategies

Man Investment has informed of an internal re-organisation involving two of their investment managers, Glenwood and Man Global Strategies ('MGS'). This will create a combined entity to be known as Man Glenwood Strategies. The combined business will bring together the investment expertise, manager relationships and research network of Glenwood, with the managed account infrastructure, operational experience and investor servicing capabilities of MGS.

Benedict Hentsch terminates partnership with Fairfield Greenwich following Madoff scandal

Geneva-based Banque Benedict Hentsch confirmed the bank's exposure to Madoff amounted to CHF 56mn (USD 47.7mn) – less than 5% of the bank's total AUM. Further, the bank's board of directors and management decided to terminate the bank's partnership with the Fairfield Greenwich Group which was instigated in September 2008. The bank will thus regain its autonomy and the name of Banque Bénédict Hentsch & Cie SA as soon as the decision is approved by the Swiss Federal Banking Commission.

Primores AG
CH-8001 Zürich
Niederdorfstrasse 88
www.primores.com
T +41 43 497 24 70
info@primores.ch
PRIMORES

Product News

AlphaMetrix expect to launch short term traders index early next year

The Chicago based financial services company AlphaMetrix, which specializes in the operation of a real-time electronic managed account platform, expect to launch a short term traders index early next Year. The Alternative Edge Short-Term Traders Index is designed to track the daily performance of a portfolio of CTAs and Global Macro managers executing diversified trading strategies with a less than 10-day average holding period.

Academic/Research

Hedge fund alphas: Do they reflect managerial skills or mere compensation for liquidity risk bearing?

Rajna Gibson and Songtao Wang

They study the effect of liquidity risk on the performance of various hedge fund portfolio strategies. The portfolio strategies in each hedge fund style are formed by incorporating predictability in: (i) managerial skills, (ii) fund risk loadings, and (iii) benchmark returns. They find that, before taking into account the effect of liquidity risk, long-only constrained hedge fund style portfolios that incorporate predictability in managerial skills generate superior performance. However, the outperformance disappears or weakens dramatically for seven out of ten types of hedge fund style portfolios once the effect of liquidity risk is incorporated into the performance evaluation framework. Hence, for most hedge fund style-based portfolio strategies, "alphas" to a large extend reflect mere compensation for liquidity risk bearing. These results are robust to: (i) an alternative performance evaluation model (ii) an alternative liquidity risk proxy, (iii) the exclusion of the January effect on the liquidity premium and (iv) the exclusion of the recent financial crises data.

Do funds of funds deserve their fees on fees?

Andrew Ang, Rui Zhao, Matthew Rhodes-Kropf

Since the after-fee returns of funds of funds are, on average, lower than hedge fund returns, it is easy to conclude that funds of funds do not add value compared to hedge funds. However, funds of funds should not be evaluated relative to hedge fund returns in publicly reported databases. Instead, the correct fund of funds benchmark is the set of direct hedge fund investments an investor could achieve on her own without recourse to funds of funds. We use asset allocation concepts to estimate characteristics of the fund of funds benchmark distribution. Since the benchmark characteristics are reasonable, they conclude that funds of funds, on average, deserve their fees on fees.

Locking in the profits or putting it all on black? An investigation into the risk-taking behaviour of hedge fund managers

Andrew Clare and Nick Motson

In this paper they investigate the influence of two factors on the risk taking behaviour of hedge fund managers. The first factor is the past performance of the fund relative to the performance of each fund's peer. The second is the option-like features of the typical hedge fund manager's compensation structure. They aim to answer questions of the following kind: do those funds that find that their incentive option is out of the money increase risk or vice-versa? They then attempt to reconcile these results with the theoretical frameworks proposed. They believe these questions to be of critical importance given the recent performance of the hedge fund industry. Based upon performance to end of October 2008, it is clear that many funds will find themselves considerably below their high water marks and with significantly less assets under management. Their work here may help to throw some light on the likely response of hedge fund managers to this current crisis.

Primores AG
CH-8001 Zürich
Niederdorfstrasse 88
www.primores.com
T +41 43 497 24 70
info@primores.ch
PRIMORES