PRIMNEWS
Fund of Hedge Funds Review
21st January 2005

Performance Update

Fund of Hedge Funds Indices	Dec	Nov	2004	2003	2002	2001
EDHEC Fund of Funds Index	1.39%	2.44%	7.01%	11.46%	1.25%	-
HFRI FoHF Composite Index	1.40%	2.62%	6.67%	11.59%	1.02%	2.80%
CISDM FoHF Diversified Median	1.42%	2.37%	7.52%	10.04%	0.65%	4.99%
CISDM FoHF Niche Median	1.52%	1.72%	8.33%	10.62%	1.99%	6.75%
InvestHedge Composite[1)]	-	2.03%	4.80%	9.28%	1.99%	5.42%
Altvest Sub-Index: Fund of Funds	1.44%	2.52%	7.29%	11.12%	1.23%	2.28%
Eurekahedge Fund of Funds Index	1.26%	2.23%	6.29%	10.76%	1.76%	4.00%
Barclay/Global HedgeSource FoF Index	1.44%	2.31%	6.56%	10.36%	1.79%	4.45%

1) Updated by the end of the month.

Investable Hedge Funds Indices	Dec	Nov	2004	2003	2002	2001
CSFB/Tremont Investable HF Index	0.99%	1.74%	5.24%	11.04%	5.67%	7.47%
MSCI Hedge Fund Composite Index	0.86%	1.61%	2.23%	14.7%	5.30%	12.74%
S&P Hedge Fund Index	0.91%	1.76%	2.84%	11.12%	4.14%	9.36%
HFRX Global Hedge Fund Index	1.24%	1.92%	1.43%	13.39%	-	-
FTSE Hedge Index	0.57%	1.23%	2.76%	12.36%	2.05%	8.27%

Industry News

Top Endowments emphasize real estate and energy, not hedge funds
A survey of some 707 college and university endowments and educational foundations by asset manager Commonfund indicates that top-performing institutions have higher than average allocations to private equity, real estate and natural resources while placing lower than average percentage allotments in hedge funds. Their alternatives investments are more broadly diversified than the lesser performers. Endowments that achieve high returns as a group tend to be larger and to lead other schools, so this pattern may become more widespread in the future.
As a whole, the institutions in the study increased alternative strategies minimally, to 34% from 33%, and nudged up hedge funds and energy and natural resources. They reduced venture capital, private and public equity real estate and distressed debt. The top decile and quartile performers have higher percentages of assets in alternatives overall, but lower than average percentage allocations to hedge funds and higher than average allocations to private equity real estate, energy and natural resources.
Moreover, they are cutting alternatives exposure. The top decile group reduced alternative assets to 36% in FY 2004 from 44% FY 2003. They increased allocations to domestic and international equity.
Average return across all participants was 14.7% in FY 2004, compared with 3% in the previous survey and minus 6% in FY 2002.

Tremont studying products with longer lock-ups
Industry participants and observers expect that there will be many U.S.-based hedge fund managers who will take advantage of the exemption from the Securities and Exchange Commission's new registration mandate available to firms with lock-ups of two or more years.
This development is likely to accelerate a trend already in existence. Two years ago, Simon Thomas, partner in the law firm Akin Gump Strauss Hauer Feld LLP, London, noted a lengthening of lock-up periods. Historically the period had been one year, but by mid-2002, several managers had begun offering a reduction in the performance fee (from 20% to 17%, for example) in return for a lock-up of up to three years.

Ohio Public Employees Retirement System will invest in hedge funds for the first time
The pension fund's board voted in November to permit an initial hedge fund investment of US$25 million to US$50 million in 2005. Officials at OPERS, the state's largest public pension fund with more than $64.2 billion in assets, said the trial investment in the complicated financial instrument is part of a move to create an opportunistic investment class designed to test nontraditional investments.
OPERS is looking for money managers to handle the initial investment and expects to launch the program in September.
Eric France, an OPERS portfolio manager who researched the hedge-fund option, said the fund mostly likely will invest first in two or three established funds with under $1 billion in assets. After three years, OPERS will decide if the pilot was successful.

ABP Invests $5 Billion in Hedge Funds
According to Handelsblatt NRC, Stichting Pensioenfonds ABP has invested $5 billion in hedge funds. This investment amounts to about 2.5 percent of the total capital ABP manages, the highest rate ever invested in hedge funds by the pension fund. ABP, the world's second largest pension fund, will strive to keep the level of investment at this rate.
ABP is the pension fund for Dutch government workers, including teachers. The fund, which had assets of 160 billion euros at the end of September, also raised contributions in 2004.

Advisor/People News

Glenwood expands investment team
Fund of funds manager Glenwood Capital Investments LLC, the Chicago-based subsidiary of London-headquartered Man Group plc, added a manager and two analysts to its investment group and named a new executive for product development.
Thomas Cosgrove joined the firm as investment manager with responsibility for evaluating and monitoring hedge fund managers and analyzing investment opportunities. Mr. Cosgrove comes from Mesirow Financial Inc.'s fund of funds group. Rhowena Blank joined Glenwood as vice president for product management. Reporting to Chief Operating Officer Bob Tucker, she will implement new fund products and oversee service providers. The new analysts at Glenwood are Laura Payne and Erica Morris, who both report to Mr. Jawor. Previously, Ms. Payne was at HFR Asset Management in Chicago, and Ms. Morris was at Zero Stage Capital, a venture capital firm in Boston.

Ex-Lombard chief joins Banque Syz
Jean Keller, former chief executive of Lombard Odier Darier Hentsch Asset Management in London, has joined Swiss bank SYZ & Co. as head of its alternatives arm.
Keller, son of a former senior partner at LODH, will be CEO of Geneva-based SYZ's 3A SA - Alternative Asset Advisors. He will start at 3A on February 1, replacing Tony Morrongiello, who is leaving to launch his own company. Keller resigned from LODH in December. He was a member of the firm's general management committee and co-headed its institutional asset management business. He joined in 1994.

Key Asset Management appoints two senior non-executives
Key Asset Management (KAM) has further strengthened its organisation by the appointment of two senior non-executive directors to the main board of KAM Group Ltd. The new non-executive directors are David Watts and Evert Greup. Before retiring in 1999, Watts served as CIO and CEO of Gartmore and has non-executive positions in financial service companies including Martin Currie Investment Management and JP Morgan Fleming Income and Growth Investment Trust plc.as well as being Chairman of the Investment Committee of Merchant Navy Ratings Pension Fund.
Evert Greup, a Dutch national, has been with the Dutch merchant bank Kempen & Co since 1991, when he joined as CEO of Kempen Capital Management its 100% owned fund management arm. He became a member of the Executive Committee at Kempen & Co in 2001 and its CEO in 2003.

Man Investments sells part of Westport
Man Group, the world's largest hedge fund, has agreed to give up a controlling interest in Westport Private Equity. Man acquired a 67% of Westport in 2002 and will now own less than 50% of the private equity firm.
Private equity represented a marginal part Man Group's overall portfolio and as such, it did not make sense to hold a controlling interest in a non-core business. Westport currently has $700 million in capital under management while Man has $42 billion overall in capital under management.
Westport was founded in 1988. The firm is headquartered in the United Kingdom, with additional offices in the United States and Switzerland. Westport invests in a variety of sectors.

Product News

Merrill Lynch launches registered fund
Merrill Lynch & Co. has filed plans to offer its first hedge fund product to be registered with the Securities and Exchange Commission. Managed through ML's Investment Managers unit, the new Multi-Strategy Hedge Opportunities LLC offering is a fund of hedge funds with a minimum initial investment of US$25,000 for accredited investors (for individuals, those having US$1 million in net worth or income of US$200,000 in each of the past two years). According to the filing, fees will range from 1% to 3% for management and from 15% to 25% of profits for performance.

SciVest launches retail fund of hedge funds
SciVest Capital Management has launched its first fund-of-funds targeted at the high-net-worth and retail market in Canada. The Toronto-based fund manager debuted the SciVest Multi-Strategy Fund through its distribution network, SciVest Alternative Strategy, in November. Colin Jang, a portfolio manager at Connor, Clark & Lunn Financial Group, will manage the fund of hedge funds through a partnership with SciVest.
The SciVest Multi-Strategy Fund has a 2.25% management fee and a 10% performance fee and launched at $1.8 million. Van said the fund-of-funds has a $10 to $20 million target capacity. The fund of funds has 13 underlying managers but might increase that figure to 20.

Man Group launches new fund of hedge funds
Man Investments, the asset management arm of Man Group PLC, the U.K.'s only listed hedge fund, is offering a new fund of hedge funds product, named Man Glenwood Equity Opportunities.
The new fund, which offers exposure to long/short equity hedge fund managers, was created in response to growing investor demand for equity-orientated hedge funds.
Managers specializing in long/short equity strategies hold both long positions - buying stocks in anticipation of price rises - and short positions - selling stocks they don't own in anticipation of falling prices, which would allow them to buy those stocks back at a lower price. The fund targets annualized returns of 7%-10% for a volatility of 6%-9% over the medium term.

T&D Asset Management launches fund for Japanese institutions
Tokyo-based T&D Asset Management will launch a fund of funds for Japanese pension plans this month. The firm is also seeking distributors through local financial institutions. The product will invest in some 30 hedge funds through an existing Bahamas-registered master fund, and will be managed by T&D Asset Management's New York subsidiary. Strategies may include long/short equities, CB arbitrage, multistrategy, event-driven and distressed securities.
T&D Asset Management is an investment management arm of T&D Life Group, whose major shareholders are Taiyo Life Insurance Co and Daido Life Insurance Co. It has more than ¥1.9 trillion ($17 billion) under management.

Academic/Research

"Hedge Fund Alpha" is a Hypothesis Worth Testing **Ron Surz**
In this article, they describe the reasons that traditional performance evaluation approaches do not work for traditional investments as well as hedge funds. However, unlike previous articles that have simply documented the problems, they offer a solution: Namely, performance evaluation in general, and hedge fund performance evaluation in particular, should be viewed as a hypothesis test where the validity of the hypothesis "Performance is good" is assessed. To accept or reject this hypothesis, they construct all of the possible outcomes and see where the actual performance result falls. If the observed performance is toward the top of all of the possibilities, the hypothesis is correct, and performance is good. Otherwise, it is not. In other words, the hypothesis test compares what could have happened with what actually happened.

Measuring loss potential of hedge fund strategies **Lopez de Prado, Peijan**
They measure the loss potential of Hedge Funds by combining three market risk measures: VaR, Draw-Down and Time Under-The-Water. Calculations are carried out considering three different frameworks regarding Hedge Fund returns: i) Normality and time-independence, ii) Non-normality and time-independence and iii) Non-normality and time-dependence.
In the case of Hedge Funds, their results clearly state that market risk may be substantially underestimated by those models which assume Normality or, even considering Non-Normality, neglect to model time-dependence. Moreover, VaR is an incomplete measure of market risk whenever the Normality assumption does not hold. In this case, VaR results must be compared with Draw-Down and Time Under-The-Water measures in order to accurately assess about Hedge Funds loss potential.