

## Performance Update

<b>Fund of Hedge Funds Indices</b>	May	April	YTD	2006	2005	2004	2003
EDHEC Fund of Funds Index	2.05%	1.63%	6.81%	11.25%	6.80%	7.07%	11.46%
HFRI FoHF Composite Index	2.14%	1.70%	7.17%	10.43%	7.49%	6.86%	11.61%
CISDM Fund of Funds Index	-	1.54%	4.49%	9.11%	6.47%	7.12%	10.23%
InvestHedge Composite	-	1.53%	4.46%	8.67%	7.07%	6.15%	9.34%
Altvest Sub-Index: Fund of Funds	2.02%	1.58%	6.58%	10.24%	7.68%	7.39%	11.12%
Eurekahedge Fund of Funds Index	2.08%	1.69%	6.85%	10.14%	7.83%	7.00%	11.68%
HFN Fund of Funds Aggregated Average	2.02%	1.61%	6.57%	9.60%	6.81%	6.89%	11.74%
Barclay/Global HedgeSource FoF Index	1.99%	1.60%	6.70%	9.38%	6.91%	6.65%	10.44%
<b>Average FoHF Indices</b>	<b>2.05%</b>	<b>1.61%</b>	<b>6.20%</b>	<b>9.85%</b>	<b>7.13%</b>	<b>6.89%</b>	<b>10.95%</b>

<b>Investable Hedge Funds Indices</b>	May	April	YTD	2006	2005	2004	2003
CS/Tremont Investable HF Index	2.03%	1.61%	6.06%	9.65%	3.61%	5.31%	11.04%
MSCI Hedge Fund Invest Index	1.19%	1.06%	4.23%	7.63%	4.68%	3.10%	14.70%
HFRX Global Hedge Fund Index	2.55%	2.21%	6.87%	9.26%	2.72%	2.69%	13.39%
FTSE Hedge Index	0.87%	1.52%	3.65%	6.20%	2.60%	3.12%	12.36%
<b>Average Investable HF Indices</b>	<b>1.66%</b>	<b>1.60%</b>	<b>5.20%</b>	<b>8.19%</b>	<b>3.40%</b>	<b>3.56%</b>	<b>12.87%</b>

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

<b>Portfolios of Funds of Hedge Funds</b>	May	April	YTD	2006	2005	2004	2003
PrimFund Diversified (net of fees)	1.63%	1.71%	6.18%	9.54%	7.78%	8.39%	13.68%
PrimFund Growth (net of fees)	2.25%	2.50%	9.94%	13.85%	9.38%	15.69%	20.75%
PrimFund Opportunity (net of fees)	2.30%	2.14%	9.60%	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

### UK academic scheme puts USD 200mn into Partners Group Alternative Beta Strategies

Switzerland based asset management firm, Partners Group announced that UK's major pension fund, the Universities Superannuation Scheme invested USD 200mn into Partners Group Alternative Beta Strategies. Partners noted that the investment is one of the first by a pension fund into the alternative assets. Earlier the investment committee has given directives to invest up to 5% of total assets into alternative investments by 2008 and up to 20% over the medium term.

Partners Group noted that investment in its proprietary alternative beta strategies program exceeded USD 1bn, comprising reallocations of existing hedge fund of fund assets and new inflows. The program was particularly intended to create an attractive multi-strategy hedge fund.

### Institutional investors set to invest USD 85bn into hedge funds and fund of hedge funds, pension plans fastest growing, prefer fund of funds, more investors from Europe/Asia

Data collected by Preqin Hedge from over 950 institutional investors in hedge funds indicates that institutional investors alone will pump USD 85bn of new money into hedge funds and fund of hedge funds over the next 12 to 18 months.

Outlook for 2007/08: Preqin forecasts that in the next 2 years the average public pension plan target allocation to hedge funds will increase by 2 – 3% of total assets, reaching 8 – 9%. With a large proportion of these pension funds shy of their target allocations, public pension plans will form a significant proportion of the USD 85bn which will be pumped into the hedge fund market by institutional investors by 2008.

## Advisor/People News

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### **Stenham Asset Management passes the USD 2bn AUM**

Stenham Asset Management has reached an important milestone as funds under management now exceed USD 2bn. Stenham has been constructing diversified hedge fund portfolios via managed accounts and funds of funds with an emphasis on downside protection, since 1988.

### **Peter Fanconi appointed as new CEO of Harcourt**

The Board of Directors of Harcourt Investment Consulting AG, is placing the operational management of the company in new hands as part of its long term succession planning. Peter Fanconi, who has been a member of the Board of Directors and Executive Board of Harcourt since 2003 and was most recently responsible for the area of Business Development, will take over as the new Chief Executive Officer of Harcourt on 1 July 2007. Together with the existing management team, he will continue to implement Harcourt's growth strategy. The current CEO, Philipp Cottier, will remain a member of the Executive Board of Harcourt until the end of March 2008 and will thereafter continue to offer the Company.

### **NewFinance Capital opens research office in Hong Kong**

NewFinance Capital LLP has opened a research office in Hong Kong in recognition of the opportunities in the Asian hedge fund market. Thor Monsen, previously senior analyst in NewFinance's London office, will lead the effort and has already relocated to Hong Kong. NewFinance Capital LLP is a fund of hedge fund company manages USD 4bn as at 31 March 2007 across multi-strategy, specialist funds of hedge funds and segregated accounts for institutional clients, private banks and high net worth individuals.

## Product News

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### **Nevastar launches new fund**

Nevastar Finance, a boutique investment management firm founded by a team of professionals formerly of Goldman Sachs, UBS, McKinsey and Lombard Odier Darier Hentsch launched a unique fund which will focus entirely on climate change. It has sparked a lot of interest even in its early stages, raising about USD 100mn in assets from private investors and institutions in less than a week. The objective of the fund "NevaFunds ClimateChange+" is to select the best managers within five sectors: water management, clean energy, waste management, infrastructure and sustainable living.

### **Austria's Erste Bank launches Asia focused fund of hedge funds**

Erste Bank Alternative Investments further added to its MAX suite of emerging markets funds of hedge funds, with the launch of MAX Asia. A carve out of the global MAX Emerging Markets Alpha Fund, MAX Asia gives investors the opportunity to gain Asia dedicated exposure in a diversified, multiple asset class portfolio. Initially seeded with USD 35mn, the MAX Asia, run by Guy Wengraf, seeks to capture significant upside with much lower than market volatility.

### **Abria shuts down fund**

Abria Alternative Investments Inc. has shut the door on its flagship fund of hedge funds, blaming a spiral of redemptions that began with the implosion of Amaranth Advisors LLC last year. The Abria Diversified Arbitrage Trust, which at its peak had assets of more than USD 150mn invested in various hedge funds, began its plunge after investors began demanding their money back in the wake of a loss of more than 8 per cent in September because of an investment in Amaranth.

### **Asset Alliance offers Barclay-based CTA fund of funds**

New York-based Asset Alliance Corp. has launched a managed futures fund of funds featuring managers included in the Barclay CTA Index.

### **KGR introduces China fund of hedge funds**

KGR Capital, a Hong Kong- and London-based fund of hedge funds specialising in Asia strategies, has launched a new fund of China hedge funds. It is a higher-risk product than KGR's other Asia funds of funds, given its China exposure, with targeted annualised returns of 20% and volatility in the range of 10%. It will begin with seed capital of USD 10mn, although the firm expects another \$20 million or so to come in over the next few weeks.

## **Academic/Research**

### **Hedge Funds as Shareholder Activists from 1994-2005**

**Boyson, Mooradian**

Recently, the mainstream media has paid considerable attention to hedge funds behaving as agents of corporate change. We study this phenomenon using a unique dataset of hedge fund activism for the period 1994-2005, and find strong evidence that hedge fund activists improve both short-term stock performance and long-term operating performance of their targets. The most dramatic changes in performance accrue to targets of aggressive activism, especially activists seeking corporate governance changes and reductions in excess cash flows. Additionally, hedge funds themselves benefit from activism: the risk-adjusted annual performance of hedge funds practicing aggressive activism and/or seeking changes in corporate governance is about 7-11% higher than for non-activist hedge funds and hedge funds pursuing less aggressive activism. These results imply that hedge funds can facilitate long-lasting changes in corporate governance, cash flows, and operating performance that benefit target firm shareholders and hedge fund investors alike.

### **Investing in Talents: Manager Characteristics and Hedge Fund Performances**

Using a large sample of hedge fund manager characteristics, Li, Zhao and Zhang provide one of the first comprehensive studies on the impact of manager characteristics, such as education and career concern, on hedge fund performances. They document differential ability among hedge fund managers in generating risk-adjusted returns and flow-chasing-return behaviors among hedge fund investors. In particular, they find that managers from higher-SAT undergraduate institutes tend to have higher raw and risk-adjusted returns, more inflows, and take less risks. They also find that younger managers tend to have higher returns, more inflows, and take more risks. Their results provide supporting evidence to some of the assumptions and implications of the rational theory of active portfolio management of Berk and Green (2004). However, in contrast to the results for mutual funds, they find a rather symmetric relation between hedge fund flows and past performance, and that hedge fund flows do not have a significant negative impact on future performance.

### **Can Hedge-Fund Returns Be Replicated?: The Linear Case**

**Hasanhodzic, Lo**

In contrast to traditional investments such as stocks and bonds, hedge-fund returns have more complex risk exposures that yield additional and complementary sources of risk premia. This raises the possibility of creating passive replicating portfolios or clones using liquid exchange-traded instruments that provide similar risk exposures at lower cost and with greater transparency. Using monthly returns data for 1,610 hedge funds in the TASS database from 1986 to 2005, they estimate linear factor models for individual hedge funds using six common factors, and measure the proportion of the funds' expected returns and volatility that are attributable to such factors. For certain hedge-fund style categories, they find that a significant fraction of both can be captured by common factors corresponding to liquid exchange-traded instruments. While the performance of linear clones is often inferior to their hedge-fund counterparts, they perform well enough to warrant serious consideration as passive, transparent, scalable, and lower-cost alternatives to hedge funds.

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