

Performance Update all data in %

<b>Fund of Hedge Funds Indices</b>	<b>Dec</b>	<b>Nov</b>	<b>YTD</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
EDHEC Fund of Funds Index	-0.71	-1.92	-19.33	10.07	11.25	6.80	7.07
HFRI FoHF Composite Index	-0.90	-2.42	-20.68	10.25	10.39	7.49	6.86
CISDM Fund of Funds Index	-	-1.49	-16.45	8.68	9.11	6.47	7.12
InvestHedge Composite	-	-1.57	-16.02	8.90	9.12	6.99	6.39
Altvest Sub-Index: Fund of Funds	-1.20	-1.86	-19.87	8.63	10.24	7.68	7.39
Eurekahedge Fund of Funds Index	-0.55	-2.15	-19.26	10.26	10.49	7.97	7.08
HFN Fund of Funds Aggregated Average	-0.06	-2.37	-19.16	9.27	9.60	6.81	6.89
Barclay / Global HedgeSource FoF Index	-0.85	-2.63	-21.68	8.86	9.38	6.91	6.65
<b>Average FoHF Indices</b>	<b>-0.71</b>	<b>-2.05</b>	<b>-20.00</b>	<b>9.37</b>	<b>9.95</b>	<b>7.14</b>	<b>6.93</b>

<b>Investable Hedge Funds Indices</b>	<b>Dec</b>	<b>Nov</b>	<b>YTD</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
CS/Tremont Investable HF Index	-0.09	-4.09	-26.35	7.42	9.65	3.61	5.31
MSCI Hedge Fund Invest Index	-1.91	-3.40	-25.72	3.61	7.63	4.68	3.10
HFRX Global Hedge Fund Index	-1.22	-3.04	-23.25	4.23	9.26	2.72	2.69
FTSE Hedge Index	-0.54	-1.04	-19.76	0.62	6.28	2.60	3.12
RBC Hedge 250 Index	-0.36	-2.18	-21.02	8.22	10.62	-	-
<b>Average Investable HF Indices</b>	<b>-0.82</b>	<b>-2.75</b>	<b>-23.22</b>	<b>5.27</b>	<b>8.90</b>	<b>3.04</b>	<b>3.56</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 **-0.71%**

**Average Investable HF Indices** Current Month **-0.82%**

<b>Portfolios of Funds of Hedge Funds</b>	<b>Dec</b>	<b>Nov</b>	<b>YTD</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
PrimFund Diversified (net of fees)	-1.29	-2.56	-17.16	8.53	9.54	7.78	8.39
PrimFund Growth (net of fees)	-1.03	-2.97	-24.12	13.84	13.85	9.38	15.69
PrimFund Tactical (net of fees)	-0.17	-0.51	-6.58	13.05	18.87	14.49	-
PrimFund Opportunity (net of fees)	-2.37	-4.60	-36.09	10.30	22.12	17.02	17.13

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

**Pension funds unhappy with fund of hedge funds fees**

Global pension funds are sorely disappointed with the fees they pay for actively-managed fund of hedge funds, according to a new survey. New findings from London-based finance indicate that a majority of pension schemes favor lower fees from their alternative managers. What's more, they want discounts of between 10% and 30% without conceding to a one-, two- or three-year lock-up in exchange. However, 45% of investors said they are willing to consider trading liquidity for a reduction in fees.

**Hedge funds lose USD 350bn due to poor performance and redemptions**

The global hedge fund industry contracted by almost 20% last year, with USD 350bn falling victim to the twin terrors of poor performance and investor redemptions. Hedge funds now manage about USD 1.5tn, according to preliminary estimates by Eurekahedge. The industry once boasted as much as USD 1.9tn in assets under management.

### **American Library Association fund considers investing in fund of hedge funds**

The American Library Association is considering adding its first alternative investments to its USD 23mn endowment. The Chicago-based organization recently approved changes to its investment policy that would allow for first-time investments in funds of hedge funds.

### **United Nations to invest in hedge funds**

Alternative investment strategies around the world are trudging through a slowdown, but that is not scaring away the world's organization, the United Nations, from investing in these areas. The United Nations Joint Staff Pension Fund

(UNJSPF) is set to move forward with plans to put its money into hedge funds and private equity funds.

### **Hedge Funds experience worst historical net outflows in 2008**

Hennessee Group LLC, an adviser to hedge fund investors, estimates that hedge fund industry assets decreased by USD 782bn in 2008 to USD 1210bn. The decrease in assets represents a -39% decline in industry assets since the beginning of 2008 and leaves industry assets at their lowest level since 2006. Preliminary results indicate that the hedge fund industry experienced net redemption outflows of USD 399bn (-20%) in 2008.

## Advisors/People News

### **Fund of hedge funds Ramius names Stuart Davies managing director and CIO**

Ramius Fund of Funds Group LLC, an investment advisor offering a range of institutional fund of hedge funds products and managed accounts to a global client base, announced that Stuart Davies, former Managing Director and Global Head of Investments at Ivy Asset Management, has joined the firm as a Managing Director and Chief Investment Officer, effective January 20, 2009.

Mr. Davies will also be a member of the Fund of Funds Group's Investment Management Committee. Thomas W. Strauss, who previously held the position of Chief Investment Officer, will remain Chief Executive Officer of Ramius Fund of Funds Group and a member of its Investment Management Committee.

### **Olympia names new senior VP**

Olympia Capital Management, an independent hedge fund-of-funds business, announced the hiring of Ben Whitfield. He joined the firm on Jan. 5 as a senior vice president. In his new role, Whitfield will be head of sales in the United Kingdom and Northern Europe. He will be based in London.

### **AlphaMetrix appoints independent administrator**

AlphaMetrix, a managed account platform with combined assets under management of USD 1.7bn from 62 managers,

has become the latest US hedge fund provider to appoint an independent administrator.

The news follows reports that Union Bancaire Privée, the Swiss private bank with over USD50bn in hedge fund investments, was set to redeem assets from hedge funds without independent administrators and custodians.

### **Man Group to sue over Madoff exposure**

Man will take legal action with its investors over exposure to the alleged fraud by U.S. financier Bernard Madoff, Chief Executive Peter Clarke told Reuters in an interview. Man said its assets totalled USD 53.3bn (GBP 36.6bn) at the end of last year, down from USD 67.6bn at the end of September.

### **Fund of hedge funds Ivy shakes up top ranks**

Ivy Asset Management has lost a co-president and chief investment officer, but has gained a chief operating officer in a management shakeup.

The Bank of New York Mellon's fund of hedge funds unit, which manages USD 7.2bn, said that Michael Singer has left the firm, and will not be replaced. His co-president, Sean Simon, will serve as president on his own. Also out at Jericho, N.Y.-based Ivy is Peter Noris, the chief investment officer. He has been replaced by Fred Sloan, formerly of Island Brook Capital. The firm has also added Lawrence Morgenthal, formerly managing director at Acorn Partners, as chief operating officer.

### **Toronto's Diversified Global Asset Management hires Todd Groome**

Todd Groome, the former IMF official who became the non-executive chairman of the Alternative Investment Management Association at the beginning of this year, will join Diversified Global Asset Management in Toronto as a

managing director. He will have responsibility for business development and advising the investment team on macro investment themes and the global economic and policy environment.

## Product News

### **GAM increases redemption period to quarterly**

GAM, one of the leading investors in hedge funds, will permit clients to redeem their money from most of its fund of hedge funds only once a quarter instead of once a month, as the industry toughens redemptions terms.

### **Swiss firm Alpinvesta launches managed futures fund of hedge funds**

Switzerland-based Alpinvesta Asset Management has launched a fund of hedge funds investing exclusively in managed futures. The firm is now on the lookout for potential managers. The firm's Alpinvesta Managed Futures Profit Lock-In Note is linked to its Managed Futures Index, a diversified basket of futures funds, including Blue Trend, FX Concepts Global Currency Program, NUWAVE Combined Futures and Winton Futures.

### **GFX Alternatives launches multi-manager portfolio**

GFX Alternatives LLC, a member of the Global Fund Exchange Group, announced the formation of a new multi-manager portfolio to invest in the dynamic alternative energy investment sector. GFX Alternatives is dedicated to a diversified, global macro, multi-manager approach to allocating assets to premier investment managers who specialize in a broad spectrum of alternative energy opportunities.

### **DekaBank launches sustainable fund of hedge funds**

One of Germany's biggest asset managers, DekaBank, has unveiled a new fund of hedge funds that aims to pick the best from the sustainable and ethical sectors.

The DekaSelect: Nachhaltigkeit fund will follow a two-part investment approach. The main focuses of the portfolio are

funds which are classified as sustainable and ethical but it will also invest in specific environmental or sustainable themes such as environmental technology, renewable energy, water or microfinance.

### **Matrix plans February launch of two funds of hedge funds**

Matrix Money Management is to launch two funds of hedge funds in February with a March 1 investment date. The fund of hedge funds will be managed by the company's in-house fund of hedge funds team, headed by Stuart Ratcliff. Matrix Strategic Opportunities fund will capitalise on the opportunities within credit markets, particularly within distressed debt, high yield bonds, corporate loans and the restructuring process in bankruptcies. Matrix New Horizon fund will be a highly diversified multi strategy fund of hedge funds feeding into the existing Horizon fund.

### **Aduro Asset Group to launch manager of managers hedge fund**

West Palm Beach, Florida-based Aduro Asset Group LLC recently announced the March 1st 2009, launch of a manager of managers hedge fund. The fund will focus on a subset of managers which the firm oversees already through other products and strategies. As with Aduro's prior launches, the Aduro liquidity strategy was in response to current investor demand and so even in this brutal asset raising environment the firm expects to launch with approximately USD 30-40mn.

### **Culross launches note invested in fund of hedge funds**

Culross Global Management has launched the Nomura Culross Alpha Note. The notes, issued by Nomura International and denominated in sterling, give access to a

basket of two Culross fund of hedge funds portfolios, Culross Global and Culross Arbitrage.

Initially the notes will be invested 90% in Culross Global and 10% in Culross Arbitrage. These proportions may vary

through the life of the investment. There are also facilities for temporary holdings of cash and/or for the application of some leverage.

## Academic/Research

### **Higher moment diversification benefits of hedge fund strategy allocation**

Haglund

Hedge funds are often used by institutional investors as a risk reduction tool in order to decrease portfolio volatility and create more stable return patterns. Normally, the portfolio construction process is utilizing a mean-variance approach and does not account for non-normal return distributions. In this paper they use higher moment betas to examine the effects on portfolio volatility, skewness and kurtosis when hedge funds are added to an equity portfolio. Results show that hedge funds in general can lower the volatility, skewness and kurtosis of the portfolio but large variations are seen between different hedge fund strategies. Convertible Arbitrage, Equity Market Neutral, Fixed Income Arbitrage, Merger Arbitrage and Macro are identified as the most attractive strategies to include in an equity portfolio for investors who care about higher moment risks and want to limit downside risk. Positive diversification effects still exists when serial correlation is accounted for but are then less pronounced.

### **Tracking problems, hedge fund replication and alternative beta**

Roncalli, Weisang

As hedge fund replication based on factor models has encountered growing interest among professionals and academics, and despite the launch of numerous products (indexes and mutual funds) in the past year, it faced many critics. In this paper, they consider three of the main critiques, namely the lack of reactivity of hedge fund replication and its deficiency in capturing tactical allocations; its failure to apprehend non-linear positions of the underlying hedge fund industry and higher moments of hedge fund returns; and, finally, the lack of access to the

alpha of hedge funds. To address these problems, they consider hedge fund replication as a general tracking problem which may be solved by means of Bayesian filters. Using the linear Gaussian model as a basis for discussion, they provide the reader with an intuition for the inner tenets of the Kalman filter and illustrate the results' sensitivity to the algorithm specification choices. This part of the paper includes considerations on the type of strategies which can be replicated, as well as the problem of selecting factors. They then apply more advanced Bayesian filters' algorithms, known as particle filters, to capture the non-normality and non-linearities documented on hedge fund returns. Finally, they address the problem of accessing the pure alpha by proposing a core/satellite approach of alternative investments between high-liquid alternative beta and less liquid investments.

### **Capital at Risk - A more consistent and intuitive measure of risk**

Cowen, Abuaf

This paper will explain a risk methodology for traders and hedge funds that trade in the most liquid of markets like G10 futures and foreign exchange. The methodology is called Capital at Risk (CaR) and is a replacement for Value at Risk (VaR). CaR obviates the need to worry about fat tails or outliers called Black Swans as it virtually eliminates downside surprises. It is a conservative measure of risk and focuses on assessing the maximum downside to the portfolio. The traditional profile of a risk manager who should use CaR is a short-term trader investing in the most liquid of markets - where slippage is almost entirely avoidable; however, CaR is by no means exclusive to short-term traders. In the volatility of 3rd and 4th quarter of 2008 this tool would have been very useful to those with a medium to longer term trading horizon as well.

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