

## Performance Update

<b>Fund of Hedge Funds Indices</b>	Jan	Dec	2004	2003	2002	2001
EDHEC Fund of Funds Index	0.06%	1.45%	7.07%	11.46%	1.25%	-
HFRI FoHF Composite Index	0.01%	1.40%	6.79%	11.59%	1.02%	2.80%
CISDM FoHF Diversified Median	0.08%	1.42%	7.52%	10.04%	0.65%	4.99%
CISDM FoHF Niche Median	0.46%	1.52%	8.33%	10.62%	1.99%	6.75%
InvestHedge Composite <sup>1)</sup>	-	1.26%	6.12%	9.28%	1.99%	5.42%
Altvest Sub-Index: Fund of Funds	0.18%	1.52%	7.39%	11.12%	1.23%	2.28%
Eurekahedge Fund of Funds Index	-0.04%	1.37%	6.47%	11.22%	2.03%	5.47%
Barclay/Global HedgeSource FoF Index	0.08%	1.48%	6.60%	10.36%	1.79%	4.45%

1) Updated by the end of the month.

<b>Investable Hedge Funds Indices</b>	Jan	Dec	2004	2003	2002	2001
CSFB/Tremont Investable HF Index	-0.64%	1.07%	5.31%	11.04%	5.67%	7.47%
MSCI Hedge Fund Composite Index	-0.31%	0.86%	3.10%	14.7%	5.30%	12.74%
S&P Hedge Fund Index	-0.63%	1.08%	3.95%	11.12%	4.14%	9.36%
HFRX Global Hedge Fund Index	-0.95%	1.24%	1.43%	13.39%	-	-
FTSE Hedge Index	-0.64%	0.57%	2.76%	12.36%	2.05%	8.27%

## Industry News

### Top fund of hedge funds grow to \$541bn, controlling half the hedge fund industry

The largest 119 fund of hedge funds – with assets of over \$1 billion – now control over half of the total assets invested in hedge fund (i.e. \$541bn), according to the latest research by InvestHedge. More than \$1 trillion is invested in the single manager hedge fund business globally. This follows an extraordinary year in which institutions, many for the first time, and high net worth individuals poured money into the largest fund of hedge fund groups.

The number of groups in the InvestHedge Billion Dollar Club grew from 81 to 119 in 2004 as the bigger fund of funds continued to grab a larger share of the money invested in hedge funds. Such was the acceleration in the asset gathering by the groups in the InvestHedge Billion Dollar Club that they raised \$166 billion in 2004, trebling the assets in this universe in three years.

### Hedge Funds ends 2004 with nearly 1 trillion in assets

**HFR**

Hedge Fund Research, Inc. (HFR) released its year-end analysis for 2004 which shows that for the year hedge funds attracted \$73.6 billion in net inflows, and expanded by nearly 19% to \$972.6 billion in assets under management. Although these results are more moderate than the torrid pace seen in 2003 (19.6% performance return and 31% total growth), 2004 was notable for its rapid recovery from a mid-year slowdown and steady performance in nearly all fund categories. According to HFR, the current trajectory makes it highly likely that the industry will eclipse \$1 trillion in Q1 2005.

In particular, the annual results were energized by an extremely strong Q4 that brought a solid finish to a year that had experienced negative to flat returns in Q2 and Q3, and tepid mid-year asset flows.

THIS DOCUMENT IS FOR INFORMATIONAL PURPOSES 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 BASIS 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 NOT 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.

The \$79.6 billion expansion of assets in Q4, made possible by a solid 5.3% industry-wide quarterly performance gain along with \$27 billion in inflows qualifies as the largest quarterly expansion yet seen by HFR.

### **Tremont Research: Hedge funds add \$16.3bn in Q4 2004, lowest of record year**

The hedge fund industry gained \$16.3 billion in net assets for the fourth quarter of last year, according to research compiled by Tremont Capital Management, Inc.'s TASS Research<sup>TM</sup>. The fourth quarter results, the smallest quarterly inflow for 2004, come on the heels of several quarters of low volatility and historically lower performance for many hedge fund strategies. Nonetheless, total net flows for the industry in 2004 totaled a record \$123 billion compared to \$72.2 billion for 2003.

For 2004, the strategies that attracted the greatest share of net assets were Long/Short Equity, Event Driven and Global Macro. For the fourth quarter of 2004, hedge fund flows favored the Event Driven, Long/Short Equity and Multi-Strategy categories. Both Convertible Arbitrage and Equity Market Neutral saw net flows decline during the fourth quarter, largely reflecting the low volatility environment that presented fewer opportunities for profitable trading. In the Equity Market Neutral category, managers with a fundamental bias performed better than those with a statistical bent.

### **College endowments increase hedge fund allocations**

The 2004 NACUBO Endowment Study has found that average equal weighted allocations to hedge funds was 7.3% in the fiscal year ended 2004, up from 6.1% in 2003 and 1.6% 10 years ago. Participants in the National Association of College and University Business Officers survey include 747 institutions in the US and Canada with US\$267 billion in endowment holdings.

The study found that, on average, endowments with more than \$1 billion in assets allocated 20.2% to hedge funds; those with between \$500 million and \$1 billion allocated 14.4%; between \$100 million and \$500 million (10%); between \$50 million to \$100 million (5.6%); and between \$25 million and \$50 million (4.6%).

Of assets allocated to hedge funds, funds of funds received 29.1% of equal-weighted allocations; absolute return followed with 16.6% and long/short equity with 13%.

Hedge funds returned an average of nearly 12% for those endowments with overall assets of more than \$1 billion. This compared with returns of 31% for non-US equities, 28% for natural resources, 22% for US equities and 21% for private equity.

## **Advisor/People News**

### **Goldman gives up CIO role at Pioneer, Nurick leaves immediately**

Michael Goldman will step down from his role as co-chief investment officer of Pioneer Alternative Investments (PAI). Matthew Nurick and Goldman founded fund of hedge funds Momentum, which was acquired by PAI in 2002 and remained fully involved in the business as co-chief investment officers.

Goldman is giving up that role now the process of integrating Momentum is complete, but will continue to provide guidance under a renewed 3-year contract from the second quarter of this year. Matthew Nurick will leave the company immediately.

Mark Barker and Greg Knott, who have been part of the Momentum management team for 19 and 16 years, respectively, will take over the investment role. Paolo Barbieri, General Manager of PAI Milan will take over the role of deputy chief executive officer of the PAI Division and will be responsible for the fund of hedge funds business.

THIS DOCUMENT IS FOR INFORMATIONAL PURPOSES 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 BASIS 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 NOT 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.

### **Aetos Capital and AEA to link up to create \$7bn firm**

Exclusive private equity group and fund-of-funds manager join forces. AEA Investors, one of the oldest and most exclusive private equity groups on Wall Street, is joining forces with Aetos Capital, a property investor and fund of hedge funds manager, in the latest sign that consolidation could be the next stage in the evolution of the alternative asset industry. The move will create a diversified investment concern with about \$7bn of assets under management.

### **Laurent Chevallier new Chief Investment Officer at Bucephale**

The Bucephale Group announced that Laurent Chevallier, CFA, MBA, was named Chief Investment Officer of the group. Giuseppe Tomé was elected Honorary Chairman of the group and Michele Réthoret President in charge of Corporate Governance, Administration and Operations.

Laurent Chevallier joined Bucephale after 9 years in the United States, four of which at Weston Capital, as Head of Research and one of three members of the Investment Committee managing over 900 million dollars of funds of hedge funds. In 2001, he co-founded Quest Partners in which he acted as CIO for funds of hedge funds, focusing on the selection of emerging managers.

## **Product News**

### **Launch of commodity fund of hedge funds**

EFG Private Bank and Altera Partners Management launched a fund of hedge funds focused on the commodity market in response to the growing demand from private clients to increase their exposure to this asset class.

The fund – AP Hedged Commodity – started trading in November 01, 2004. It is invested with several managers in order to offer a well diversified exposure to energy, agriculture and metals in such proportions as to reasonably reflect the depth of the commodity market. Managers employ diverse strategies such as systematic and discretionary trading, relative value arbitrage and to a lesser extent equity long short in the energy sector as well as other strategies. The main mandate of the fund is to protect capital from the volatility in commodities markets.

### **New insurance-linked fund of funds from AIG Private Bank**

AIG is planning to launch a new fund of funds specializing in insurance-linked strategies including investments in CAT bonds and other insurance derivatives.

The fund of funds, which is scheduled to launch in May 2005, is applying for registration in Switzerland and will be open to institutional and private investors. It will be run by the alternative product team of AIG Private Bank in Zurich, headed by Daniel Hausammann. The fees are not yet fixed but will be comparable to the "traditional" fund of hedge funds. Target return is Libor plus 6 to 7%.

### **Gottex to soft close its flagship fund, the Gottex Market Neutral Fund**

Following the closing of the 2x and 3x leveraged share classes last year, Gottex Fund Management will soft close the non-leveraged classes in its highly successful Gottex Market Neutral on March 1, 2005. After this date, existing Gottex clients and prospective clients in the final stages of due diligence will be able to invest up to pre-agreed capacity limits.

THIS DOCUMENT IS FOR INFORMATIONAL PURPOSES 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 BASIS 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 NOT 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.

## **Academic/Research**

---

### **Hedge Funds: Where is the (H)Edge?**

**Beckers, Smedts**

In this paper they investigate to what extent hedge funds are a superior investment alternative. While it is easy to demonstrate that hedge funds dominate traditional investment alternatives when using the standard measures of risk adjusted return, it is also apparent that they are exposed to a host of non-standard risks. These additional sources of risk are sometimes actively sought by hedge funds and support their classification as an 'alternative' investment class. Surprisingly though, hedge fund returns are most dominantly determined by the equity market performance, although other variables such as credit spreads and the investing public's risk appetite can also be shown to have an impact. Fund of hedge funds are the most straightforward vehicle to invest in hedge funds. They demonstrate that their primary value added derives from the diversification they provide across a wide range of hedge fund styles. In this context they can be a useful alternative for investors who consider adding hedge fund exposures to their portfolios.

### **How to Select a Hedge Fund of Funds: Pick the Winners and Avoid the Losers**

**Dorsey**

There were 1,232 funds of funds in 2003, up from 538 in 2000—one of the many facts one can find in this highly informative book by consultant Alan Dorsey. These builders of hedge fund portfolios are responsible for around 40% of total industry assets and act as conduits for much of the institutional money coming in.

Fund of fund investing takes the burden of hedge fund due diligence off the shoulder of the pension or endowment officer but leaves him or her with the responsibility of choosing a product. Mr. Dorsey, director of hedge fund investments and research at the consulting firm CRA RogersCasey, Darien, Conn., offers a systematic guide to fund of funds investing.

He starts with the definition of the subject, goes through the pros and cons and the role of funds of funds and gives information about this market. But the core is Part III, where a novice will be able to learn what to look for and what questions to ask. Even the seasoned professional may glean new insights.

---

THIS DOCUMENT IS FOR INFORMATIONAL PURPOSES 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 BASIS 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 NOT 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.

---