

Performance Update

Fund of Hedge Funds Indices	June	May	YTD	2006	2005	2004	2003
EDHEC Fund of Funds Index	0.74%	2.04%	7.64%	11.25%	6.80%	7.07%	11.46%
HFRI FoHF Composite Index	0.77%	2.10%	7.92%	10.43%	7.49%	6.86%	11.61%
CISDM Fund of Funds Index	-	1.81%	6.39%	9.11%	6.47%	7.12%	10.23%
InvestHedge Composite	-	1.85%	6.39%	8.67%	7.07%	6.15%	9.34%
Altvest Sub-Index: Fund of Funds	0.73%	2.02%	7.37%	10.24%	7.68%	7.39%	11.12%
Eurekahedge Fund of Funds Index	0.77%	2.00%	7.61%	10.14%	7.83%	7.00%	11.68%
HFN Fund of Funds Aggregated Average	0.72%	2.03%	7.53%	9.60%	6.81%	6.89%	11.74%
Barclay/Global HedgeSource FoF Index	0.68%	2.00%	7.44%	9.38%	6.91%	6.65%	10.44%
Average FoHF Indices	0.74%	1.98%	7.29%	9.85%	7.13%	6.89%	10.95%

Investable Hedge Funds Indices	June	May	YTD	2006	2005	2004	2003
CS/Tremont Investable HF Index	0.28%	2.04%	6.36%	9.65%	3.61%	5.31%	11.04%
MSCI Hedge Fund Invest Index	0.63%	1.19%	4.64%	7.63%	4.68%	3.10%	14.70%
HFRX Global Hedge Fund Index	-0.07%	2.55%	6.87%	9.26%	2.72%	2.69%	13.39%
FTSE Hedge Index	0.29%	0.80%	3.93%	6.20%	2.60%	3.12%	12.36%
Average Investable HF Indices	0.28%	1.65%	5.45%	8.19%	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.

Portfolios of Funds of Hedge Funds	June	May	YTD	2006	2005	2004	2003
PrimFund Diversified (net of fees)	0.73%	1.75%	7.09%	9.54%	7.78%	8.39%	13.68%
PrimFund Growth (net of fees)	1.12%	2.47%	11.41%	13.85%	9.38%	15.69%	20.75%
PrimFund Opportunity (net of fees)	0.83%	2.61%	10.80%	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 a weighted composite of the targeted fund managers net of fees. All numbers shown are for illustration purposes only and are no guarantee of future performance.

Industry News

Hedge fund assets said to stand at USD 3.5 trillion as previous numbers exclude self-administered funds

According to Carbon 360 Research's 2007 fund administrator service provider fact book, however, those figures are way off, and really the number is closer to USD 3.4 to 3.5tn, because other tallies leave out a nice chunk of the hedge fund industry in their calculations, namely self-administered funds. Carbon 360 estimates that about 10% of existing hedge fund managers fall into that category, and based on its count of more than USD 2.72tn in single-manager hedge fund, which control between 25% and 30% of the industry's assets, that would add another USD 680mn to USD 810mn to the tally, putting assets in the mid-USD 3tn range as of the end of the first quarter.

Institutional investors still head for hedge funds

Infovest21

Highlighting a year in surveys and studies, Infovest21 has issued a white paper that suggests institutional investors continue to head for hedge funds. Here are some of the salient findings found in the report: 1) Institutional investors will represent more than 50% of projected flows into hedge funds by 2010, and will account for 40% of HF assets, up from 30% today. 2) The number of institutions investing in hedge funds will rise to 25%, up from 15%. 3) Institutional flows will be equally split between fund of hedge funds and single-manager funds through 2010. 4) Nearly two-thirds (64%) of institutional investors allocated at least 5% of assets to hedge funds, up from 48% just two years ago, while the number of institutions not investing in hedge funds fell from 16% to 4%. 5) Japanese pension funds are the biggest HF investors among pensions, with 47% opting for funds of hedge funds and 43% choosing single-strategy hedge funds. 6) Portable alpha mandates are becoming increasingly popular among pension funds, with some of the biggest, including the California Public Employees Retirement System, introducing portable alpha policies. 7) Hedge funds are facing growing competition from 130/30 and 120/20 funds, which could pressure on hedge funds to lower fees.

U.S. to lose large slice of hedge fund pie

Aite Group

By 2010, a shift in the hedge fund industry will leave the U.S. with a smaller, albeit significant, slice of the asset pie. In its report on hedge fund administration, the Aite Group projects that Europe will grab a substantial share of hedge fund assets from North America (for the most part, U.S), whose portion will shrink from 60.8% of the total to 32.1%, while Europe will see its slice expand from 22% to 36.5%. Other regions will experience less spectacular growth, the Asia rising from 3.7% to 5.3%, the Caribbean (home to an ever-growing number of hedge funds), from 6.9% to 8.4%, and Latin America, up from 1.4% to 2.2%. The Boston-based firm notes in its report, authored by Denise Valentine, that hedge fund administrators are "fairly standard" in Europe, while the trend in the U.S. has been to rely "heavily" on prime brokers. That may change, suggests Aite, in light of "dramatic changes in the industry, its tremendous growth, the market scandals and the increased regulatory focus."

Advisor/People News

BlackRock to buy Quellos unit for up to USD 1700 million

BlackRock Inc., agreed to buy a fund unit of Quellos Group LLC for as much as USD 1700mn to expand in one of the fastest growing parts of the money management business. BlackRock, which oversees about USD 1.15tn, will pay USD 562mn in cash and USD 188mn in stock for Quellos' funds that invest in other funds. BlackRock will also pay as much as USD 970mn over the next 3 1/2 years if unspecified conditions are met. The combined business will be one of the largest fund of funds managers in the world, with more than USD 25.4bn in assets. Quellos, based in Seattle, looks after more than USD 20bn in assets. Jeffrey Greenstein, Quellos's CEO, will step down from his post after the completion of the transaction. Bryan White, chief investment officer at Quellos, will become BlackRock's global head of funds of funds, to be renamed BlackRock Alternative Advisors. The transaction is expected to close around Oct. 1, pending regulatory approvals.

Cantor Fitzgerald launches fund of hedge funds unit

Bond brokerage Cantor Fitzgerald LP formed an alternative investment firm GoldRock Asset Management LP to diversify its operations. New York-based Cantor expects GoldRock to begin operations in early July, and initially manage several global fund of hedge funds portfolios. GoldRock is being formed from the integration of Zenith Asset Management LLC, a Los Angeles-based fund of hedge funds firm into Cantor.

2100 Capital Group forms new unit called 2100 Xenon

2100 Capital Group, a fund that invests in hedge funds controlled by Old Mutual Asset Management, said former Xenon Capital Management executives Jay Feuerstein and Steve Schnur have joined the organization in a new unit called 2100 Xenon. Feuerstein was named chief investment officer and Schnur was named head of trading of 2100 Xenon.

Ron Panzier named Chief Executive Officer of MayerCap

MayerCap, LLC, the New York based fund of funds, has named Ron Panzier, CFA, CPA, FRM, as the firm's Chief Executive Officer. Mr. Panzier, a co-founder of the firm, will continue as Chief Risk Officer and as a member of the Investment and Management Committees.

FIM Advisers expands investment and research teams

FIM Advisers LLP, the UK-based fund of hedge funds adviser with close to USD 4bn under management and advice, promoted Scott Drago to Head of Research. In his new capacity, Scott will oversee the Research teams in both the London and New York offices. He will report to Brendan Robertson, who has become Head of Investments. Brendan is now responsible for the overall investment process, including portfolio management and research. FIM has also expanded its Risk team with the addition of Antony Clark as Senior Risk Analyst.

Product News

AltEdge Capital launches new decorrelated fund of hedge funds

AltEdge Decorrelated, is designed to offer investors a correlation profile detached from equity markets over the long term. The AltEdge Decorrelated Portfolio will be broadly diversified across non-equity related strategies. The strategies will include credit, convertible bond arbitrage, commodities, Macro/CTA, quantitative equity market neutral and asset backed lending amongst others.

SPARX Group debuts China fund of hedge funds

SPARX Group Co. Ltd.'s fund of funds unit will launch a new strategy targeting hedge funds focused on Greater China. The strategy, which has been seeded with USD 25mn by a pension fund, is designed to generate attractive, risk-adjusted returns across market cycles by investing in a diversified array of hedge funds operating primarily in China, Hong Kong, Singapore and Taiwan. Targeted opportunities include arbitrage, corporate restructuring, event-driven, increased volatility, volatility trading and classic equity long-short.

UBP launches event driven and non-directional fund of hedge funds

The Selectinvest Event Driven offering invests in event-driven managers and will allocate capital to debt, equity and multi-strategy funds at opportunistic times throughout the investment cycle. The Selectinvest Alternative Balanced Fund will invest in predominantly non-directional hedge funds and is designed to offer institutional investors a beta-neutral vehicle to be used either as a stand alone, core alternative investment or part of a portable alpha program. Both vehicles will initially invest in between 25 and 30 managers.

Academic/Research

Compensation option, managerial incentives and risk-taking in hedge funds

Li and Kazemi propose a measure for hedge funds compensation option, which includes proxies for "moneyness" of compensation option and the patience of managers after the fund falls under water, to facilitate investigation of risk-taking behaviour and underlying incentives in hedge fund managers. They find that managers shift their volatilities in response to both factors: "out-of-money" compensation option and the long time a fund stays under-water give incentives to increase risk-taking. On the other hand, relative performance is found to influence the risk-taking incentives. Their findings are consistent with incentives discussed in Brown, Goetzmann, and Park (BGP) (2001), Brown, Harlow, and Starks (BHS) (1996), and Goetzmann, Ingersoll, and Ross (GIR) (2003). They further find that size, age, and level of management fees all play a role in affecting the incentives.

Assessing the performance of the hedge funds market: An application to the Italian hedge funds industry **Cipollini, Bramante Manzini**

Due to the complexity and heterogeneity of hedge fund strategies, assessing their performance is a challenging task. Reminiscent of the mutual fund industry, the literature has evolved in the direction of refining traditional measures (e.g. the Sharpe ratio) or introducing new ones.

This paper offers a new approach, based on the Principal Component Analysis (PCA), to uncover the relevant information for performance measurement, quantify, and combine it into a unique rank.

In addition, this paper assesses the ability of each individual hedge fund to raise the efficiency of a balanced portfolio by means of an extension of the Modigliani – Modigliani index. Finally, for illustration purposes, the methodology is applied for assessing the recent performance of the nascent Italian hedge fund industry.

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