Performance Update

all data in %

Fund of Hedge Funds Indices	Dec	Nov	YTD	2006	2005	2004	2003
EDHEC Fund of Funds Index	0.33	-1.48	9.89	11.25	6.80	7.07	11.46
HFRI FoHF Composite Index	0.28	-1.49	10.12	10.39	7.49	6.86	11.61
CISDM Fund of Funds Index	-	-1.17	8.32	9.11	6.47	7.12	10.23
InvestHedge Composite	-	-1.30	8.31	8.67	7.07	6.15	9.34
Altvest Sub-Index: Fund of Funds	0.44	-1.48	8.77	10.24	7.68	7.39	11.12
Eurekahedge Fund of Funds Index	0.50	-1.51	10.14	10.40	7.91	6.97	11.77
HFN Fund of Funds Aggregated Average	0.45	-1.39	8.77	9.60	6.81	6.89	11.74
Barclay / Global HedgeSource FoF Index	0.29	-1.62	8.82	9.38	6.91	6.65	10.44
Average FoHF indices	**0.38**	**-1.43**	**9.14**	**9.88**	**7.14**	**6.89**	**10.96**

Investable Hedge Funds Indices	Dec	Nov	YTD	2006	2005	2004	2003
CS/Tremont Investable HF Index	0.15	-1.08	7.36	9.65	3.61	5.31	11.04
MSCI Hedge Fund Invest Index	-0.19	-1.62	3.61	7.63	4.68	3.10	14.70
HFRX Global Hedge Fund Index	-0.14	-2.41	4.23	9.26	2.72	2.69	13.39
FTSE Hedge Index	0.07	-1.91	1.31	6.27	2.60	3.12	12.36
Average Investable HF Indices	**-0.03**	**-1.75**	**4.13**	**8.20**	**3.40**	**3.56**	**12.87**

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

Average FoHF Indices Current Month **0.38%**

Average Investable HF Indices Current Month **-0.03%**

Portfolios of Funds of Hedge Funds	Dec	Nov	YTD	2006	2005	2004	2003
PrimFund Diversified (net of fees)	0.40	-0.92	8.75	9.54	7.78	8.39	13.68
PrimFund Growth (net of fees)	0.65	-1.99	13.91	13.85	9.38	15.69	20.75
PrimFund Opportunity (net of fees)	1.01	-2.94	10.64	22.12	17.02	17.13	25.09

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

Investors allocate USD 30.4bn into hedge funds in the fourth quarter, total inflows for the year top USD 194bn

The hedge fund industry attracted a record USD 194.5bn in new investor capital in 2007, bringing total assets under management to USD 1.87tn, according to data released by Hedge Fund Research (HFR). Inflows for the year outpaced last year's USD 126.5bn, and represent a 54 percent jump from year to year. However, the 4Q inflow of USD 30.4bn was well below the pace set by the first three quarters of the year, the third consecutive year to end with a 4Q drop in the rate of new capital coming into the industry. The HFRI Fund Weighted Composite Index returned 1.37 percent in 4Q and 10.24 percent for the year. For the third consecutive year, the HFRI Emerging Markets Index was the top performer on an annual basis, adding 3.89 percent in 4Q, and returning 25.03 percent on the year. Short Selling led all strategies for the quarter, returning 5.94 percent, and was up 3.98 percent for all of 2007. Relative Value Arbitrage and Event-Driven were the most successful strategies at attracting news assets in 4Q, bringing in USD 9.9bn and USD 5.3bn, respectively. For the year, Relative Value Arbitrage brought in the most new assets of any strategy, totaling USD 45.9bn. Equity Hedge was next with USD 41.5bn, although the strategy attracted just USD 14mn in inflows in the fourth quarter.

Primores AG
CH-8001 Zürich
Niederdorfstrasse 88
www.primores.com
T +41 43 497 24 70
info@primores.ch
PRIMORES

Funds of hedge funds saw net new flows of USD 11.3bn in 4Q and USD 59.2bn for the year, compared to USD 49.7bn in net new assets in 2006 and USD 9.5bn in 2005. Globally, there is USD 798.6bn invested in funds of hedge funds, according to HFR, with total assets invested in the category increasing by almost 22 percent in the past year. Fund of hedge funds performance was up 1.85 percent in 4Q 2007, and 10.12 percent for the year according to the HFRI Fund of Funds Composite Index.

Hedge fund launches slowed in 2007 for third year in row: 863 new funds, but also less liquidations (408 funds)

Hedge fund launches slowed in 2007 for the third year in a row, a sign investors may be putting money into existing funds rather than into new ones with perceived higher risks. By the end of the third quarter, 863 funds were launched in the roughly USD 1.9tn industry, compared with 1,518 new funds for all of 2006 and 2,073 launches in 2005, according to Chicago-based Hedge Fund Research. Liquidations also slowed, with 408 funds closing by the third quarter 2007, compared with 717 for 2006 and 848 for 2005.

TASS asset flows report Q3 2007

Net hedge fund industry inflows increased USD 39.3bn during third quarter 2007, and a performance gain of USD 18.9bn led to net hedge fund assets of an estimated USD 1.73tn at the end of September 2007. This continued the scorching pace of the second quarter, which came in with total inflows of USD 41.1bn and marked the third highest quarterly inflows since the second quarter 1994 (USD 43.3bn). It brought the combined year-to-date inflows to USD 101.1bn, up 9% over the same period in 2006. On a rolling 12-month basis inflows reached USD 114.8bn to exceed the record-setting 2006 calendar year number of USD 106.1bn. By hedge fund strategy the biggest inflows in U.S.-dollar terms (USD 15.5bn) were seen by the Event-Driven strategy followed by Long/Short Equity at USD 11.6bn and Multi-Strategies at USD 9.0bn. This marked an increase of inflows into Event-Driven and Multi-Strategies and a modest drop for Long/Short Equity.

Advisors/People News

Uwe Eberle new Man Investments USA CEO

Uwe Eberle was named CEO and president of Man Investments USA, effective Jan. 1. 2008 Mr. Eberle replaces CEO John Kelly, who will retire. The president's position is new. Mr. Eberle was CEO of Man's U.S. institutional business and will add the firm's private client business in the U.S. to his existing responsibilities.

Philip Halpern tapped as Chief Investment Officer of Cole Partners Asset Management

Cole Partners Asset Management (CPAM) has named Philip Halpern as its Chief Investment Officer of Tellus Asset Management, CPAM's sponsored natural resources group. Halpern is responsible for directing portfolio strategy and manager structure of the natural resources fund of funds.

Permal hires two for US Biz

The Permal Group has added two people to further its U.S. institutional push. The fund of hedge funds has hired Joshua Levine and Tim Schuler. Levine was a director of institutional sales for BlackRock. Schuler was a business director for Asia and Australia at Credit Suisse.

Infiniti Capital appoints Ian Shearer as Chief Executive Officer for the Infiniti Group

Infiniti Capital announced the appointment of Ian Shearer to the role of CEO. Ian, previously Head of Business Development at Infiniti and a member of its Executive Committee. Following a successful 2 year period with Infiniti's fund management division in Hong Kong, he will be taking up residence at the group's Zurich head office during 2008. The Executive Team at Infiniti remains unchanged with Ian retaining oversight of the business development activities for the time being. Ian started his career in finance whilst employed by the British Diplomatic Service.

Gottex hires ex-Merrill CIO

Swiss fund of hedge funds manager Gottex hired the man who oversaw Merrill Lynch's investments in the Americas. Brian Fullerton was named managing director and a member of the Gottex research committee. He will be

Primores AG
CH-8001 Zürich
Niederdorfstrasse 88
www.primores.com
T +41 43 497 24 70
info@primores.ch
PRIMORES

based out of the firm's New York office. Fullerton was a chief investment officer for the Americas with Merrill Lynch Investment Management. He left the firm after it merged with BlackRock in 2006.

Asset Alliance in reverse merger with Tailwind Financial

Asset Alliance Corporation ("Asset Alliance"), a multi-faceted investment management firm specializing in alternative investments, and Tailwind Financial Inc. ("Tailwind") (Amex: TNF), a blank check development stage company, have announced that they have entered into an Agreement and Plan of Merger whereby Tailwind will acquire all of the outstanding common stock of Asset Alliance in exchange for shares of Tailwind common stock, allowing Asset Alliance to access the public markets through the proposed transaction with Tailwind. Asset Alliance has equity interests in nine affiliated asset managers and manages four funds of hedge funds. Including affiliate managers in which Asset Alliance has an interest and its own funds of hedge funds, Asset Alliance had total assets under management of approximately USD 3.5bn as of September 30, 2007.
The transaction values Asset Alliance at approximately USD 80.2mn (approximately USD 99.1mn with the full earn-out) based on the closing price of Tailwind common stock on January 8, 2008 or USD 85.0mn (approximately USD 105.0mn with the full earn-out) based on the USD 8.00 per share placed in Trust by Tailwind pursuant to the terms of its IPO.

London fund of hedge funds AltEdge Capital Management opens Geneva office

AltEdge Capital Management, a U.K.-based fund of hedge funds shop, has opened a new subsidiary in Geneva dubbed AltEdge Capital (Suisse) and has appointed Christophe Martin as its managing director. Martin will focus on business development and client services across a range of countries in Europe.

Product News

Magnum launches China and India dedicated fund of hedge funds

Magnum Funds has come out with a China and India fund of hedge funds. The Nassau- and Florida-based fund of hedge funds firm launched the new product to allow investors to take advantage of China's strong growth and currency reserves. The Magnum India Fund provides diversified exposure to India, investing with approximately 9-12 different hedge fund managers across a range of strategies and industry sectors. The strategies include long/short large-cap and mid-cap equity, long-only small-cap equity and PIPES, event-driven/risk arbitrage, multi-strategy arbitrage, and distressed debt.

New fund of hedge fund opens in Hong Kong

N1 Asset Management has opened in Hong Kong and is offering two new global funds of hedge funds. They apply"quant approach" in selecting mangers. Its founders are a team of seasoned veterans previously from one of Germany's oldest fund of hedge funds, named K1.

New asset-based lending dedicated fund of hedge fund launched

Globefin US Advisors LLC launched a, the Cannonball Stability Fund LP. The fund invests in over 20 single manager hedge funds that engage in the origination and holding of private loans and secured against specific assets (or pools of assets) as collateral. ABL has numerous substrategies such as but not limited to corporate secured lending, insurance lending, consumer finance and accounts receivable finance.

FRM sets up vehicle for fund seed capital

Financial Risk Management, a London-based fund of hedge funds group with USD 14bn under management, has launched a vehicle to provide seed capital to early-stage hedge fund managers. The FCM Catalyst Fund could allow institutional investors to access the investment returns of the hedge fund industry without incurring the sometimes crippling fees levied by hedge funds.

Primores AG
CH-8001 Zürich
Niederdorfstrasse 88
www.primores.com
T +41 43 497 24 70
info@primores.ch
PRIMORES

Swiss fund of hedge funds launches asset-based offering

NARA Capital is looking to give investors "new alternatives." The Geneva, Switzerland-based firm, which opened its doors in October 2007, launched an asset-based lending fund of hedge funds with assets north of USD 10mn. It was seeded by a group of European family offices.

Adept Capital early stage fund of hedge funds launched on 1st January 2008

The Adept Capital Early Stage Asia Fund is an innovative new fund of hedge funds investing in early stage Pan-Asia funds. In line with the fund's niche strategy, target capacity will be capped at USD 150mn with no more than 20 underlying investment positions. The fund is managed by Adept Capital Partners, an independent boutique investment adviser formed in 2006 and dedicated to the creation of niche, innovative absolute return products.

Academic/Research

Is managed futures an asset class?

Frankfurter/Accomazzo

This paper investigates potential sources of return to speculators in the commodity futures market. Initially, they focus on the "classic arbitrage model" based on the theories of Keynes (1930), Kaldor (1939), Hicks (1939, 1946), Working (1948) and Brennan (1958). Next their study examines the "simplified arbitrage model" which references the term structure of the futures price curve and provides rationale for a structural risk premium known as the roll return. They then introduce their theory of "roll yield permutations" which is derived from integrating the futures price curve with the expected future spot price variable. Last, they investigate Spurgin's (2000) "hedging response model" from which asymmetric hedging response functions transfer risk premia to speculators. Their research indicates that these models have inherent shortcomings in being able to pinpoint a definitive source of structural risk premium within the complexity of the commodity futures markets. They hypothesize that the classic arbitrage pricing theory contains circular logic, and as a consequence, its natural state is disequilibrium, not equilibrium. They extend this hypothesis to suggest that the term structure of the futures price curve, while indicative of a potential roll return benefit, in fact implies a complex series of roll yield permutations. Similarly, the hedging response function elicits a behavioral risk management mechanism, and therefore, corroborates social reflexivity. Such models are inter-related and each reflects certain qualities and dynamics within the overall futures market paradigm. With respect to managed futures, it is an observable materialization of behavioral finance, where risk, return, leverage and skill operate un-tethered from the anchor of an accurate representation of beta. In other words, it defies rational expectations equilibrium, the efficient market hypothesis and allied models—the CAPM, arbitrage pricing theory or otherwise—to single-handedly isolate a persistent source of return without that source eventually slipping away.

Synthetic CDO equity: Short or long correlation risk?

Jarrow/van Deventer

The purpose of this paper is to analyze the widely held belief that the equity tranche in a synthetic collateralized default obligation (CDO) is long (default) correlation risk. That is, the higher the correlation, the lower is the spread to the CDO equity tranche, all else constant. Or alternatively stated, the higher the default correlation, the more valuable is the CDO equity tranche. This belief is important because it relates to the sign of the equity tranche's hedge. If the sign is wrong, then hedging becomes doubling up instead. Unlike the simpler vanilla interest rate derivatives (e.g. swaps, caps, floors) or credit default swaps (CDS), valuing and risk-managing (hedging) CDOs requires a sophisticated model. This is true for many reasons. First, both the collateral pool underlying the CDO and the CDO's waterfall structure are very complex, sometimes involving various triggers. This complexity makes risk management - hedging the risks of a CDO - too difficult to understand without a model. In some sense, this is also true for the simpler CDS. But, there is a difference. Although one needs a CDS model to determine the exact hedge ratio (e.g. 0.9533), intuition can at least get the sign of the hedge ratio correct. With CDOs, in contrast, as just discussed, this may not be true with respect to the equity tranche. Second, in illiquid markets (such as those experienced since the summer of 2007), valuation can only be done by marking-to-model. In a liquidity crisis, without

Primores AG
CH-8001 Zürich
Niederdorfstrasse 88
www.primores.com
T +41 43 497 24 70
info@primores.ch
PRIMORES

a good model, financial institutions cannot even determine the asset value of their portfolios. Third, a CDO model enables a financial institution to determine fair value, a useful statistic that is the basis for the construction of profitable quantitative trading strategies.

Do hedge funds arbitrage market anomalies?

Lawson/Peterson

Hedge fund replication based on factor models is encountering growing interest. In this paper, they investigate the implications of substituting standard rolling windows regressions, which appear ad-hoc, with more efficient methodologies like the Kalman Filter. They show that the copycats constructed this way offer risk-return profiles which share several characteristics with the ones posted by hedge funds indices: Sharpe ratios above buy-and-hold strategies on standard assets, moderate correlation with standard assets and limited drawdowns during equity downward trends. An interesting result is that the shortfall risk seems less important than with hedge fund indices and regressions based-trackers. They finally propose new breakdowns of hedge fund performance into alpha, traditional beta and alternative beta.

Optimisation of a fund of hedge funds portfolio using price maximisation of basket options

Chatterjee

Optimisation in the context of portfolios of stocks and bonds have been researched in detail in extant literature. To cater to the evergrowing world of hedge funds, they develop a alternative method for optimisation of fund of hedge fund portfolios, by replicating payoffs of a basket option. This methodology avoids the pitfalls of current portfolio optimisation techniques This methodology has specific implications and applicability especially in optimisation of thematic fund of hedge funds portfolios.

Primores AG
CH-8001 Zürich
Niederdorfstrasse 88
www.primores.com
T +41 43 497 24 70
info@primores.ch
PRIMORES