

**Performance Update** all data in %

| <b>Fund of Hedge Funds Indices</b>     | <b>Jan</b>  | <b>Dec</b>   | <b>YTD</b>  | <b>2008</b>   | <b>2007</b> | <b>2006</b> | <b>2005</b> |
|--|-------------|--------------|-------------|---------------|-------------|-------------|-------------|
| EDHEC Fund of Funds Index              | 0.86        | -1.19        | 0.86        | -19.73        | 10.07       | 11.25       | 6.80        |
| HFR1 FoHF Composite Index              | 0.81        | -1.11        | 0.81        | -21.00        | 10.25       | 10.39       | 7.49        |
| CISDM Fund of Funds Index              | 0.95        | -0.71        | 0.95        | -17.04        | 8.68        | 9.11        | 6.47        |
| InvestHedge Composite                  | -           | -0.71        | -           | -16.63        | 8.90        | 9.12        | 6.99        |
| Eurekahedge Fund of Funds Index        | 0.53        | -1.03        | 0.53        | -19.75        | 10.36       | 10.48       | 7.97        |
| HFN Fund of Funds Aggregated Average   | 0.39        | -1.06        | 0.39        | -20.01        | 9.27        | 9.60        | 6.81        |
| Barclay / Global HedgeSource FoF Index | 1.04        | -1.37        | 1.04        | -22.04        | 8.86        | 9.38        | 6.91        |
| <b>Average FoHF Indices</b>            | <b>0.76</b> | <b>-1.03</b> | <b>0.76</b> | <b>-19.46</b> | <b>9.48</b> | <b>9.90</b> | <b>7.06</b> |

| <b>Investable Hedge Funds Indices</b> | <b>Jan</b>  | <b>Dec</b>   | <b>YTD</b>  | <b>2008</b>   | <b>2007</b> | <b>2006</b> | <b>2005</b> |
|---------------------------------------|-------------|--------------|-------------|---------------|-------------|-------------|-------------|
| CS/Tremont Investable HF Index        | 1.92        | -0.04        | 1.92        | -26.31        | 7.42        | 9.65        | 3.61        |
| HFRX Global Hedge Fund Index          | 1.10        | -1.22        | 1.10        | -23.25        | 4.23        | 9.26        | 2.72        |
| FTSE Hedge Index                      | -1.29       | -0.54        | -1.29       | -19.76        | 0.62        | 6.28        | 2.60        |
| RBC Hedge 250 Index                   | 1.31        | -0.60        | 1.31        | -21.21        | 8.22        | 10.62       | -           |
| <b>Average Investable HF Indices</b>  | <b>0.76</b> | <b>-0.60</b> | <b>0.76</b> | <b>-22.63</b> | <b>5.12</b> | <b>8.95</b> | <b>2.98</b> |

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

**Average FoHF Indices** Current Month **0.76%**
**Average Investable HF Indices** Current Month **0.76%**

| <b>Portfolios of Funds of Hedge Funds</b> | <b>Jan</b> | <b>Dec</b> | <b>YTD</b> | <b>2008</b> | <b>2007</b> | <b>2006</b> | <b>2005</b> |
|---|------------|------------|------------|-------------|-------------|-------------|-------------|
| PrimFund Diversified (net of fees)        | 0.34       | -2.52      | 0.34       | -18.19      | 8.53        | 9.54        | 7.78        |
| PrimFund Growth (net of fees)             | 0.37       | -2.28      | 0.37       | -25.08      | 13.84       | 13.85       | 9.38        |
| PrimFund Tactical (net of fees)           | 0.48       | 0.06       | 0.48       | -6.58       | 13.05       | 18.87       | 14.49       |
| PrimFund Opportunity (net of fees)        | 0.13       | -1.93      | 0.13       | -35.81      | 10.30       | 22.12       | 17.02       |

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**
**Fund of hedge funds expected to focus on short term macro calls in post Madoff environment**

Fund of hedge funds managers will look to press ahead this year focused on short-term macro calls, trying not to look back at the market crash and Madoff debacle that tore them apart in 2008, a Reuters poll showed.

**Institutional investors keep allocations to hedge funds**

The vast majority of institutional investors (75%) have maintained their allocations to hedge funds despite suffering the worst year on record for performance on their investments. The findings are from a survey by Greenwich

Associates and SEI conducted in November 2008. Over 90% of institutions polled said they had either increased or maintained their allocations to hedge funds in the last two years. Three out of four investors surveyed said they had taken "no action" with regard to their hedge fund allocations in response to the crisis.

**Hedge fund managers poll: Distressed, global macro will do best in 2009**

According to Reuters, hedge fund managers think strategies such as distressed securities and global macro will do best in 2009, and believe the industry's once-high fees are set to fall, a poll by research firm Lipper reveals. The poll shows that one in five managers surveyed thought distressed strategies

would top the performance tables in 2009, while 17 percent picked global macro and 15 percent chose managed futures.

### **Redemptions reduce hedge funds to less than USD 1tn**

Hedge fund assets fell under USD 1tn in January as investors headed for the exits, according to a new report. Investors withdrew USD 74bn from hedge funds last month, according to TrimTabs Investment Research, leaving total industry assets at USD 964bn. The outflow is the second-highest on record, after USD 117bn in withdrawals in December.

## Advisors/People News

### **Biggest fund managers shying away from running external fund of fund businesses**

Two of the world's biggest fund managers have decided that it may just not be worth their while being associated with running external fund of hedge fund businesses. Hot on the heels of news that Barclays Global Investors is considering moving its first and only fund of hedge funds to its wealth management business comes news that State Street Global Advisors quietly wound down its own hedge fund unit State Street Capital Management at the end of 2007, which ran some USD 3bn in assets.

### **Mercer hires former fund of hedge funds manager Stephen Williams**

Mercer's Investment Consulting group in London has hired Stephen Williams. He was previously with Harcourt Investment Consulting, Zurich, running a commodity fund of funds portfolio.

### **BBVA to shut fund of hedge funds business**

BBVA, a hedge fund pioneer in Spain, is close to shuttering its fund of hedge funds division, Altitude investments, Citywire reports. The subsidiary managed nearly EUR 500mn in assets at its peak and now sees its capital reduced to EUR 20mn.

### **Julius Baers hedge fund assets down 50%**

Private Swiss bank Julius Baer said that in 2008 assets under management fell in its hedge fund unit more than 50% as investors scared by fraud scandals fled the asset

### **Hedge funds see lifetime's opportunity in 2009**

Despite the recession and continuing difficulties for Wall Street, hedge fund managers are overwhelmingly optimistic about investment opportunities in 2009, according to a new survey. Three-quarters of the roughly 1,000 hedge fund managers surveyed by Alpha Search Advisory Partners, an executive search firm, see 2009 as presenting "the greatest investment opportunities of our lifetime."

class. GAM, the bank's hedge fund unit, saw AUM drop to CHF 41.7mn (USD 35.7mn) at the end of 2008, from CHF 85.8mn the same time the year before, Julius Baer said in its year-end report

### **Blackstone fund of funds chief quits**

Bruce Amlicke has resigned as chief investment officer of Blackstone Alternative Investment Management's fund of hedge funds division to spend more time with his family, the Wall Street Journal reports. Amlicke will remain with Blackstone for a transition period of a few months; his position will not be filled.

### **Unigestion hedge fund chief quits**

Konstantinos Iordanidis was named head of Unigestion's hedge fund division only five months ago. Iordanidis has quit as managing director and head of hedge funds at Unigestion, Financial News reports. He joined the firm in Geneva, Switzerland, over the summer from Olympia Capital Management. He had been co-chief investment officer of the Paris-based firm since 2005.

### **Vontobel Holding AG increased its stake of Harcourt to nearly 100% in December**

As of end of December 2008, Vontobel Holding AG has increased its stake of Harcourt to nearly 100%, confirming its commitment towards Harcourt as well as the hedge fund asset class. Harcourt will continue to act independently as a boutique for alternative investment solutions.

## Product News

**N.Y. firm Cozzene preps CTA fund of funds**

One New York investment advisory firm is looking to capture some of the dizzying returns generated by managed futures funds last year with a commodity trading advisor fund of funds. White Plains, N.Y.-based Cozzene Asset Management is prepping its Harmony Fund 1 for launch next month to invest in a stable of 10 under-the-radar CTAs who trade in the commodity markets. The fund will have exposure to stock indexes, fixed-income, metals, energy, currencies, softs, livestock and grains.

**Reichmuth to close Madoff-hit fund of hedge funds**

Another hedge fund hit by the Bernard Madoff scandal is calling it quits. Reichmuth & Co. said it would close its Reichmuth Matterhorn fund after Swiss regulators rejected its plan to restructure the fund. Matterhorn lost more than USD 300mn in Madoff's alleged USD 50bn Ponzi scheme.

**International Asset Management launches IAM Trading Fund**

International Asset Management (IAM) has announced that it will launch the IAM Trading Fund to capture opportunities in the CTAs strategy in a diversified manner. The launch is the conclusion of more than 12 months of research into the

optimal way in which to invest in CTAs. The IAM Trading Fund will be a dynamically managed portfolio of hedge funds and will initially allocate to between 10 and 15 holdings. The IAM Trading Fund was launched on January 30 2009 with more than USD 100mn in assets.

**Corazon Capital taps into super funds through new fund of hedge funds offering**

Corazon Capital has launched the Argentum Fund as a fund of hedge fund designed to give investors diversified access to 16 previously hard to access or closed super funds and their managers. The fund has launched because a number of the world's best hedge funds over the last decade have re-opened for investment for a limited time.

**Areca launches credit focused fund of hedge funds**

Areca Investment Management, the Swiss fund manager, has launched the Areca Value Discovery Fund, a specialised fund of hedge funds. The fund will blend fundamental credit deep value strategies together with fixed income trading strategies. About 70%-80% of the portfolio will be invested in low volatility and specialised hedge funds strategies with asymmetric return profiles. Of particular interest will be distressed corporate credit, distressed structured credit, capital structure arbitrage and direct lending.

## Academic/Research

**Estimating hedge fund leverage**

McGuire, Tsatsaronis

Hedge funds are major players in the international financial system and nimble investment strategies including the use of leverage allow them to build up large positions. Yet the monitoring of systemic risks posed by the build-up of leverage is hampered by incomplete information on hedge funds' balance sheet positions. This paper describes how an extension of "regression-based style analysis" and publicly available data on fund returns yield an indicator of the average amount of funding leverage used by hedge funds. The approach can take into account non-linear exposures through the use of synthetic option returns as possible risk factors. The resulting estimates of leverage are generally plausible for several hedge fund families, in particular those whose returns are well captured by the risk factors used in the estimation. In the absence of more detailed information

on hedge fund investments, these estimates can serve as a tool for macro-prudential surveillance of financial system stability.

**Do investors really need complex derivative strategies? Evidence from hedge funds**

Peltomaki

This study investigates the benefits of using a more complex derivative strategy of a hedge fund in relation to its performance and risk characteristics using a sample of 3,382 individual hedge funds. The results of the study are consistent with the hypothesis that the complexity of derivatives used can be related to an increased probability of suffering large losses. This causation is mostly related to systematic risk in hedge fund returns and not manager-specific risk. The results also present evidence that the complexity is related to weaker performance leaving little

reasonable motivation for investors to invest in complex derivative strategies.

### Style chasing by hedge fund investors

Ter Horst, Salganik

This paper examines whether investors chase hedge fund investment styles. The authors find that better performing and more popular styles are rewarded with higher inflows in subsequent periods. This indicates that investors compare styles according to style characteristics relative to other styles, and subsequently reallocate their funds from less successful into more successful hedge fund investment styles of the recent past. Furthermore, the authors find evidence for within style competition between individual hedge funds. Funds outperforming their styles and funds with above style average inflows experience higher inflows in subsequent periods. One of the reasons for within style competition is the investors' search for the best managers. The extremely high level of minimum investments limits the diversification opportunities and makes this search particularly important. Finally, they show that hedge funds' version of style chasing in combination with within-style fund selection represents a smart strategy.

### Hedge funds as investors of last resort?

Brophy, Ouimet, Sialm

Hedge funds have become important investors in public companies raising equity privately. Hedge funds tend to finance companies that have poor fundamentals and

pronounced information asymmetries. To compensate for these shortcomings, hedge funds protect themselves by requiring substantial discounts, negotiating repricing rights, and entering into short positions of the underlying stocks. They find that companies that obtain financing from hedge funds significantly underperform companies that obtain financing from other investors during the following two years. They argue that hedge funds are investors of last resort and provide funding for companies that are otherwise constrained from raising equity capital.

### Does size matter in the hedge fund industry?

Teo

The author documents a negative and convex relationship between hedge fund size and future risk-adjusted returns. Small hedge funds outperform large hedge funds by 3.65 percent per year after adjusting for risk. This over performance is not driven by fund age, leverage, serial correlation, or self-selection biases. The capacity constraints manifest across various investment styles and regions. In particular, they are strongest for funds managed by multiple principals who trade small, illiquid securities, suggesting that the observed diseconomies can be traced to price impact and hierarchy costs. While investors direct disproportionately more capital to smaller funds, they do not do so quickly enough to eliminate this size effect. Interestingly, the capacity constraints facing individual hedge funds do not extend to funds of hedge funds.

## About Primores

### About Primores

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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