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Fund of Hedge Funds Review

22nd February 2010

Performance Update all data in %

By clicking on the index name you will be able to access a fact sheet containing more detailed information

Fund of Hedge Funds Indices	Jan	Dec	YTD	2009	2008	2007	2006
EDHEC Fund of hedge funds Index	-0.21	0.66	-0.21	10.67	-19.73	10.07	11.25
HFRI FoHF Composite Index	-0.70	0.90	-0.70	11.55	-21.37	10.25	10.39
CISDM Fund of hedge funds Index	0.00	0.91	0.00	10.34	-17.04	8.68	9.11
InvestHedge Composite	-0.35	0.65	-0.35	9.21	-17.13	8.84	9.11
Eurekahedge Fund of hedge funds Index	-1.44	0.67	-1.44	9.88	-19.79	10.36	10.48
HFN Fund of hedge funds Aggregated Average	-0.20	0.56	-0.20	9.56	-19.97	9.27	9.60
Barclay / Global HedgeSource Fund of hedge funds Index	-0.25	0.75	-0.25	10.28	-22.18	8.86	9.38
Hedgegate Swiss FoHF Index USD	-	0.52	-	8.69	-19.84	10.99	9.81
Average FoHF Indices	**-0.45**	**0.70**	**-0.45**	**10.21**	**-19.63**	**9.67**	**9.89**

Investable Hedge Funds Indices	Jan	Dec	YTD	2009	2008	2007	2006
CS/Tremont Investable HF Index	1.21	3.62	1.21	17.38	-26.31	7.42	9.65
HFRX Global Hedge Fund Index	-0.02	0.55	-0.02	13.40	-23.25	4.23	9.26
RBC Hedge 250 Index	-0.08	0.73	-0.08	19.25	-21.21	8.22	10.62
Average Investable HF Indices	**0.37**	**1.63**	**0.37**	**16.68**	**-23.59**	**6.62**	**9.84**

Investable Hedge Funds Indices	Jan	Dec	YTD	2009	2008	2007	2006
Replication Indices	-1.50	0.00	-1.50	9.06	-13.80	8.10	13.30

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

Average FoHF Indices Last Month -0.45

Average Investable HF Indices Last Month 0.37

Industry News

Cayman fund of hedge funds wins U.S. bankruptcy protection

A closing Cayman Islands fund of hedge funds has been won bankruptcy protection in the U.S. The liquidation of SIFCO5, which also invested in private equity funds, in the Cayman Islands was recognized by the U.S. Bankruptcy Court in Wilmington, Del., which granted Chapter 15 bankruptcy protection to the fund's U.S. assets. The law firm representing the Caymans-appointed liquidators called the decision significant, as U.S. courts have been reluctant to grant Chapter 15 protection to other Cayman companies.

LaCrosse Global Fund Services Partners with RiskMetrics Group

LaCrosse Global Fund Services, a leading hedge fund administrator, today announced it is partnering with RiskMetrics Group, a leading provider of risk management and corporate governance services to the global financial community, to offer LaCrosse's hedge fund clients access to RiskMetrics' HedgePlatform Community. RiskMetrics' HedgePlatform Community allows hedge funds and funds of hedge funds to provide holding-based risk transparency to investors without disclosing holding level details beyond RiskMetrics.

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Advisors/People News

GLG fund of hedge funds founder to leave

GLG Partners' fund of hedge funds chief has retired after nine years, the last several of them less-than-successfully. Paul Harvey, who co-founded the London-based hedge fund's multimanager business in 2001 after leading prime brokerage sales at Morgan Stanley, will leave at the end of February, the firm said. He has also given up his directorship of GLG's MMI Enhanced and Diversified funds, the Irish-listed funds he launched in 2004. Harvey will be succeeded by Luke Ellis, the former Financial Risk Management CEO, who will join GLG in the new post of non-executive chairman.

Gottex says hedge fund outflows to reverse in 2010

Alternative asset manager Gottex Fund Management Holdings said it expected solid inflows from institutional investors into its hedge funds this year despite assets slipping in the fourth quarter. The company also said its market neutral funds, which attempt to neutralize exposure to market direction by taking long and short positions, could regain their high water mark, the level at which they can take performance fees, in the second half of the year if they continued to perform well.

FQS hires senior investment analyst Richard Hallos from Ermitage

FQS, the London-based fund of hedge funds manager founded by former Renaissance Technologies MD Robert Frey, has recruited Richard Hallos as Senior Investment Analyst. Richard will be based in FQS's London office, reporting to Investment Manager Penny Aitken. He joins from Ermitage Group, the global multi-billion fund of funds group headquartered in Jersey, where he was a senior research analyst.

IAM opens Madrid office

International Asset Management Limited (IAM), one of the oldest fund of hedge funds managers, today announces the opening of a branch office in Spain to reinforce its commitment to expanding its client base and enhancing the service it offers to clients based in Iberia.

K2, ABS win USD 90mn Milwaukee hedge fund mandate

The Milwaukee County Employees' Retirement System has appointed K2 Advisors and ABS Investment Management, Pensions & Investments reports. The new hires will manage USD 90mn each in long/short equity hedge funds of funds. The USD 1.8bn system arranged the funding for the new 10% long/short equity target allocation from rebalancing overweight asset classes.

Man-BlackRock rumors die down

Speculation that money management giant BlackRock was mulling a move for hedge fund giant Man Group quieted after rumors about a bid sent Man shares soaring. A source close to BlackRock told Reuters that there was no truth to market whispers that the New York-based fund was interested in buying Man, the world's largest listed hedge fund manager.

Product News

China Everbright Bank to launch fund of hedge funds

China Everbright Bank said it had joined five leading local hedge fund managers to launch a fund of hedge funds recently, according to Orient Morning News. The product will mainly invest in A share market, including equities, bonds, warrants, open-end funds, close-end funds, LOFs and ETFs, etc. The FoHF had joined hands with five leading hedge fund managers including Beijing StarRock Investment Management, Shanghai Elegant Investment, Shenzhen Mingsen Investment, Congrong Investment Management, and Shanghai Yongjin Investment, etc. China Everbright Bank will act as trust manager to select investment advisors.

Lighthouse Investment about to create fund of hedge funds that invest only in separate accounts

Sean McGould is nearly three-quarters of the way toward achieving his goal: managing hedge fund of hedge funds

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portfolios that invest only in hedge fund separate accounts. Lighthouse Investment Partners LLC has spent the past five years persuading hedge fund managers to offer them "a fund of one," rather than restricting investors to investing in pooled fund vehicles. So far, they've persuaded 80 of the 110 hedge fund managers that underlie the firm's hedge funds of funds to create separate accounts.

Crystal Capital unveils new customizable fund of hedge funds

Alternative asset management firm Crystal Capital Partners has launched new onshore and offshore investment funds that allow investors to customize their exposure to the underlying hedge funds. But these are not your typical funds of hedge funds. Crystal Capital's new vehicles allow investors to select underlying hedge fund portfolios based on their unique investment needs, but unlike fund of funds, the vehicles are structured so that so that the assets, liabilities, liquidity and investment terms of each hedge fund portfolio are segregated from other portfolios in the funds.

Commerzbank closes fund of hedge funds unit

Commerzbank has shuttered its USD 1bn fund of hedge fund business and laid off most of its staff. The German bank had been trying to sell the unit, Commerzbank Alternative Investment Strategies, or Comas. But the firm instead abandoned the sale process, which was being run by Goldman Sachs, and had returned some 85% of its assets to investors by the end of last year, Financial News reports.

Hedge Invest launch UCITS fund of hedge fund

Hedge Invest announced the launch of the Pareturn Hi Core UCITS Fund, a weekly liquidity fund of hedge funds which invests in UCITS vehicles of hedge fund managers included in the Hedge Invest recommended list. The fund will invest in a concentrated portfolio of 15 managers.

Woori, Singapore Sovereign Fund plan fund of hedge funds

Woori Investment & Securities of South Korea is shuttering one of its hedge funds and launching a fund of hedge funds with Singapore's sovereign wealth fund. Woori's Woori Absolute Partners has closed its USD 60mn Absolute Asia Multi-Strategy Fund, which it launched in 2008. Some of those assets will be moved to a new USD 30mn fund of funds to be set up with Fullerton Fund Management, part of Temasek Holdings.

Hermes extends fund of hedge funds Clawback to all funds

Hermes Fund Managers will allow all its investors to claw back performance fees, the group told Reuters, in a move that could herald fundamental change in an industry battling client anger over excessive charges. The firm, owned by BT's pension fund, will roll out to its entire range the fee structure recently brought in at its hedge fund business as it aims to attract third-party mandates.

Academic/Research

The survival of exchange listed hedge funds

Gregoriou, Lhabitant, Rouah

This paper attempts to determine whether exchange-listed hedge funds experience longer lifetimes than non-listed funds, even after factors known to affect survival, such as size and performance, are considered. The Kaplan-Meier estimator is used to compare survival times of listed and non-listed funds. The Cox proportional hazards model is used to make the same comparison, but by controlling for additional factors. The accelerated failure time (AFT) regression model is used to estimate the median survival time of hedge funds, based on values of explanatory variables. Listed hedge funds tend to be larger and adopt more conservative investment strategies than non-listed funds. Listed funds tend to survive roughly two years longer on average than non-listed funds, and this difference in longevity is persistent even after controlling for factors known to affect survival. Finally, we find that the failure rate of listed funds is substantially lower than that of non-listed funds, but only during the first five years of life.

A total risk measurement framework for hedge funds and funds of hedge funds

Katsari, Hegazi, Goulet

This paper illustrates how qualitative analysis can be incorporated into quantitative risk measurement in order to

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construct an expected distribution of hedge fund returns that explicitly allows for market, residual and tail risk. They show how the combination of statistical criteria with out-of-sample model evaluation techniques, coupled with a qualitative understanding of the particular hedge fund strategy can lead to more robust risk factor models that capture the out-of-sample rather than the historical variation in hedge fund returns. Using Monte Carlo simulation techniques, that allow the most appropriate data generating process for each risk factor, they proceed to build a market risk based expected distribution of returns which is then adjusted for the presence of residual and tail risk. The residual risk distribution of expected returns is entirely based on the out-of-sample errors of the risk factor model and by using the out-of-sample explanatory power of the model as the weighting parameter they allow the model to 'self correct' when the actual returns deviate significantly from the model conditional expected returns. The tail risk distribution of returns and the correlation of these tails are solely based on qualitative analysis. They propose a methodology for the quantification of the potential impact of factors such as leverage, liquidity and concentration on the size and probability of excess losses due to tail risks. The proposed framework allows investors to explicitly measure, monitor and manage the modelable and non-modelable risks in a hedge fund portfolio.

Capturing risks of non transparent hedge funds

Daul

They present a model that captures risks of hedge funds only using their historical performance as input. This statistical model is a multivariate distribution where the marginals derive from an AR(1)/AGARCH(1,1) process with t_5 innovations, and the dependency is a grouped-t copula. The process captures all relevant static and dynamic characteristics of hedge fund returns, while the copula enables them to go beyond linear correlation and capture strategy-specific tail dependency. They show how to estimate parameters and then successfully backtest their model and some peer models using 600 hedge funds.

Hedge fund activism: A review

Brav, Jiang, Kim

This article reviews shareholder activism by hedge funds. They first describe the nature and characteristics of hedge fund activism, including the objectives, tactics, and choices of target companies. They then analyze possible value creation brought about by activist hedge funds, both for shareholders in the target companies and for investors in the hedge funds. The evidence generally supports the view that hedge fund activism creates value for shareholders by effectively influencing the governance, capital structure decisions, and operating performance of target firms

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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