

Performance Update

| Fund of Hedge Funds Indices | Dec | Nov | YTD | 2004 | 2003 | 2002 |
|--------------------------------------|--------------|--------------|--------------|--------------|---------------|--------------|
| EDHEC Fund of Funds Index | 1.88% | 1.60% | 6.48% | 7.07% | 11.46% | 1.25% |
| HFRI FoHF Composite Index | 1.78% | 1.66% | 7.33% | 6.86% | 11.61% | 1.02% |
| CISDM Fund of Funds Index | - | 1.35% | 4.72% | 7.12% | 10.23% | 1.05% |
| InvestHedge Composite | - | 1.50% | 5.22% | 6.12% | 9.28% | 1.99% |
| Altvest Sub-Index: Fund of Funds | 1.94% | 1.63% | 7.69% | 7.39% | 11.12% | 1.23% |
| EurekaHedge Fund of Funds Index | 2.06% | 1.66% | 7.63% | 6.69% | 11.50% | 2.22% |
| Barclay/Global HedgeSource FoF Index | 2.02% | 1.50% | 6.93% | 6.61% | 10.36% | 1.79% |
| Average FoHF Indices | 1.94% | 1.56% | 6.57% | 6.84% | 10.79% | 1.51% |

| Investable Hedge Funds Indices | Dec | Nov | YTD | 2004 | 2003 | 2002 |
|---------------------------------------|--------------|--------------|--------------|--------------|---------------|--------------|
| CSFB/Tremont Investable HF Index | 0.50% | 0.81% | 3.53% | 5.31% | 11.04% | 5.67% |
| MSCI Hedge Fund Invest Index | 0.99% | 1.58% | 4.68% | 3.10% | 14.70% | 5.30% |
| S&P Hedge Fund Index | 0.26% | 0.07% | 2.28% | 3.95% | 11.12% | 4.14% |
| HFRX Global Hedge Fund Index | 1.48% | 1.69% | 2.72% | 2.69% | 13.39% | - |
| FTSE Hedge Index | 1.34% | 1.42% | 2.72% | 3.12% | 12.36% | 2.05% |
| Average Investable HF Indices | 0.91% | 1.11% | 3.19% | 3.63% | 12.52% | 4.29% |

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 | Dec | Nov | YTD | 2004 | 2003 | 2002 |
|-------------------------------------|-------|-------|-------|--------|--------|------|
| PrimFund Diversified (net of fees) | 1.64% | 1.49% | 7.70% | 8.39% | 13.68% | - |
| PrimFund Growth (net of fees) | 2.01% | 2.12% | 9.43% | 15.69% | 20.75% | - |

Inception of PrimFund Diversified was July 2004, of PrimFund Growth April 2005. The simulated data prior reflects the net performance of a weighted composite of the targeted fund managers net of fees.

Industry News

Strategic Financial Solutions releases 2005 hedge fund database study

The study examined the hedge fund listings from twelve of the major hedge fund databases. There were approximately 4,150 funds of hedge funds that appeared in the SFS study, and roughly 3,600 had reported performance numbers in 2005. These totals include close to 950 US-domiciled funds and 3,200 offshore domiciled funds, with approximately 825 onshore and 2,775 offshore funds reporting performance in 2005. There appears to be about \$700 billion invested into hedge funds through fund of hedge fund vehicles, although, like single manager funds, the majority of funds of hedge funds manage less than \$25 million.

Advisor/People News

ABN Amro acquires IAM

ABN Amro has entered into a definitive agreement with International Asset Management's shareholders to acquire 100 per cent of the share capital of IAM, with circa USD 2.6 bn of assets under management. Experts suggested that IAM would have sold for about 5 per cent of assets under management or £75 million.

ABN Amro Asset Management's existing fund of hedge funds operations, which have USD 1.4 bn of assets under management, will be combined with IAM. All five of IAM's partners including Albert Fuss and Anthony Forward, respectively Chairman and Managing Director of IAM, will continue to be involved in the day-to-day running of the business.

The acquisition underlines ABN AMRO Asset Management's long-term commitment to the fund of hedge funds business and will enable further expansion of its existing business. In addition, it supports the focus on mid-market clients because of the enhanced ability to offer hedge fund products to mass affluent clients as well as mid-sized and large institutions.

Olympia Capital hires new head of risk management

Guido Bolliger comes to Olympia Capital Management from Julius Baer Asset Management in Zurich, where he was responsible for the second layer risk management and the risk monitoring for all single-manager hedge funds at Julius Baer. Guido played a substantial role in implementing all risk management tools dedicated to several strategy hedge funds with total assets exceeding \$4 billion. Previously, he held the position of assistant professor in Finance at the University of Neuchatel in Switzerland, of Equity Index fund manager at Synchrony SA in Geneva and of mutual fund manager at Bank Cantonale Vaudoise in Lausanne. Guido graduated with a Ph.D. in Finance specialized in equity forecasts analyses from FAME (Lausanne).

Landmark makes two new additions

Brandon Bentley joined Landmark as General Counsel and Chief Compliance Officer. Bentley comes from White & Case LLP where he has worked since 1999 as a capital markets attorney on a broad range of securities, transactional and compliance matters. Bentley holds a law degree from Boston University School.

Additionally Joel Brebbia replaces Jim Gilmour as Chief Financial Officer. Prior to joining Landmark, Brebbia was CFO of Jana Partners, a value oriented hedge fund based in New York. Before that he worked for Stockback Capital and AQR Capital Management. Brebbia graduated from Colgate University with a bachelor of arts degree in economics in 1992.

John Godden leaves HFR

John Godden, MD of HFR Asset Management's European operation, and widely credited with significantly raising its AUM, is understood to have left the firm. Likely candidates for his replacement include Marc Denogent, who was appointed last year as executive vice president for HFR AM's business in Switzerland.

Ivy announces changes

Ivy Asset Management, a hedge fund of funds firm with over \$14 billion in assets, announced that Sean Simon and Michael Singer have been appointed co-Presidents and Adam Geiger has been named Chief Investment Officer. The firm, a subsidiary of The Bank of New York Company, Inc., has also announced that co-founders, Lawrence Simon and Howard Wohl, have been named Vice Chairmen.

Arden hires risk expert

Arden Asset Management has appointed a risk management executive. The fund of hedge funds hired Deutsche Bank director Vikas Kapoor. He will help run risk management and technology for Arden. Kapoor oversaw risk management for the DB absolute return group. The company also hired analyst Nelson Pilar. Pilar joined the company from Atlas Capital. He will work in London.

Harcourt Partners becomes Peak Partners

Harcourt Partners, a fund of hedge funds boutique based in Geneva, will change its name to Peak Partners. This change reflects the significant enhancement of the firm's own research capabilities. Thanks to the recruitment of highly trained professionals, Peak Partners will reinforce its existing line and develop a range of new funds. At the same time, Peak Partners will continue to allow its long term partner, Harcourt Investment Consulting AG, manage some of its products.

Product News

Belstar out to zap funds of hedge funds

The Belstar Multi-Advisor Hedge Fund, whose managing directors include former Brean Murray brokers Ryan Goldberg and Michael Grady, will invest in a pool of seven to 15 hedge funds. The vehicle is being offered mainly to institutions as a low-cost alternative to traditional funds of funds. The fund will charge investors only a single layer of fees – a 2% management fee and a 20% performance fee.

Academic/Research

Replication and Evaluation of Fund of Hedge Funds Returns

Kat, Palaro

In this paper they use the hedge fund return replication technique recently introduced in Kat and Palaro (2005) to evaluate the net-of-fee performance of 485 funds of hedge funds. The results indicate that the majority of funds of funds have not provided their investors with returns, which they could not have generated themselves by trading S&P 500, T-bond and Eurodollar futures. Purely in terms of returns therefore, most funds of hedge funds have failed to add value.

Hedge fund: risk and return

Malkiel, Saha

From a database that is relatively free of bias, this article provides measures of the returns of hedge funds and of the distinctly nonnormal characteristics of the data. The results include risk-adjusted measures of performance and tests of the degree to which hedge funds live up to their claim of market neutrality. The substantial attrition of hedge funds is examined, the determinants of hedge fund demise are analyzed, and results of tests of return persistence are presented. The conclusion is that hedge funds are riskier and provide lower returns than is commonly supposed.

Impact of fund size on hedge fund performance

Moerth, Ammann

This paper contributes to the existing literature about hedge fund performance with a detailed analysis of the impact of fund sizes on returns, Sharpe ratios and alphas derived from a multiasset class factor model. Based on a large sample of hedge fund returns, empirical evidence is revealed for a negative relationship between fund sizes and returns, using cross-sectional regression techniques, but it is also found that particularly very small funds are underperforming on average. It is conjectured that the underperformance of very small funds is based on the higher total expense ratios. A negative relationship between standard deviations and fund sizes is also observed. Generally, larger funds tend to have lower volatilities, but similar Sharpe ratios. Very small funds have a clear disadvantage to compete with medium- and larger-sized funds.

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