

Performance Update

| Fund of Hedge Funds Indices | May | April | YTD | 2005 | 2004 | 2003 |
|--------------------------------------|---------------|--------------|--------------|--------------|--------------|---------------|
| EDHEC Fund of Funds Index | -1.31% | 1.70% | 5.32% | 6.48% | 7.07% | 11.46% |
| HFRI FoHF Composite Index | -1.62% | 1.77% | 5.13% | 7.49% | 6.86% | 11.61% |
| CISDM Fund of Funds Index | - | 1.44% | 5.97% | 6.47% | 7.12% | 10.23% |
| InvestHedge Composite | - | 1.48% | 6.05% | 7.07% | 6.15% | 9.34% |
| Altvest Sub-Index: Fund of Funds | -1.78% | 1.70% | 4.77% | 7.68% | 7.39% | 11.12% |
| Eurekahedge Fund of Funds Index | -1.97% | 1.76% | 4.57% | 7.75% | 6.84% | 11.57% |
| Barclay/Global HedgeSource FoF Index | -1.93% | 1.62% | 4.64% | 6.91% | 6.65% | 10.44% |
| AAC Fund of Hedge Fund Benchmark | - | 1.67% | 6.75% | 7.54% | 6.43% | 11.32% |
| Average FoHF Indices | -1.72% | 1.64% | 5.40% | 7.17% | 6.81% | 10.89% |

| Investable Hedge Funds Indices | May | April | YTD | 2005 | 2004 | 2003 |
|---------------------------------------|---------------|--------------|--------------|--------------|--------------|---------------|
| CSFB/Tremont Investable HF Index | -0.69% | 1.87% | 4.96% | 3.61% | 5.31% | 11.04% |
| MSCI Hedge Fund Invest Index | -0.99% | 1.17% | 3.76% | 4.68% | 3.10% | 14.70% |
| S&P Hedge Fund Index | 1.06% | 1.01% | 6.19% | 2.28% | 3.88% | 11.10% |
| HFRX Global Hedge Fund Index | -1.31% | 1.15% | 3.63% | 2.72% | 2.69% | 13.39% |
| FTSE Hedge Index | - | 1.02% | 4.77% | 2.60% | 3.12% | 12.36% |
| Average Investable HF Indices | -0.48% | 1.24% | 4.66% | 3.18% | 3.62% | 12.52% |

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 | 2005 | 2004 | 2003 |
|-------------------------------------|--------|-------|-------|-------|--------|--------|
| PrimFund Diversified (net of fees) | -1.29% | 1.84% | 5.06% | 7.78% | 8.39% | 13.68% |
| PrimFund Growth (net of fees) | -2.04% | 2.62% | 6.54% | 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 have improved risk practices

Mercer Oliver Wyman

Hedge funds have substantially improved their risk management practices in recent years to reduce threats to the financial system and investor losses from fund failure, a new study concluded. But still more needs to be done to allay risk in the fast-growing and evolving industry, where funds invest across an increasing array of asset classes in trades that are often backed by leverage, or debt. The study comes amid recurrent concern over hedge fund trading strategies and the risk that the \$1.5 trillion industry poses to both investors and the global financial system. That risk was exemplified by major fund failures such as the 1998 collapse of Long-Term Capital Management, in which a heavy use of leverage and derivatives went awry, prompting the U.S. Federal Reserve and a group of banks to organize a multi-million-dollar bailout and orderly shut-down of the fund.

The Mercer study concluded that hedge fund managers and banks that service the industry "have made substantive strides in many dimensions of their risk management practices," said Bradley Ziff. "The largest, most influential hedge funds and their creditor banks have an extremely sophisticated understanding of their risk profiles."

Large established hedge funds make "extensive use of sophisticated stress-tests and scenario planning" to offset the likelihood of being forced to liquidate positions "in an unplanned or untimely manner," the study found. Such an event could threaten market stability and lead to a structural collapse. But no system will cut the risk of market disruption caused by multiple funds offloading positions at the same time in response to a market event, it found.

The study also said the hedge fund industry, which is evolving into a more institutional asset class from its roots as an investment mainly for wealthy investors, is improving its transparency to allow pension funds and other investors to better gauge risk.

Advisor/People News

PAAMCO hires Jorion

Pacific Alternative Asset Management Company ("PAAMCO"), a US\$7.4 billion fund of hedge funds company, announced that Professor Philippe Jorion has joined the firm as a Director in the Risk Management Group. Professor Jorion will be based in PAAMCO's Irvine office, and will focus on further enhancing both the firm's risk management processes and infrastructure. His primary area of responsibility will be on the analysis and valuation of complex security types and new markets.

Guggenheim hires European research director

Guggenheim Advisors, the fund of hedge funds manager recently acquired by Bank of Ireland, has hired Pierre-Olivier Masméjean from Rothschild in Paris as managing director and European research director. Masméjean, who will be based in London, has been given the responsibility of identifying European-based hedge fund managers for Guggenheim's fund of hedge funds platform. Previously the managing director of Rothschild Multi Management, Masméjean is to be reunited with Kevin Dolan, who quit as chief executive of Rothschild Asset Management in Paris to take over at Bank of Ireland Asset Management.

Arundel announces strategic alliance and change of name

Arundel Partners, the London-based specialist fund of hedge funds and hedge fund seeding business announced the sale of a strategic stake to parties associated with the Guinness family to use as the cornerstone of a new wealth management business that will run alongside its hedge fund businesses. The company has changed its name to Arundel Iveagh Investment Management Ltd and the transaction, which is subject to regulatory approval, is expected to complete within two weeks.

OPM hires new people

Henrik Malmsten has joined OPM as a Senior Adviser and will take part in the investment process. Henrik has a background from AP 6 (The Sixth Swedish National Pension Fund) where he was head of asset management and managed a 2 billion USD absolute return portfolio. Henrik also has a background from Lannebo Fonder where he managed an absolute return fund "Lannebo Total". In January 2006, Martin Larsson joined OPM as CFO. Martin was previously CFO of their administrator and he holds a MSc from the Stockholm School of Economics (Handelshögskolan i Stockholm). Martin is taking an increasing part in the investment process where his focus is the due diligence process.

Mosaïque closes down

Mosaïque Capital Management, a \$374 million fund of hedge funds backed by Bear Stearns Cos. Inc., is shutting down after the Securities and Exchange Commission found that a broker was being paid by both the fund and by the investors, according to published reports. The fund's chief, Andrew Haas, a 25-year veteran of Bear Stearns, announced his retirement in a letter and said that another Bear Stearns executive would supervise the liquidation of the fund.

Man Investments named European asset management firm of the decade

Man Investments has been named the 'European Asset Management Firm of the Decade' by Financial News in recognition of the pivotal role it has played in the development of the hedge fund industry as well as the asset management industry as a whole over the past 10 years.

Product News

Mellon launches new fund to tap "credit markets rich in opportunities"

The Mellon Credit Opportunities Fund, launched in April 2006, targets absolute returns and outperformance of a broad high yield bond index over a full market cycle with lower volatility. Diversification will be achieved through exposure to a combination of hedge fund managers investing long and short in corporate debt markets, with a focus on leveraged loans, high yield bonds and distressed debt in the US and Europe.

Academic/Research

Who Shorts? Convertible Bond Arbitrage, Liquidity and Stock Prices? Choi, Gemansky

This paper uses convertible bond issue dates and aggregate short selling data to identify convertible bond arbitrage activity and examine its impact on equity market liquidity and stock prices for the period 1991 to 2005. They find considerable evidence of arbitrage-induced short selling and that this activity is significantly and positively related to liquidity improvements in the issuers' stock. The evidence of the impact on price efficiency is mixed. In the second part of the analysis, they link dollar value of convertible bond issues to our proxy for arbitrage activity and to convertible bond hedge fund flows and returns data. They examine the dynamics of supply, industry flows, returns and industry structure. They find evidence that fund flows chase both returns and new supplies of debt. They also find that new fund flows tend to be distributed more equitably across all funds in the category, rather than being directed only at the industry leader.

General Motors U.S. Pension Funds Viceira, Tung

This case concerns the decision of how to finance shortfalls in a corporate defined-benefit (DB) pension plan. It specifically examines the decision of General Motors Corporation (GM) in 2003 to issue \$17.6 billion of debt (to that date the largest corporate debt offering in United States history) and to use a significant fraction of the proceeds (\$13.2 billion) to immediately contribute to its US pension funds, with the objective of partially funding a large shortfall in its U.S. DB pension funds. The shortfall is about \$19 billion, or 24% of the plan's liabilities. The case also explores the decision that GM has to make as to how invest the contributions to the fund. GM Asset Management (GMAM) considered investing the entire contribution to its U.S. pension funds coming from the debt offering not in traditional investment grade bonds or stocks, but in a broad category GM called "alpha." GMAM believed this would help meet its new target annual return of 9%, reduce the probability of a negative return in any given year from 20% to 10%, and reduce the volatility of plan assets by 40%.

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