PRIMNEWS
Fund of Hedge Funds Review

21st July 2006

Performance Update

Fund of Hedge Funds Indices	June	May	YTD	2005	2004	2003
EDHEC Fund of Funds Index	-0.46%	-1.33%	4.82%	6.48%	7.07%	11.46%
HFRI FoHF Composite Index	-0.60%	-1.90%	4.19%	7.49%	6.86%	11.61%
CISDM Fund of Funds Index	-	-1.65%	4.22%	6.47%	7.12%	10.23%
InvestHedge Composite	-	-1.97%	3.96%	7.07%	6.15%	9.34%
Altvest Sub-Index: Fund of Funds	-0.73%	-1.80%	3.99%	7.68%	7.39%	11.12%
Eurekahedge Fund of Funds Index	-0.77%	-1.97%	3.78%	7.75%	6.84%	11.57%
Barclay/Global HedgeSource FoF Index	-0.63%	-1.96%	4.64%	6.91%	6.65%	10.44%
AAC Fund of Hedge Fund Benchmark	-	-1.76%	4.69%	7.54%	6.43%	11.32%
Average FoHF Indices	-0.64%	-1.79%	4.29%	7.17%	6.81%	10.89%

Investable Hedge Funds Indices	June	May	YTD	2005	2004	2003
CSFB/Tremont Investable HF Index	-0.21%	-0.80%	4.62%	3.61%	5.31%	11.04%
MSCI Hedge Fund Invest Index	-0.77%	-0.99%	2.96%	4.68%	3.10%	14.70%
HFRX Global Hedge Fund Index	-0.49%	-1.31%	3.12%	2.72%	2.69%	13.39%
FTSE Hedge Index	-	-1.31%	3.40%	2.60%	3.12%	12.36%
Average Investable HF Indices	-0.49%	-1.10%	3.53%	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.

Fund of Funds of Hedge Funds	June	May	YTD	2005	2004	2003
PrimFund Diversified (net of fees)	-0.35%	-1.32%	4.66%	7.78%	8.39%	13.68%
PrimFund Growth (net of fees)	-0.86%	-2.18%	5.47%	9.38%	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. All shown numbers are for illustration purposes only and are no guarantee of future performance.

Industry News

Hedge funds attract most new money in years **HFR**

Hedge funds attracted new money at the fastest pace since at least 2003 during the second quarter as strong performance from earlier this year lured investors. Hedge funds pulled in $42.1 billion in new money during the second quarter, bringing total assets to $1.225 trillion.

Equity managers pulled in the most, collecting more than $13 billion in new money in the quarter. Global macro managers saw inflows of $8.4 billion and event-driven funds attracted $4.8 billion. Fixed income arbitrage hedge funds saw the biggest outflows, losing $164 million in assets for the period. Asset flows into funds of hedge funds jumped to $15.6 billion, up from $6.4 billion in the first quarter.

Mediocre hedge funds dampen market **KPMG**

An oversupply of mediocre hedge funds in Europe has dampened both industry performance figures and investor sentiment, according to a report released by KPMG. The report, which reflected on the state of the investment management industry in Europe, said despite the trend, allocation of money to hedge funds in Europe was expected to increase to 7.2pc of total assets under management by 2007.

Morningstar to acquire Altvest database for $10m

Morningstar announced that it has entered into a definitive agreement to acquire the institutional hedge fund and separate account database division of InvestorForce. The acquisition includes both the Altvest database, one of the first online databases covering active hedge funds, managers, and data, along with InvestorForce's institutional separate account database. Combined with Morningstar's existing mutual fund, stock, variable annuity, hedge fund, and separate account data, this acquisition will allow Morningstar to offer one of the largest, most comprehensive proprietary investment databases for individual investors, advisors, and institutions.

Advisor/People News

Janie Chen joins TriAlpha
TriAlpha announced Janie Chen has joined its multi-manager hedge team as a Senior Hedge Fund Analyst. Janie is joining from a prominent hedge fund group based in London, where she held a senior position researching hedge fund strategies with a focus on Asia. Having grown up in China, Janie studied in the US and obtained an MBA in Finance from Columbia Business School, New York.

Ermitage attracts former FRM specialist to head Portfolio Construction & Risk
Macleod has joined Ermitage as Head of Quantitative Research & Risk Management reporting to Chief Operating Officer, Mark Hucker, and brings 13 years' hedge fund experience with an emphasis on quantitative strategies, risk measurement and portfolio construction. His appointment is seen by Ermitage as the final piece of the jigsaw in taking the company's quantitative research and risk management capability to the next level, and coincides with the company recently breaking through the $2bn assets under management barrier in alternative investments.

Harmony hires new risk manager
Abid Majid has joined Harmony Asset Management as a portfolio and risk Manager. Previously, Abid worked for 5 years at Goldman Sachs in London as an analyst in Emerging Debt Capital Markets and in Credit Risk Management & Advisory. Abid then worked as an investment analyst with Tail Wind, a London-based hedge fund. Abid graduated in economics from the London School of Economics. Abid will be part of the risk management team and will be managing a new fund.

Infiniti promotes Johnson to CIO
Infiniti Capital AG announced the appointment of Mr. Richard Johnson as Chief Investment Officer for the Infiniti group of companies. Mr. Johnson, previously a senior Portfolio Manager with Infiniti, will now take over the role as CIO, with responsibility for the investment team in Zurich. Mr. Johnson's primary role will be to provide overall direction with regard to investment standards and process and to support portfolio managers with the formulation of investment strategy and the achievement of portfolio targets.

Commerzbank and CML end advisory agreement
Commerzbank Capital Markets Corporation and CML have mutually agreed to terminate the Sub Advisory Agreement whereby CML, via Philippe Bonnefoy, provided investment advice to Commerzbank's Alternative Investment Strategies division.

Product News

S&P to suspend publication of managed account-based S&P hedge fund index
Standard & Poor's, the leading provider of independent investment research, indices and ratings, announced the following with regard to the S&P Hedge Fund Index (S&P HFI): Due to the diminishing number of managed accounts and their distribution in the index as of July 1, 2006, the S&P HFI will not be representative of the broad range of strategies that hedge funds employ and therefore will no longer be published. Standard & Poor's is evaluating the publication of a monthly non-investable index value based on the funds themselves to provide continuity for those who utilize the S&P HFI as a benchmark.

CMA Global's IPO may raise $400 million
The Wall Street Journal reports that CMA Global Hedge PCC Ltd. is poised to raise about $400 million in an initial public offering. The article says that the move highlights the steady stream of investors who want to get access to hedge funds through listed companies, but comes at a time of risk aversion from investors, who after being shaken by weeks of volatile markets are giving most IPOs a wide berth. According to the article the IPO would be the largest of its type and could propel CMA Global Hedge into the FTSE 350 index, where its shares would be held by index-tracker funds.

Cue Ball Group launches fund targeting early to mid-stage managers

The Cue Ball Group, a Boston-based holding company, formally launched its Alternative Investment arm through the announcement of the Cue Ball Discovery Fund (CBDF), a fund of hedge funds targeting early to mid-stage managers typically less than 3 years old and less than $300mn in assets under management. Former Citigroup Managing Director of Institutional Investments, Bradley R. Balter, CFA, has joined Cue Ball as the company's fourth Partner and will spear-head the CBDF as Portfolio Manager. The Cue Ball Discovery Fund focuses on managers with smaller asset bases who Cue Ball believes can generate superior returns in the market than their larger peers. At any given time, CBDF will focus on 12-15 best of breed managers, representing a concentrated but diversified and weighted portfolio.

Academic/Research

Convergence and Divergence: Blurring the Lines between Hedge Funds and Private Equity Funds **Bevilaqua**

Hedge Funds and Private Equity Funds have long been treated as two distinct alternative investment categories. However, these two styles of investing may be converging; some hedge fund advisers are taking a more active role in their investments and directing fund assets to areas that were traditionally occupied by private equity advisers. At the same time, the securities regulation framework under which these two types of funds operate has recently begun to diverge.

Hedge Funds: Performance, Risk and Capital Formation **Fung, Hsieh, Naik**

They use a comprehensive dataset of Funds-of-Hedge-Funds (FoHF) to investigate performance, risk and capital formation in the hedge fund industry over the past ten years. They confirm the finding of high systematic risk exposures in FoF returns. They divide up the past ten years into three distinct subperiods and demonstrate that the average FoF has only delivered alpha in the short second period from October 1998 to March 2000. In the cross section of FoHF, however, they are able to identify FoHF capable of delivering persistent alpha. They find that these more successful hedge funds experience far greater (and steadier) capital inflows than their less fortunate counterparts. Berk and Green's (2004) rational model of active portfolio management implies that diminishing returns to scale combined with the inflow of new capital leads to the erosion of superior performance over time. In keeping with this implication, they provide evidence that even successful hedge funds have experienced a recent, dramatic decline in risk-adjusted performance.

Performance of hedge fund strategies and the asymmetry of distributions
Shawky, Ding

Shawky and Ding present hedge fund performance estimates that adjust for stale prices, Fama-French risk factors and skewness. They contrast these new performance estimates with traditional performance measures. Using three-factor models to adjust for staleness in prices and to incorporate Fama-French factors along with the Harvey-Siddique (2000) two-factor model that incorporates skewness, they find that for the period 1990-2003, all hedge fund categories achieve above average performance when measured against an aggregate market index. More significantly, however, when they estimate performance at the individual hedge fund level, they discover that only 40 to 47% of the funds are shown to achieve an above average performance over that time period depending on the model used. These results have important implications for investors, endowments and pensions when they choose hedge fund managers.