

Performance Update all data in %

Fund of Hedge Funds Indices	June	May	YTD	2008	2007	2006	2005
EDHEC Fund of Funds Index	0.32	3.12	4.72	-19.73	10.07	11.25	6.80
HFRI FoHF Composite Index	0.45	3.38	4.59	-21.37	10.25	10.39	7.49
CISDM Fund of Funds Index	-	2.48	3.84	-17.04	8.68	9.11	6.47
InvestHedge Composite	0.19	2.38	3.70	-16.63	8.90	9.12	6.99
Eurekahedge Fund of Funds Index	0.21	2.96	4.15	-19.75	10.36	10.48	7.97
HFN Fund of Funds Aggregated Average	0.23	3.00	4.17	-20.01	9.27	9.60	6.81
Barclay / Global HedgeSource FoF Index	0.28	2.90	4.36	-22.18	8.86	9.38	6.91
Average FoHF Indices	0.28	2.89	4.28	-19.53	9.48	9.90	7.06

Investable Hedge Funds Indices	June	May	YTD	2008	2007	2006	2005
CS/Tremont Investable HF Index	0.51	2.33	2.87	-26.31	7.42	9.65	3.61
HFRX Global Hedge Fund Index	0.04	3.15	5.56	-23.25	4.23	9.26	2.72
RBC Hedge 250 Index	0.34	6.83	10.54	-21.21	8.22	10.62	-
Average Investable HF Indices	0.30	4.10	6.32	-23.59	6.62	9.84	3.17

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

Average FoHF Indices Current Month **0.28%**

Average Investable HF Indices Current Month **0.30%**

Portfolios of Funds of Hedge Funds	June	May	YTD	2008	2007	2006	2005
PrimFund Diversified (net of fees)	0.05	1.02	-0.32	-18.19	8.53	9.54	7.78
PrimFund Growth (net of fees)	-0.28	2.68	0.49	-25.08	13.84	13.85	9.38
PrimFund Tactical (net of fees)	-0.56	2.33	0.94	-6.58	13.05	18.87	14.49
PrimFund Opportunity (net of fees)	0.05	4.45	2.60	-35.81	10.30	22.12	17.02

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

Fitch changes fund of hedge funds risk ratings

Fund of hedge funds managers won't be getting any special treatment from Fitch Ratings anymore. The rating agency has dropped its sector-specific risk grades for asset managers. No more FoHFM1 for the safest of funds of hedge funds in terms of operational and investment management risk; instead, all money managers rated by Fitch will receive a grade on a scale of M1, for the lowest risk, to M5, for those at the greatest risk of failure. The move is part of a broader change in the way Fitch rates asset managers. The company will put more emphasis on a firm's "financial condition and business sustainability" than it did in the past, it said. Traditional asset managers, collateralized debt obligation

managers and real estate managers will face the same tweaked and unified scale.

Fund of hedge funds' investments in hedge funds accounted for USD 819bn of the USD 1.7tn industry at end of Q1 2009

According to HFN, at the end of Q1 2009, funds of hedge funds' investments in hedge funds accounted for an estimated USD 818.7bn of the USD 1.692tn hedge fund industry. In their last fund of hedge funds report in September 2008, the sector accounted for USD 1.42tn of the then USD 2.94tn industry; virtually equal to 48%. This percentage has fluctuated from a high above 50% in early 2004 to a low of 47% in Q1 2007 since tracking began in Q4 2003.

Fund of hedge funds assets grow due to positive returns and investor confidence

After a year of continuous net outflows, total hedge fund assets rose 5.8% in May with 1.0% attributable to investor

net inflows and 4.8% attributable to returns, according to hedgefund.net data published in Standard & Poor's Fund Services latest sector update.

Advisors/People News

JPMorgan picks Arden for USD 1.1bn in hedge funds

JPMorgan Chase & Co. picked Arden Asset Management LLC to oversee USD 1.1bn in hedge-fund investments that the bank made with its own money, according to a person familiar with the agreement. Shakil Riaz, the JPMorgan executive who has run the hedge-fund holdings since they were started in 1995, will join Arden, said the person, who spoke before the deal was made public. Arden, a New York-based firm that farms out money to hedge funds for its clients, will start managing the assets July 1.

Fund of hedge funds to 'vigorously' defend Madoff lawsuit

Austin Capital Management, a fund of hedge funds shop that had some 7.5% of its assets invested with Ponzi scheme mastermind Madoff, is going on the defensive against a suit filed on behalf of two New Mexico state funds. The firm, which is based in Texas, said last week that it would "vigorously" defend itself against the lawsuit, filed by the National Education Association of New Mexico over USD 25mn in losses suffered by state's Educational Retirement Board and State Investment Council.

Nestlé hires Gottex for investment and advisory mandate

Nestlé Capital Advisers has awarded Gottex Fund Management Holdings an investment and advisory mandate for the hedge fund portfolios of one of its pension funds. The investment management mandate will be managed through a customized fund of hedge funds program, based on relative value and event driven strategies.

Olympia shuffles top management

Marc Landeau, founder of fund of hedge fund manager, Olympia Capital Management, has withdrawn from all operational roles at the firm to focus on supervision and strategy, Financial News reports. The French group's

operational management has been entrusted to Laurent Dupeyron, Guido Bolliger and Arnaud Beyssen. Dupeyron will be Chairman and CEO of the Olympia Group executive board, Bolliger will be CIO and director and Beyssen will be CFO and director. Landeau and CEO Jacques Darmon will sit on the supervisory board.

Harcourt names Wessling chief investment officer

Alternative investments firm Harcourt Investment Consulting has promoted its head of portfolio management to chief investment officer. Georg Wessling, who joined the firm four years ago, succeeds Christophe Grünig, who remains a member of the firm's board of directors and investment committee. Grünig will focus on expanding the firm's business in Asia.

Hedge fund veteran selected for fund of hedge funds investment committee

Roy H. Callahan has been selected as portfolio manager and member of the investment committee at alternative investment firm Coast Asset Management, LLC, effective June 15. Callahan joins Coast from Stratos Advisers, a southern California-based hedge fund of funds manager. Previously, Callahan worked at Financial Risk Management (FRM) where his responsibilities included serving on the investment and portfolio management committees as well as training and mentoring FRM investment analyst groups.

UBP hires two hedge fund veterans for fund of hedge funds business

Union Bancaire Privée, whose funds of hedge funds were among the hardest hit by the Bernard Madoff scandal, has made two key hires for its hedge fund business. The Swiss bank's UBP Asset Management division has named Jonathan Morgan head of research for alternative investment and Sara Sprung as chief investment officer of alternative investment. Both have long experience in the hedge fund business.

Product News

Penjing's Wu to expand seeding of new hedge funds

Ronnie Wu, chief investment officer of the USD 400mn fund of hedge funds house Penjing Asset Management Ltd., will start a pool of money dedicated to providing early investments to new hedge funds next month. It aims to make five to six investments with the flagship Penjing Asia Fund by year-end, he said in an interview yesterday. The new pool will begin with about USD 25mn from Wu's family and friends and then raise capital from investors after the initial money has been deployed.

Macquarie launches CTA fund of hedge funds

Macquarie plans to launch a new CTA fund of hedge funds in August. The portfolio will be managed by George Toubia, the head of fund of hedge funds activity at the Macquarie Group. The new fund hopes to start with assets of USD 20-25mn and will be investing in six underlying funds. The intention is that by investing across a spectrum of funds, there will be a measure of downside protection if trends that one fund has followed unexpectedly switch direction.

AA Management launches fund of managed accounts

AA Management recently unveiled the ALT Fund, which was launched with USD 60mn, including seed capital from a Geneva-based financial advisory firm. According to partner J.J. Chenier, the fund's portfolio will consist of between 7 to 15 medium-sized managers, and aims to offer greater transparency and liquidity than hedge funds. The strategies included in the portfolio are long/short and global macro.

HSBC mulls retail fund of hedge funds launch to invest in hedge funds and UCITS III funds

HSBC Global Asset Management, which currently has GBP 2bn of assets under management, is looking at launching a retail fund of hedge funds. The firm is believed to be speaking to a number of IFAs about demand for the product, which will invest in both UCITS III and hedge funds. Currently at the marketing stage, it could launch later this year.

Fund of hedge funds Aida offers open-ended option

Listed fund of hedge funds Aida Fund is to offer its shareholders the option of switching to an open-ended version of the fund in a bid to improve its liquidity, similar to a measure taken by Marwyn Value Investors over the last couple of months. Aida Capital will set up an open-ended fund domiciled in Guernsey and listed on the Channel Islands Stock Exchange but it is unlikely to be available to smaller share holders as the open-ended fund can only be marketed to investment professionals or high net worth individuals.

Julius Baer Invest may absorb listed Swiss fund of hedge funds house creInvest

Wealth manager Julius Baer Invest Ltd., Zurich, has proposed to creInvest to merge creInvest into Julius Baer Invest by way of absorption. creInvest's board came to the conclusion that the proposed plan was in the best interest of shareholders. creInvest AG, founded in May 1996 and located in Zug, is a Swiss closed-end investment company traded on the SWX Swiss Exchange.

Academic/Research

Illiquidity premia in asset returns: an empirical analysis of hedge funds, mutual funds, and U.S. equity portfolios

Khandani, Lo

The authors establish a link between illiquidity and positive autocorrelation in asset returns among a sample of hedge funds, mutual funds, and various equity portfolios. For hedge funds, this link can be confirmed by comparing the return autocorrelations of funds with shorter vs. longer

redemption-notice periods. They also document significant positive return-autocorrelation in portfolios of securities that are generally considered less liquid, e.g., small-cap stocks, corporate bonds, mortgage-backed securities, and emerging-market investments. Using a sample of 2'927 hedge funds, 15'654 mutual funds, and 100 size- and book-to-market-sorted portfolios of U.S. common stocks, they construct autocorrelation-sorted long/short portfolios and conclude that illiquidity premia are generally positive and significant,

ranging from 2.74% to 9.91% per year among the various hedge funds and fixed-income mutual funds. They do not find evidence for this premium among equity and asset-allocation mutual funds, or among the 100 US equity portfolios. The time variation in their aggregated illiquidity premium shows that while 1998 was a difficult year for most funds with large illiquidity exposure, the following four years yielded significantly higher illiquidity premia that led to greater competition in credit markets, contributing to much lower illiquidity premia in the years leading up to the financial crisis of 2007-2008.

How smart are the smart guys? A unique view from hedge fund stock holdings

Griffin, Xu

Compared to mutual funds, hedge funds prefer smaller, opaque value securities, and have higher turnover and more active share bets. Decomposing returns into three components, they find that hedge funds are better than mutual funds at stock picking by only 1.32% per year on a value-weighted basis, and this result is insignificant on an equal-weighted basis or with price-to-sales benchmarks.

Hedge funds exhibit no ability to time sectors or pick better stock styles. Surprisingly, they find only weak evidence of differential ability between hedge funds. Overall, their study raises serious questions about the perceived superior skill of hedge fund managers.

Are “market neutral” hedge funds really market neutral?

Patton

Using a variety of different definitions of “neutrality,” this study presents significant evidence against the neutrality to market risk of hedge funds in a range of style categories. The author generalizes standard definitions of “market neutrality,” and proposes five different neutrality concepts. He suggests statistical tests for each neutrality concept, and applies these tests to a database of monthly returns on 1’423 hedge funds from five style categories. For the “market neutral” style, approximately one-quarter of the funds exhibit significant exposure to market risk; this proportion is statistically significantly different from zero, but less than the proportion of significant exposures for other hedge fund styles.

About Primores

About Primores

Primores is an independent and research driven advisory firm exclusively dedicated to the fund of hedge funds universe.

Through a unique blend of qualitative and quantitative analysis Primores is able to provide investors with the highest quality investment solutions in the fund of hedge funds world.

As a leading specialist Primores offers:

- Advice regarding single fund of hedge funds investments

- Customized Solution for institutional investors (white label, sub advisory)
- PrimFunds: one stop shop solutions

Contact

Would you also like to receive PrimNews each month free to you own email account? Just click [here](#) and sign up for the newsletter. Please include your name, company, country and your profession.

This document is for informational purpose only, and does not represent an offer to acquire any of the funds or other investment vehicles listed or described herein, none of the funds or investment vehicles listed or described herein is or have been recommended by Primores AG. No representations are made by Primores AG about the accuracy or completeness of the data contained herein. Primores AG accepts no responsibility for calculation of the rates of return herein, or for any investment allegedly made on the bases of this document. Primores AG draws readers' attention to the fact that the funds and investment vehicles listed or described herein carry substantial risks and are not suitable for all types of portfolios. Past performance of these funds and investment vehicles is necessarily an indication of future performance. All information in this newsletter is for educational and informational purposes and does not constitute investment, legal, tax or accounting advice.