

Performance Update

all data in %

Fund of Hedge Funds Indices	Jan	Dec	YTD	2007	2006	2005	2004
EDHEC Fund of Funds Index	-2.84	0.40	-2.84	10.07	11.25	6.80	7.07
HFRI FoHF Composite Index	-2.93	0.45	-2.93	10.25	10.39	7.49	6.86
CISDM Fund of Funds Index	-2.53	0.34	-2.53	8.32	9.11	6.47	7.12
InvestHedge Composite	-	0.35	-	8.68	8.67	7.07	6.15
Altvest Sub-Index: Fund of Funds	-2.94	0.31	-2.94	8.63	10.24	7.68	7.39
Eurekahedge Fund of Funds Index	-2.89	0.46	-2.89	10.10	10.40	7.91	6.97
HFN Fund of Funds Aggregated Average	-2.65	0.46	-2.65	9.27	9.60	6.81	6.89
Barclay / Global HedgeSource FoF Index	-3.05	0.35	-3.05	8.86	9.38	6.91	6.65
Average FoHF Indices	-2.83	0.39	-2.83	9.27	9.88	7.14	6.89

Investable Hedge Funds Indices	Jan	Dec	YTD	2007	2006	2005	2004
CS/Tremont Investable HF Index	-1.17	0.20	-1.17	7.42	9.65	3.61	5.31
MSCI Hedge Fund Invest Index	-2.48	-0.19	-2.48	3.61	7.63	4.68	3.10
HFRX Global Hedge Fund Index	-2.06	-0.14	-2.06	4.23	9.26	2.72	2.69
FTSE Hedge Index	-2.56	0.50	-2.56	1.31	6.27	2.60	3.12
Average Investable HF Indices	-2.07	0.09	-2.07	4.14	8.20	3.40	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 **-2.83%**
Average Investable HF Indices Current Month **-2.07%**

Portfolios of Funds of Hedge Funds	Jan	Dec	YTD	2007	2006	2005	2004
PrimFund Diversified (net of fees)	-1.07	0.20	-1.07	8.53	9.54	7.78	8.39
PrimFund Growth (net of fees)	-2.47	0.65	-2.47	13.84	13.85	9.38	15.69
PrimFund Opportunity (net of fees)	-3.73	0.70	-3.73	10.30	22.12	17.02	17.13

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 launches raised USD 31.5bn in 2007, multi-strategy funds raised most

The Absolute Return New Funds Survey for 2007 shows that assets for new hedge fund launches in the U.S. surpassed those of 2006. The 81 largest hedge fund launches of 2007 amassed USD 31.5bn, up slightly from the USD 31bn raised by 86 funds during 2006. The total new fund assets are down more than 20% from 2004, when 81 new launches raised USD 40bn. In 2005, new fund launches ended the year at USD 34bn. Most of the launches were in the first six months of the year, with approximately 51 hedge funds raising USD 9.2bn through June and USD 19.3bn by year's end. The 30 launches from July through December initially raised USD 7.5bn and

finished the year with USD 13.8bn. Eight new funds raised more than USD 1bn, surpassing the previous year's six funds. The biggest launch of the year, Paulsons Credit Opportunities II fund, opened in January with \$130 million and finished the year with USD 3.2bn, representing a 2362% jump in assets. The second largest launch of 2007 was Renaissance Institutional Futures Fund, which launched in October with USD 1.32bn. It finished the year with USD 3.1bn, a 134.5% increase in assets.

Largest fund of hedge funds hit USD 1tn

The global funds of hedge funds industry grew at an increasing pace in 2007, as more than USD 264bn was

added to assets managed by the leading firms during 2007, according to the latest survey of the InvestHedge Billion Dollar Club. Overall the industry's assets under management grew by nearly 32% last year, up from the growth rate of 29% in 2006 – when assets increased by USD 183bn – though still below the 44% record growth rate of 2004. The growth in assets was achieved as funds posted an average performance of 8.68% for the full year, exactly the same average performance as recorded in 2006. The performance was impressive given the host of different challenges the industry faced, particularly the volatile markets and the 'credit crunch'. The largest funds of funds – those with more than USD 1bn each in assets under management – now control a combined amount of USD 1.1tn, according to the end-2007 asset survey carried out by InvestHedge. There are 151 funds of hedge fund management companies in the InvestHedge Billion Dollar Club – although the total industry is significantly larger.

UBS Global Asset Management A&Q is still the largest firm in the Billion Dollar Club and grew at a rate of nearly 33% to reach USD 57.5bn under management at the end of 2007. Including the assets of UBS Wealth Management USA, the UBS group is once again the largest fund of funds operator in the world, managing more than USD 60bn in total. There are now 31 funds of hedge fund firms that run more than USD 10bn in assets and this group, which grew by 33%, now collectively manages some USD 682bn. In 2006, there were only 21 firms above USD 10bn. Union Bancaire Privée, which manages more than USD 53bn in assets, is the second largest single fund of hedge funds firm in the world. And Man Group is now the third largest fund of funds operator in the world with USD 52bn – including the assets managed by its various units, including Glenwood Capital Investments and RMF. The

percentage of assets from institutional investors in the average fund of funds Company is now at 78%.

Watson Wyatt Survey: Institutional investors to increase absolute return investments over next decade, think that alpha is in short supply

The people who run funds of hedge funds routinely comment that there may be 15,000 hedge funds on the market, but only 150 or so make the grade. Presumably they are not the same 150 across the board, or the performance of funds of funds would be within a small range. Presumably, also, the qualifying 150 change over time, given that another standard observation is that hedge fund performance deteriorates after about three years. But that still leaves only a relatively small proportion of the available hedge fund universe judged to be of sufficient quality by those in the know. Who judges the fund of fund managers? Is the ratio of quality to quantity a similar one? These are important questions judging by the opinions expressed in a survey by Watson Wyatt, in association with the Financial Times. The survey revealed a strong expectation that institutional investors will favour absolute return products over the next decade or so, with nearly 75 per cent of that opinion. The same proportion takes the view that institutions will show an increasing appetite for products that can produce alpha, or skill-based outperformance, due to the need for higher returns. The two are strongly related, of course, as absolute return funds are largely in the hedge fund sector, and although hedge funds do not have a monopoly on alpha production, they are often seen as a key source. But if there is one thing about alpha that most managers agree on, it is that it is in short supply. That supply is unlikely to increase in response to rising demand.

Advisors/People News

Gottex assets more than doubled in 2007

Alternative asset management firm Gottex Fund Management Holdings Ltd. estimated assets under management were CHF 18bn of Dec. 31, 2007. The total represents growth of CHF 9.4bn, or 109%, with respect to the year-end 2006 total of CHF 8.6bn. There is not much evidence of a an industry crisis in the Gottex fourth-quarter numbers, From Oct. 1 to Dec. 31, Gottex saw net

inflows of CHF 2.2bn, with subscriptions totaling CHF 3bn and redemptions of CHF 0.8bn.

Man Investments opens a new office in Singapore to be headed by Tim Peach

Man Investments has announced plans to open an office on George Street in Singapore. The new office will be headed by Tim Peach, head of sales for Man Investments in Southeast Asia. He will be joined by two other members

of staff and there are no concrete plans at this stage to grow the team any further. In Singapore, there is already a team from the RMF wing of Man, which is searching for hedge fund managers in which to invest.

Perruccio quits Olympia Capital

Matteo Perruccio has resigned as co-chief executive of Olympia Capital Management, a French hedge fund group, less than two years after joining.

Infiniti Capital appoints new head of qualitative research

Infiniti Capital announced the appointment of Xavier Fanjaud to the role of Head of Qualitative Research. Xavier, previously specializing in qualitative research for the Asian region, takes on the new position effective immediately. Following a productive two year stint based out of Infiniti's Hong Kong office, Xavier will be taking up residence at the group's Zurich head office during 2008. Prior to joining Infiniti Capital in 2006, Xavier worked for Pacific World Asset management as a Senior Investment Analyst, where he was involved in Managing their fund of hedge funds.

Ex-Blackstone executive to launch fund of hedge funds

Ex-Blackstone executive Carrie McCabe is getting set to launch a new fund of funds firm with backing from General Electric Asset Management, according to a Reuters report. The new firm will be named Lasair Capital and will not only invest in hedge fund firms, but also in infrastructure and timber. McCabe was the chief executive

of Blackstone Alternative Asset Management. She left Blackstone in 2005 for Financial Risk Management, the USD 14bn fund of funds firm based in London. McCabe headed up FRM's U.S. operations. However, in late 2006, McCabe left FRM after the company brought in board member Andy Brindle as CEO and moved McCabe over to president. McCabe returned to McCabe Advisors, the company she founded.

Agnelli family become a significant shareholder in Vision

IFIL Group ("IFIL"), the investment company controlled by the Agnelli family, has signed an agreement to invest USD 90mn (€ 61mn) in a 5 year mandatory convertible bond, which on conversion would see IFIL become a significant shareholder in Vision Investment Management Limited ("Vision" or "the firm"), a leading Asia based alternative investment management company.

Caliburn Capital Partners announces appointment of new partners

Caliburn Capital Partners, a fund of hedge funds manager with offices in London, Geneva and Montreal, has announced the appointment as equity partners of Mike Curry, Lana Exertier, Apostolos Katsaris and Pawel Kisielewski. The firm has grown significantly since the launch of its flagship Caliburn Strategic Fund in June 2006. Last year saw the launch of three further funds, the Caliburn Greater China Fund, the Caliburn Energy New Era Fund and the Caliburn Global Inefficiencies Fund. Current assets under management exceed USD 1bn.

Product News

SkyBridge Capital launches emerging manager hedge fund

New York-based fund of emerging hedge fund managers SkyBridge Capital is diversifying its portfolio and launching a second fund to capture alpha from overseas emerging managers. The firm hopes to raise up to USD 700mn for its Skybridge 2 fund, which will invest in as many as 15 underlying managers. The fund already has

USD 400mn in commitments from Asian and European investors and is making its debut on March 31.

Harcourt, Scandinavian insurers to launch global fund of hedge funds

Harcourt, the Swiss provider of alternative investment solutions, has teamed up with Swedish insurance group Folksam and Norwegian insurer Storebrand to launch the Belair (Lux) Sustainable Alternatives SRI Fund, writes

International Fund Investments. This is a global fund of hedge funds solution that adheres to an institutional SRI framework, and is open to external investors.

3A launches new fund of hedge funds

Alternative Asset Advisors, better known as 3A, the alternatives asset management arm of Swiss bank SYZ & Co., launched several new sub-funds, one group focused on Asia firms and the other on opportunistic funds. The Asia-focused fund was set up to give managers more access to that fast-growing region. It was launched in June, but is now registered in Switzerland and publicly available. It invests in 23 Asian hedge fund firms. The new Asian fund followed 3A's 2007 acquisition of Hong Kong-based hedge fund, Oria Capital. The firm's opportunistic hedge fund focuses on several strategic themes including, a macro strategy for the U.S. economic slowdown, a credit strategy for the rising default rate, Russia, technology, a long-short equity strategy for gold and increased volatility in Asia. They also invest in other opportunistic managers. It is invested in 17 firms.

Sail Advisors launches asian fund of hedge funds

Sail Advisors, has launched a new pan-Asia product. The Sail Asia Focus Fund launched in January, seeded with USD 30mn and has a target of USD 300mn. The new fund will be run by Eliza Lau, who will act as CIO, along with Denise Hu and Kamni Bharwani. It has a target return of Libor plus 10% and has projected volatility of 10%. Maximum leverage for the new fund is 1.5x and redemption is quarterly. The Asia Focus Fund is more concentrated and has a higher return profile than the Sail Pacific Explorer fund which was launched in 2004. The

new fund has 12-15 underlying hedge fund investments, while the Explorer fund is more diverse with 35 investments. Furthermore, Explorer tends not to participate in emerging hedge-fund managers, but the Asia Focus fund will have more flexibility to invest in early-stage funds.

Trading specialist Martello launches resources fund of hedge funds

Martello Investment Management, which manages customized funds of hedge funds and provides investment advisory services to institutional investors, has launched the Martello Resources Fund.

WR Capital launches multi-strategy fund of hedge funds

WR Capital Management added to its portfolio lineup with the addition of the WR Select Fund, a multi-strategy hedge fund offering. The fund launched in November 2007 with USD 200mn in partner capital. The new vehicle is a multi-manager, multi-strategy fund of hedge funds

Liongate offers levered multi-strategy fund

Liongate Capital Management, the USD 1.7bn U.K.-based fund of hedge funds shop, launched the Liongate Multi-Strategy Fund Enhanced (2X) Feeder, 100% levered version of the firm's flagship Multi-Strat Fund. The feeder launched with USD 25mn of initial capital and its capacity will be limited, with an additional USD 50mn available for March investment.

Academic/Research

Are fund of funds simply multi-strategy managers with extra fees?

Reddy, Brady, Patel

They looked at two potential alpha sources that are considered by many institutional investors: multi-strategy hedge funds and fund of funds. Their research led to three main conclusions: 1. Fund of funds are not merely multi-strategy funds with an extra layer of fees. A fund of funds can potentially offer a number of benefits that are not provided by multi-strategy managers. In addition, the

differential in fees between fund of funds and multi-strategy managers is smaller than most investors realize, even when we consider the impact of fee netting. 2. The potential impact of manager selection is much greater than strategy allocation. Therefore, funds of funds that are able to pick better than median managers have the potential to more than offset any fee advantage offered by multi-strategy managers. 3. Due to the low level of correlation between managers within most hedge funds strategies, diversification benefits provided by funds of

funds can lead to a significant improvement in Sharpe and Sortino ratio. Each of these approaches has certain strengths and weakness. Ultimately, investors should recognize that fund of funds and multi-strategy funds simply reflect different approaches. The approach that makes the most sense will always depend upon the risk and return objective of an institution. In many cases, institutions may elect to invest with both a fund of funds and some multi-strategy managers.

The life cycle of hedge funds

Dieter G. Kaiser

Hedge fund managers proclaim that they predominantly use investment strategies that generate profit from misvalued market instruments. Regarding efficient market theories, hedge funds use market price anomalies and hence serve to increase market efficiency. Especially with arbitrage-based strategies, however, in highly competitive markets it is possible that excess returns will vanish over time because other investment managers will "jump on the bandwagon," and trade similar inefficiencies, thus diminishing risk premiums. Hedge fund excess returns will naturally decrease over time. The thesis that hedge funds develop according to this pattern is called the "life cycle theory of hedge funds." The article empirically investigates the life cycle theory based on an extensive database of 1.433 hedge funds for the period January 1996 until May 2006. They verify that hedge funds indeed follow a life cycle.

How many fund managers does a fund of funds need?

Kartik Patel

They investigate the appropriate number of hedge funds to be held in a fund-of-funds portfolio with the purpose of meeting a typical benchmark mandated by institutional investors. The technique of random sampling from a universe of managers in the Credit Suisse/Tremont index is used to generate typical portfolios. They use the technique of stratified sampling to simulate a typical fund-of-funds portfolio which is diversified across all strategies. They conclude that forty managers is sufficient to beat the chosen benchmark.

Estimating operational risk for hedge funds

Brown, Goetzmann, Liang, Schwarz

Using a complete set of the SEC filing information on hedge funds (Form ADV) and the TASS data, they develop a quantitative model called the ω -Score to measure hedge fund operational risk. The ω -Score is related to conflict of interest issues, concentrated ownership, and reduced leverage in the ADV data. With a statistical methodology, they further relate the ω -Score to readily available information such as fund performance, volatility, size, age, and fee structures. Finally, they demonstrate that this risk score can be used to effectively predict fund failures in the future.

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