

Performance Update

Fund of Hedge Funds Indices	May	April	YTD	2004	2003	2002
EDHEC Fund of Funds Index	0.30%	-1.41%	-0.17%	7.07%	11.46%	1.25%
HFRI FoHF Composite Index	0.36%	-1.39%	-0.24%	6.79%	11.59%	1.02%
CISDM FoHF Diversified Median	0.14%	-1.41%	-0.19%	7.52%	10.04%	0.65%
CISDM FoHF Niche Median	0.18%	0.41%	0.62%	8.33%	10.62%	1.99%
InvestHedge Composite ¹⁾	-	-1.28%	-0.29%	6.12%	9.28%	1.99%
Altvest Sub-Index: Fund of Funds	0.35%	-1.42%	-0.04%	7.39%	11.12%	1.23%
EurekaHedge Fund of Funds Index	0.20%	-1.34%	-0.25%	6.47%	11.22%	2.03%
Barclay/Global HedgeSource FoF Index	0.02%	-1.45%	-0.47%	6.60%	10.36%	1.79%

1) Updated by the end of the month.

Investable Hedge Funds Indices	May	April	YTD	2004	2003	2002
CSFB/Tremont Investable HF Index	0.31%	-1.08%	-0.73%	5.31%	11.04%	5.67%
MSCI Hedge Fund Composite Index	0.22%	-1.15%	-0.96%	3.10%	14.7%	5.30%
S&P Hedge Fund Index	0.29%	-1.03%	-1.06%	3.95%	11.12%	4.14%
HFRX Global Hedge Fund Index	0.14%	-1.76%	-2.64%	2.69%	13.39%	-
FTSE Hedge Index	0.21%	-1.09%	-0.89%	3.12%	12.36%	2.05%

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	May	April	YTD	2004	2003	2002
PrimFund Diversified	0.50%	-0.87%	0.81%	8.39%	13.68%	-

Inception of the fund was July 1st 2004. The simulated data prior reflects the net performance of a weighted composite of the targeted fund managers.

Industry News

Tremont Research shows \$24.6bln in net flows for Q1, new funds attract assets

Investors poured a net \$24.6bn into hedge funds globally in the first quarter of this year. The total inflow represents a third less than seen in the first quarter of 2004: Tremont's Asset Flows Report showed a continued interest in hedge fund investing for the recent three-month period, and indicated that more than \$10-billion in net assets for the first quarter was attributed to new fund launches in the past year.

The flow of hedge fund assets for the quarter also underscored investors' readiness to back away from poor performing strategies as evidenced by a \$1.8 billion net outflow from Convertible Arbitrage.

For the first quarter, the strategies that attracted the greatest amount of net assets were Event Driven, Multi-Strategy, Fixed Income Arbitrage and Emerging Markets. In order, these categories showed net inflows of \$8.2 billion, \$6.5 billion, \$4.3 billion and \$2.7 billion.

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Comada launches web-based solution for fund of funds managers

Comada's new Mat:share offering is designed to help funds of funds managers improve efficiency in their portfolio management and operational activities.

Mat:share is the only internet browser-based, hosted portfolio management solution that allows managers to control fund portfolio information, and access it from anywhere in the world via an Internet connection. It is a front, middle, and back office solution that can integrate portfolio, trading, and proprietary fund market data, as well as fund documentation and is licensed on a monthly fee basis.

Advisor/People News

Foundations heavyweights form Anchor Point Capital

Albert Hsu has left his position at Atlantic Philanthropies on June 15 to join Tim Crowe, the former chief investment officer of the Knight Foundation, to form Anchor Point Capital.

Anchor Point Capital will launch its first funds of funds, four strategy-specific products, in the fourth quarter. The strategies of the four funds will be long/short equity, event-driven, credit and global macro. Each fund will allocate to approximately 10 to 12 managers drawn from around the globe. The new funds will have a \$1 million minimum investment and a 1/10 fee structure.

Hsu served as US investment officer at Atlantic Philanthropies, which lays claim to being one of the largest dollar allocators to hedge funds among all foundations, with half of its \$3.7 billion in assets dedicated to the alternative products. Crowe spent 15 years at the Knight Foundation, where hedge funds make up 30% of the foundation's \$2 billion portfolio.

Andrew Sinclair to head Alphatraxx

Andrew Sinclair, former co-head of hedge fund coverage at ABN AMRO has become the chief executive officer of a new Asia-focused fund of hedge funds, Alphatraxx Capital Advisors, based in Hong Kong.

Alphatraxx will be targeted at institutional investors, including pension funds and endowments and will respond to their requirements by combining investment banking grade risk management and operations with hedge fund asset management due diligence and analysis.

Sinclair said over 650 funds are now trading Asian strategies and there is huge institutional demand for Asian hedge funds. The new venture sees Sinclair reuniting with old UBS buddies Janice Chan and Richard Norris.

UBP adds two senior professionals in New York

UBP Asset Management in NY, manager of the Selectinvest Family of Funds with over \$6 billion, recently hired two senior professionals to their investment team. Les Gulko has joined as Director of Portfolio Analysis and Risk Management. Les brings to UBPA an impressive depth and record of accomplishments that were achieved while working at such well known organizations as GE, Wells Fargo and Paloma Partners, where he was responsible for selecting managers for inclusion on Paloma's platform and managing their internal Fund of Funds.

The second hire was Peter Barcia, CPA, whom is the Director of Institutional Customized Fund of Hedge Funds Accounts. Prior to joining UBPA, Peter was with Ivy Asset Management, where he served as a Director in the Structured Products team. Peter has over 19 years of outstanding achievements in the financial services industry. They will report to Roman Igolnikov who is heading the Portfolio Management Group.

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Former SMC Director launches his own fund of hedge funds

Stanford Management Co. (SMC) managing director Alex Klikoff has launched his own fund of hedge funds, Fintan Capital on May 1st with \$100 million in capital. Klikoff's fund, which will target less-capitalized businesses, has a minimum \$5 million investment as well as a 1% management fee and a 10% performance fee. Klikoff opened his California-based fund company with chief operating officer Christopher Montclare and analyst Erik Mayo.

Porter leaves Aurum Funds for Alliance International

Alliance International, an affiliate of Asset Alliance, has hired Aurum Funds' Emily Porter as a Senior Analyst. Ms. Porter is responsible for manager selection and monitoring of managers for the firm's affiliate manager program and fund of funds offerings. She reports to James Parker, recently appointed Managing Director and Head of Asset Alliance International.

Former Goldman Sachs Executive Joins CDK Group

CDK Group LLC, a New York based investment management firm specializing in alternative investments announced its plans to open a London office.

The London office will be headed by Peter Mallinson, a former partner of Goldman Sachs. In addition to the day-to-day management of CDK's London office, Mallinson will be responsible for developing relationships with institutional clients and their advisers in Europe and for European and Asian manager research. Prior to joining CDK, Mallinson spent over 20 years at Goldman Sachs where he was most recently Head of European Equities. Previously based in Hong Kong for six years, he also ran Goldman Sachs' Equities Division in Asia. Mallinson is the second former Goldman Sachs Partner to join CDK. His background in equities complements that of one of CDK's three Founding Principals, John Downing. Downing ran the Equity Capital Markets Group at Goldman Sachs in Europe, among other businesses, and was senior member of the Equity Division in New York and a member of the firm's Commitments and Credit Committees. The other Founding Principals of CDK are Peter Chapman and Thomas Keese.

Harcourt strengthens strategic relationship with MSS Capital

Harcourt AG has acquired a minority equity stake in MSS Capital, which runs the managed account platform underlying the FTSE Hedge investible indices.

Product News

Singapore's Fullerton launches Asian fund of hedge funds

Fullerton Fund Management, the asset management arm of the S\$90 billion (US\$55 billion) Singapore government investment company Temasek Holdings, will launch its Asian fund of hedge funds, the Fullerton-Monex Asian Fund, to external investors in July.

Fullerton entered into a joint venture with Japan's Monex in January 2005 to develop the fund of funds. Fullerton has invested in 10 Singapore hedge fund managers out of a group of 34 it researched in the city. As well, it has invested in two managers out of 37 it researched in Australia, two out of 24 in Japan, nine of 65 in UK/Europe, 13 of 22 in US/Canada and four of 66 in Hong Kong/China/Taiwan. Fullerton has built a team of six professionals in its fund-of-hedge-funds unit, with Shirin Ismail as its head, to cater to an expected increase in investor demand for Asian hedge funds.

Lombard Odier Darier Hentsch distributes five new alternative funds in Switzerland

The Swiss Federal Banking Commission has just authorized distribution in Switzerland of the Luxembourg LODH Multiadvisers range, comprising five single-strategy funds of hedge funds. Three of these investment vehicles are managed using a long/short equity approach by geographic region (United States, Europe, Asia-Pacific), one by means of a macro trading approach and one by a global arbitrage approach.

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Aurum launches natural resources fund of hedge funds

Aurum announced the launch of the Aurum Resources Fund Ltd – a multi-manager, multi-strategy open-ended investment fund dedicated to investments in natural resource markets. The Fund has been designed to capture the anticipated secular uptrend in commodity prices driven both by strong demand from emerging economies such as China and India as well as constraints across the global supply chain.

Arena launches two offshore funds of hedge funds

Arena Fund Management Ltd, a Guernsey-based company specializing in funds of hedge funds, launches two Bahamas-domiciled funds of hedge funds at the end of the month : Arena Conservative Fund and Arena Dynamic Fund. Both funds invest in a diversified portfolio of hedge funds, employing a variety of directional and hedged strategies.

The Arena Conservative Fund is aiming a return in line with the CSFB/Tremont Index (6 to 12%) and a volatility below the fixed income level. The Arena Dynamic Fund is constructed in order to match the volatility of the CSFB/Tremont Index but, with a return largely superior (12-24%).

Academic/Research

Sources of Hedge Fund Returns: Alphas, Betas, and Costs

Ibbotson, Chen

Hedge funds have grown dramatically to roughly one trillion dollars currently. In this paper they focus on two issues. First, they analyze the potential biases in reported hedge fund returns, in particular survivorship bias and backfill bias. Second, they decompose the returns into three components: the systematic market exposure (beta), the value added by hedge funds (alpha), and the hedge fund fees (costs). They analyze the performance of a universe of about 3,500 hedge funds from the TASS database from January 1995 through March 2004. Their results indicate that both survivorship and backfill biases are potentially serious problems. The equally weighted performance of the funds that existed at the end of the sample period had a compound annual return of 16.64% net fees. Including dead funds reduced this return to 13.90%. Excluding backfill further reduced the return to 9.06%, net of fees. In this last sample, they estimate a pre-fee return of 12.8%, which they split into a fee (3.8%), an alpha (3.7%), and a beta return (5.4%). Overall, they find that the alphas are significantly positive and are approximately equal to the fees, meaning the excess returns were almost equally shared between hedge fund managers and their investors.

Hedge Fund Returns: you can make them yourself

Kat, Palaro

By dynamically trading futures in very much the same way as investment banks hedge their OTC option positions it is possible to generate returns that are statistically very similar to the returns generated by hedge funds without any of the usual drawbacks surrounding alternative investments, i.e. without liquidity, capacity, transparency or style drift problems and without paying over-the-top management fees. Hedge fund returns may be different, but they are certainly not unique. There is more than one road leading to Rome!

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