PRIMNEWS
Fund of Hedge Funds Review

22nd February 2007

Performance Update

Fund of Hedge Funds Indices	Jan	Dec	YTD	2006	2005	2004	2003
EDHEC Fund of Funds Index	1.21%	1.75%	1.21%	11.25%	6.80%	7.07%	11.46%
HFRI FoHF Composite Index	1.26%	1.78%	1.26%	10.42%	7.49%	6.86%	11.61%
CISDM Fund of Funds Index	-	1.55%	-	9.11%	6.47%	7.12%	10.23%
InvestHedge Composite	-	1.58%	-	8.67%	7.07%	6.15%	9.34%
Altvest Sub-Index: Fund of Funds	1.20%	1.69%	1.20%	10.24%	7.68%	7.39%	11.12%
Eurekahedge Fund of Funds Index	1.22%	1.77%	1.22%	9.88%	7.70%	6.88%	11.59%
Barclay/Global HedgeSource FoF Index	1.23%	1.73%	1.23%	9.33%	6.91%	6.65%	10.44%
Average FoHF Indices	1.22%	1.69%	1.22%	9.84%	7.16%	6.87%	10.83%

Investable Hedge Funds Indices	Jan	Dec	YTD	2006	2005	2004	2003
CS/Tremont Investable HF Index	1.25%	1.84%	1.25%	9.65%	3.61%	5.31%	11.04%
MSCI Hedge Fund Invest Index	1.16%	1.18%	1.16%	7.63%	4.68%	3.10%	14.70%
HFRX Global Hedge Fund Index	1.50%	1.58%	1.50%	9.26%	2.72%	2.69%	13.39%
FTSE Hedge Index	1.02%	1.23%	1.02%	6.20%	2.60%	3.12%	12.36%
Average Investable HF Indices	1.23%	1.46%	1.23%	8.19%	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.

Fund of Funds of Hedge Funds	Jan	Dec	YTD	2006	2005	2004	2003
PrimFund Diversified (net of fees)	0.79%	1.65%	0.79%	9.54%	7.78%	8.39%	13.68%
PrimFund Growth (net of fees)	1.02%	2.22%	1.02%	13.85%	9.38%	15.69%	20.75%
PrimFund Opportunity (net of fees)	1.58%	2.66%	1.58%	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 a weighted composite of the targeted fund managers net of fees. All numbers shown are for illustration purposes only and are no guarantee of future performance.

Industry News

Funds of hedge funds see stellar growth in 2006 — **Investhedge**

The funds of hedge funds industry shows no sign of an asset slow down, as more than USD 183 billion was added to the universe in 2006, despite the volatile markets and the Amaranth Advisors fall out, according to the latest survey of the InvestHedge Billion Dollar Club. In the whole of 2005, the universe only added USD 72 billion.

Overall the industry had average performance of 8.67% for the full year, but despite this the industry still grew by nearly 29%, which is more than double the growth rate of nearly 13% in 2005, but still below the 44% record growth rate in 2004. The largest funds of funds—those with more than USD 1 billion in assets under management – now control a combined amount of USD 820 billion in assets, according to the six-month asset flow survey carried out by InvestHedge.

Trends in funds of hedge funds — **Eurekahedge**

The 2007 edition of the Eurekahedge Global Fund of Hedge Funds Directory contains information on close to 2,100 funds. Based on this and related information, they estimate the total size of the fund of funds universe at USD 499 billion as of end-2006, up 35% from our end-2005 estimate and accounting for nearly a third of global hedge fund assets. Judging by this and the performance of the Eurekahedge Fund of Funds Index (which rose 10% in 2006 in contrast to 7.7% in 2005), 2006 has, in the main, been a good year for the industry. The industry has witnessed exponential growth over the past few years – in terms of the number of funds as well as the size of assets.

Fund of Hedge Funds perform swimmingly in pooled pension funds — **Mellon**

Pooled funds of hedge funds performed better over the long term than other pooled pension fund allocations, according to Mellon Analytical Solutions. In its latest pooled pension funds update, Mellon found that over a five-year period that ended in September 2006, its pooled fund of hedge funds universe returns 10% a year, compared with 9% a year for U.K. equity pooled funds and 7.5% for overseas funds.

London is choice location for listing funds of hedge funds **ABN Amro**
London overtook Zurich last year as the location of choice for listing funds of hedge funds in the latest sign of the industry's shift from wealthy individuals to institutional investors such as pension funds. Research by ABN Amro shows London ended last year with more than £3bn in listed fund of hedge funds, more than double Zurich, after passing Switzerland in size of funds for the first time in January.

Hedge fund replication: EDHEC study recommends caution
A recent study from the Edhec Risk and Asset Management Research Centre advises investors to be skeptical about claims that it is possible to produce the passive replication of hedge fund returns, at least until they fully understand the limits of the replication techniques proposed to date. The authors of the research, Walter Géhin, Lionel Martellini and Jean-Christophe Meyfredi, have examined in detail the methodologies proposed in order to produce passive replication, and specifically at the techniques known as "factor-based replication" and "payoff distribution replication."

Portable Alpha pays for PennSERS
The Pennsylvania State Employees' Retirement System made more than USD 1 billion in above-market returns over a period of five years from a portable alpha program that used a fund of hedge funds as the alpha source. This extra return came without materially increasing risk, according to PennSERS Chief Investment Officer Peter Gilbert. Last year, the portable alpha strategy boosted returns by 5.4 percentage points above the Standard & Poor's 500 stock index return of 15.7%.

Advisor/People News

Switzerland's SYZ expands in Asia with acquisition of Hong Kong based Oria Capital
Swiss banking group SYZ & CO announced the expansion of its activities in Asia through the acquisition1 of Oria Capital, a Hong Kong based fund of hedge funds management group, which will become part of the Group's alternative investment business line and will subsequently change its name to 3A Asia. 3A Asia's role will be to extend the Group's funds of hedge funds to a fast-growing Asian investor base, as well as to analyse and select Asian hedge fund managers.

BCV and Gottex Fund Management partner in alternative investment solutions
Banque Cantonale Vaudoise ("BCV") is joining forces with Gottex Fund Management. BCV's alternative investment team can now draw on Gottex's extensive network to identify new investment opportunities, mainly applied to conservative investment strategies. BCV will also gain from Gottex's global presence as well as its extensive experience in hedge fund risk management.

AXA Investment Managers appoints new Head of Hedge Fund Activities
AXA Investment Managers (AXA IM) announced the appointment of Christoph Manser as Head of Hedge Fund Activities. In this role, Christoph will be responsible for managing AXA IM's funds of hedge funds and of its single hedge fund platform. He will also support the development of hedge fund activities in the other investment franchises of the AXA IM Group.

Ivy Asset Management names Peter D. Noris Chief Investment Officer
Ivy Asset Management hired Peter Noris as its new chief investment officer. He will work with the firm's investment team on research, portfolio management, risk management and operational due diligence. He will report to Ivy Co-President Sean Simon. Before joining Ivy, Noris was CIO of Northstar Financial Services. Prior to that, he worked at AXA Equitable, Salomon Bros., Morgan Stanley, Continental Asset Management and General Re.

Launch of hedge fund advisory company
Jim Vos, former head of Credit Suisse's fund of funds businesses, has formed with other alumni from CS' Hedge Fund Investment Group Aksia Research & Management, which will advise institutional investors placing money directing into hedge funds.

Silver Creek hires Bloom
Fund of funds manager Silver Creek Capital announced it has hired Sagamore Hill founder Steven Bloom as a senior managing director. Bloom will oversee Silver Creek's Early Advantage Fund, which invests in emerging managers. In addition, Bloom will assist with all aspects of the investment process at Silver Creek, including sitting on the firm's investment committee as a senior member. He will be based in the firm's New York office. As head portfolio manager at Sagamore Hill, Bloom had been responsible for a global multi-strategy fund with billions of dollars in assets. Prior to starting Sagamore Hill, Bloom co-founded proprietary trading firm Susquehanna Partners.

Product News

New India fund of funds launched
New York and Mumbai-based RAS Capital Management has launched a fund of funds providing a multi-manager approach to investing in multiple asset classes in India. While the RAS India fund of funds is long-biased to capture the fundamental growth opportunities, the firm maintains it is important to manage the volatility and risk associated with the Indian market.

Academic/Research

Exploring Value in Hedge Fund Lock Ups: A Sector View **Kuchta**
On a total universe basis it appears challenging to determine if hedge funds employing lock ups add consistent long term value over those funds that do not enforce lock ups. It seems more critical to understand that hedge fund sub sectors, and the unique funds therein, require individual analysis to determine if the respective liquidity terms properly match portfolio assets and liabilities and are implemented in the best interest of the investors. From this study it is fair to conclude that Credit (to a certain degree), Distressed, Emerging Markets, Event Driven, Mortgage, Multi Strategy Arbitrage and PIPE funds predominantly consist of underlying securities that are likely to warrant longer lock ups. Furthermore, it can be argued that the return premiums of the lock up funds within these sectors justifies more stringent liquidity terms. Conversely, they find little justification for Convertible Arbitrage, Long/Short Equity, Equity Market Neutral, Equity Short Bias, Macro, or Options funds to employ excessive lock ups based on the liquid nature of the underlying securities and these funds inability to consistently generate a return premium over time.

A Comparison of Alternative Approaches for Determining the Downside Risk of Hedge Fund Strategies **Giamouridis, Ntoula**
This paper compares a number of different approaches for determining the Value at Risk (VaR) and Expected Shortfall (ES) of hedge fund investment strategies. The authors compute VaR and ES through completely model-free methods, as well as through mean/variance and distribution model-based methods. Among the models considered, certain specifications can technically address autocorrelation, asymmetry, fat tails and time-varying variances, which are typical characteristics of hedge fund returns. It is found that conditional mean/variance models coupled with appropriate distributional assumptions improve the ability to predict VaR, 1% VaR in particular. The authors also find that the goodness of ES prediction models is primarily influenced by the distribution model rather than the mean/variance specification.
In this paper, the authors relax the assumptions of constant mean and volatility in hedge fund returns which have been standard in the study of hedge fund downside risk. In addition, they use flexible distributional assumptions – which have been used successfully in the study of traditional investments' downside risk – to incorporate asymmetries and fat tails in the loss distribution.