

Performance Update all data in %

Fund of Hedge Funds Indices	Nov	Oct	YTD	2008	2007	2006	2005
EDHEC Fund of hedge funds Index	0.82	-0.21	9.94	-19.73	10.07	11.25	6.80
HFRI FoHF Composite Index	0.91	-0.15	10.69	-21.37	10.25	10.39	7.49
CISDM Fund of hedge funds Index		-0.13	8.45	-17.04	8.68	9.11	6.47
InvestHedge Composite	0.79	-0.11	8.50	-16.63	8.90	9.12	6.99
Eurekahedge Fund of hedge funds Index	0.89	-0.12	9.14	-19.79	10.36	10.48	7.97
HFN Fund of hedge funds Aggregated Average	1.00	-0.26	9.20	-19.97	9.27	9.60	6.81
Barclay / Global HedgeSource Fund of hedge funds Index	0.80	-0.24	9.37	-22.18	8.86	9.38	6.91
Hedgagate Swiss FoHF Index USD		-0.16	7.20	-19.85	10.98	9.82	8.11
Average FoHF Indices	0.87	-0.17	9.47	-19.57	9.67	9.89	7.19

Investable Hedge Funds Indices	Nov	Oct	YTD	2008	2007	2006	2005
CS/Tremont Investable HF Index	2.25	1.88	12.20	-26.31	7.42	9.65	3.61
HFRX Global Hedge Fund Index	1.66	-0.06	12.77	-23.25	4.23	9.26	2.72
RBC Hedge 250 Index	1.00	-0.18	18.26	-21.21	8.22	10.62	-
Average Investable HF Indices	1.64	0.55	14.41	-23.59	6.62	9.84	3.17

Investable Hedge Funds Indices	Nov	Oct	YTD	2008	2007	2006	2005
Replication Indices	1.10	0.20	9.00	-13.80	8.10	13.30	7.80

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

Average FoHF Indices Last Month **0.87**

Average Investable HF Indices Last Month **-0.18**

Industry News
Fund of hedge funds see strong net inflows in Q3

The fund of hedge fund sector experienced strong net inflows during the third quarter, with positive absolute returns in each of the individual months, according to a report by Standard & Poor's. The report says funds of hedge funds returned over four per cent in the third quarter and are up over eight per cent during the year to date, with funds that focus on emerging markets leading the recovery. Gross and net exposure remains below historical levels, but net market exposures increased in the third quarter because hedge fund managers held in fund of hedge funds portfolios have not been convinced on the sustainability of the rally in the markets.

Welsh pension starts search for first fund of hedge funds

The Powys Pension Fund has issued a tender for its first investment in hedge funds. The GBP 280mn Welsh pension's consultant, Hewitt Associates issued a tender on behalf of the local authority for one or more funds of hedge funds for a mandate of around GBP 15mn. The Powys County Council met in March this year to discuss the move and decided to allocate 5% of its pension investment portfolio to fund of hedge funds, following an educational presentation from London-based Fauchier Partners. The chosen firm will have to show a demonstrable track record of hedge fund investments and have the expertise and depth of resources necessary.

Advisors/People News

IAM makes two senior hires

International Asset Management, a fund of hedge funds investment manager in Europe, has appointed Andrew Cade as head of client development and marketing and Mark Faulkenberg as head of operational due diligence. Based in IAM's London office, Cade will be responsible for heading up the client development and marketing team at IAM and will join IAM's heads of department committee. Reporting to Bernard Minsky, head of portfolio analysis & risk management, and based in New York, Faulkenberg will be responsible for leading the due diligence process at IAM which involves assessing whether funds have robust systems, processes, infrastructure and adequate staffing in place.

Partners Group to spin out hedge fund clone unit

Swiss alternative asset manager Partners Group said it will spin out its hedge fund replication business next month as it focuses on private equity, private real estate and other unlisted markets. Partners Group, which manages more than CHF 24bn in assets, said the alternative beta strategies team, headed by Lars Jaeger, will buy a minority stake in the unit while Partners Group will retain a majority stake. The alternative beta strategies team runs approximately CHF 200mn in funds that use derivatives and other techniques to try to reproduce the performance of hedge funds but at a much lower cost.

Product News

Blacksquare to open Ucits fund of hedge funds in January

Blacksquare Capital has launched IFSL Blacksquare Multi-Manager Absolute Return Fund. The fund of hedge funds is one of the first regulated Ucits compliant multi-manager investment products to be launched in the UK. Investing in a portfolio of regulated Ucits absolute return funds and money market instruments, the fund aims to deliver positive absolute returns uncorrelated to equity and bond markets. Launching with around 15 absolute return funds, it will have exposure to multiple asset classes such as stocks, bonds, currencies and commodities.

Culross Global sets up new fund

Culross Global Management has launched a new fund, which will invest in underlying hedge fund managers dealing in credit instruments. The LT Alpha fund will invest in 8-15 hedge funds that invest in inexpensive yet hard-to-sell credit assets. The fund will also seek to partly use its assets to buy particularly illiquid portions of other hedge funds that have been separated from the main fund to wind down. LT Alpha will only allow its investors their money back in three equal tranches over three years.

Blackstone readies seeding fund for Q1 launch

The Blackstone Group is gearing up to launch a new seeding fund. The new vehicle will be managed by Blackstone Alternative Asset Management, and is expected to begin trading early next year with more than USD 1bn. The fund, which has not been named, will reportedly have a similar strategy to the firm's existing seeding fund, Strategic Alliance. While the new fund is open to investing in all types of managers, it is expected to focus on long-short equity, distressed debt, global-macro and commodities funds.

Sauren's Newcits fund of hedge funds to target managers like Guy, Gibbs and Clapp

A new absolute return fund of hedge funds from manager selection specialist Sauren will target Newcits funds run by star managers such as Roger Guy, Philip Gibbs and Graham Clapp. The German firm is set to launch the new Absolute-Return-Dachfonds fund at the start of 2010, as it looks to participate in the new generation of Ucits III vehicles, so-called 'Newcits' funds, which are blurring the distinction between traditional funds and hedge funds.

Academic/Research

Systematic funds outperform discretionary funds

Irene Aldridge

This article compares the performance of systematic and discretionary hedge funds. The analysis herein shows that systematic funds consistently outperform discretionary funds when performance is measured by Jensen's Alpha. Systematic funds also exhibit lower correlation with the S&P 500 index and produce higher cumulative returns since inception, although with higher volatility. On the basis of absolute monthly returns, systematic hedge funds outperform discretionary hedge funds whenever markets are falling. When markets are rising, however, discretionary funds tend to deliver higher absolute returns than do systematic funds. On the absolute return basis, the difference between systematic and nonsystematic funds cannot be explained by liquidity considerations: both systematic and discretionary funds deliver comparable returns in both liquid and illiquid markets. Across a variety of other metrics, however, systematic funds perform much better than discretionary funds in limited liquidity across a variety of metrics: systematic funds produce less extreme drawdowns, higher Sharpe ratios, higher Jensen's alpha, and attract higher Assets under Management. Finally, systematic funds exhibit lower skewness and kurtosis than do discretionary funds. When adjusted for skewness and kurtosis, systematic returns are statistically indistinguishable from discretionary returns, suggesting that

much of systematic funds' outperformance comes from better ability to manage extreme events, performing better than discretionary funds in crisis conditions.

Out of the dark: Hedge fund reporting biases and commercial databases A. L. Aiken, C. Clifford, J. Ellis

They examine the self-reporting bias in hedge fund data. Using holdings data from a set of limited partners, they construct a novel set of returns for hedge funds that otherwise have never reported to a commercial database. These returns allow, for the first time, a direct comparison of performance between funds that choose to report and funds that do not. They find evidence that estimates of managerial skill using self-reported data are positively biased on average. Further, the selection bias is asymmetric in performance: At the 10th percentile of returns, self-reporting funds outperform their non-reporting peers by 56 basis points a quarter, whereas at the 90th percentile of fund returns, self-reporting funds underperform non-reporting funds by 44 basis points a quarter. It appears that self-reported hedge fund returns fail to account not only for some of the worst performing funds, but also for the best performing funds. They examine the risk implications caused by the self-reported data. Commonly used measures of tail-risk are larger for non-reporting funds than for the self-reported data, indicating that the self-reporting may bias estimates of hedge fund risk downward.

About Primores

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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:

- Advice regarding single fund of hedge funds investments

- Customized Solution for institutional investors (white label, sub advisory)
- PrimFunds: one stop shop solutions

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