

**Performance Update** all data in %

<b>Fund of Hedge Funds Indices</b>	<b>May</b>	<b>Apr</b>	<b>YTD</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
EDHEC Fund of Funds Index	1.83	0.97	-1.22	10.07	11.25	6.80	7.07
HFRI FoHF Composite Index	1.92	1.01	-1.45	10.26	10.39	7.49	6.86
CISDM Fund of Funds Index	-	0.85	-2.69	8.68	9.11	6.47	7.12
InvestHedge Composite	-	0.76	-2.60	8.68	8.67	7.07	6.15
Altvest Sub-Index: Fund of Funds	1.71	0.96	-1.30	8.63	10.24	7.68	7.39
Eurekahedge Fund of Funds Index	1.65	1.03	-1.57	10.21	10.38	7.92	7.00
HFN Fund of Funds Aggregated Average	1.89	0.98	-1.21	9.27	9.60	6.81	6.89
Barclay / Global HedgeSource FoF Index	1.79	0.96	-1.74	8.86	9.38	6.91	6.65
<b>Average FoHF Indices</b>	<b>1.80</b>	<b>0.94</b>	<b>-1.41</b>	<b>9.33</b>	<b>9.88</b>	<b>7.14</b>	<b>6.89</b>

<b>Investable Hedge Funds Indices</b>	<b>May</b>	<b>Apr</b>	<b>YTD</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
CS/Tremont Investable HF Index	1.83	0.62	0.11	7.42	9.65	3.61	5.31
DJ Hedge Fund Balanced Portfolio Index	1.47	0.72	-1.18	7.54	9.94	1.60	-
MSCI Hedge Fund Invest Index	0.70	0.82	-2.71	3.61	7.63	4.68	3.10
HFRX Global Hedge Fund Index	1.44	1.20	-0.20	4.23	9.26	2.72	2.69
FTSE Hedge Index	0.51	0.38	-4.80	0.62	6.28	2.60	3.12
<b>Average Investable HF Indices</b>	<b>1.19</b>	<b>0.75</b>	<b>-1.76</b>	<b>4.68</b>	<b>8.55</b>	<b>3.04</b>	<b>3.56</b>

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

**Average FoHF Indices** Current Month **1.80%**

**Average Investable HF Indices** Current Month **1.19%**

<b>Portfolios of Funds of Hedge Funds</b>	<b>May</b>	<b>Apr</b>	<b>YTD</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
PrimFund Diversified (net of fees)	1.55	0.29	-0.04	8.53	9.54	7.78	8.39
PrimFund Growth (net of fees)	1.77	0.20	-1.94	13.84	13.85	9.38	15.69
PrimFund Opportunity (net of fees)	2.39	0.21	-6.56	10.30	22.12	17.02	17.13
PrimFund Tactical (net of fees)	1.74	0.80	3.71	13.05	18.87	14.49	-

Inception of PrimFund Diversified was July 2004, of PrimFund Growth April 2005, of PrimFund Opportunity September 2006, of PrimFund Tactical April 2008. 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**
**Fund of funds puts focus on Asia**

Despite a general pullback from the region, some fund of hedge funds are upbeat about Asia. The region's rocky stock markets have hardly been a haven for nervous investors with many Asian markets down by double digit percentage points so far this year. But some investors are drawn by continued long-term enthusiasm over emerging markets and also encouraged by the region's maturing hedge fund industry. According to Eurekahedge, USD 74.25bn, or 9.9%, of the total USD 750bn managed by fund of hedge funds globally is invested in Asia. That's down from 2007 when 11% of USD 747bn assets were in

Asia and the year before that when 10.2% of assets were in Asia. Although pullbacks in Asia some fund of hedge funds continue opening offices in the region focusing on long-term returns. Financial Risk Management Ltd. opened a Hong Kong office. London-based fund of funds Caliburn Capital Partners opened its first Asian office in Singapore last month. Similarly, Morgan Creek Capital Management, with offices in New York and Chapel Hill, North Carolina, said late last year it would be opening an office in Asia and hired Jason Zhang from Stanford Management Co. to help oversee and expand on the firm's Asia investments. Fund of funds are moving to Asia as hedge funds are revving up their Asia presence as well.

### **Hedge funds see USD 5.9bn outflows in April, but CTA assets continue to soar**

Hedge funds suffered an estimated capital outflow of USD 5.9bn in April, the first since the industry saw outflows of USD 2bn in December 2005 and the largest since USD 6.1bn in October 2001, according to TrimTabs Investment Research and BarclayHedge. The industry received

inflows estimated at USD 22bn in March. Single-manager hedge funds suffered direct outflows of USD 9.4bn in April, according to TrimTabs and BarclayHedge, while funds of hedge funds took in USD 3.5bn. However, an exception to the trend was commodity trading advisors, which took in USD 2.2bn, the largest inflow since January 2000. Seven out of 14 hedge fund strategies analysed posted outflows in April.

## Advisors/People News

### **FRM opening Hong Kong and Seoul offices in significant expansion of its Asian fund of hedge funds**

Financial Risk Management ('FRM'), a global fund of hedge funds group with offices in Europe, Asia and North America, announced plans to significantly expand its Asian operations through new offices in Hong Kong and Seoul, South Korea. FRM manages USD 15bn in assets for institutions and other sophisticated investors, including approximately 300 pension funds worldwide. FRM first established a presence in Asia in 2000 with the opening of its Tokyo office, which now contains over 20 client service and investment professionals. It opened its office in Sydney in 2001. FRM's Hong Kong office will open in June 2008 and will be comprised of both investment and client service staff.

### **Colonial First State's David Bell to manage redemptions in fund of hedge funds shut-down**

David Bell and his hedge funds of funds team at Colonial First State Global Asset Management (CFS GAM) face uncertain futures after the USD 200mn business they oversaw was shut down. The decision to close the hedge funds of funds, which were built in late 2001, was made public after ratings agency Standard & Poor's announced it had withdrawn its three-star ratings of the funds after being informed that they would be closed.

### **Infiniti Capital to retain fund of hedge funds manager Iain Hamilton after all**

A fund of funds portfolio manager who was scheduled to leave credit crunch-beleaguered Infiniti Capital will stay on to continue managing the three vehicles he previously was responsible for. Iain Hamilton had relinquished his

job as portfolio manager of Infiniti Capital's Andante, Fixed Income Plus and Paradigm Funds but kept his ownership stake in the management company and its affiliates. He was set to sever his work connection to Infiniti at the end of June. But the company has decided otherwise. The firm manages around USD 1bn and has offices in Hong Kong; Christchurch, New Zealand; London; and Zürich, Switzerland.

### **Antoine Bory becomes CEO of Gutzwiller Fonds Management AG, Basel**

The Board of Directors of Gutzwiller Fonds Management AG announced the appointment of Mr. Antoine Bory as the new CEO. He will replace in this function Lorenz von Habsburg who has been until now Chairman of the Board and Chief Executive Officer.

### **Culcross hires new COO**

Hitesh Bharkhda joins the ranks of Culcross Global Management, the fund of hedge fund group, as chief operating officer, moving from Pioneer Alternative Investments where he headed product development.

### **Blacksquare Capital appoints Richard Sherwin as director and portfolio manager**

Blacksquare Capital, the alternative asset management firm, has appointed Richard Sherwin as Director and Portfolio Manager. Richard joins Blacksquare Capital from JP Morgan Private Bank, where he spent two years as Head of Fixed Income, Commodities and Foreign Exchange for Europe, Middle East and Africa.

### **Bank Sarasin appoints Harcourt as advisor to its fund of hedge funds platform**

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Harcourt Investment Consulting AG announced its appointment as advisor to Bank Sarasin's fund of hedge funds platform, effective June 1st 2008. This strategic partnership comes into place after Harcourt had successfully advised Bank Sarasin on its "Torneo" funds in July 2006. Bank Sarasin and Harcourt have since confirmed their intention to establish a lasting business relationship. Bank Sarasin will benefit of Harcourt's alternative investments expertise and intends to manage a majority of its fund of hedge fund investments via the platform. In the framework of the new partnership, Harcourt will additionally provide extensive services such

as selection, due diligence and monitoring for the hedge fund offering of Bank Sarasin.

### **Dr. Guido Bolliger now Co-CIO at Olympia Capital Management**

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Dr. Guido Bolliger has been appointed as Co-CIO of Olympia Capital Management. He reports to Marc L. Landeau, founder and CIO. Guido joined Olympia from Julius Baer (Zurich) in January 2006 as Head of Risk. In 2007 he took over the responsibility for all the Quantitative Analysis and was subsequently promoted to Deputy CIO where he focused on portfolio construction. Kostas Iordanidis, former Co-CIO will be leaving the Group effective August 31st 2008.

## Product News

### **Former Fitzwilliam Fund managers launch fund of hedge funds**

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The former alternative investment strategy director and senior investment analyst for the TRF Fitzwilliam Commodity Fund, managed by BDO Stoy Hayward Investment Management, have launched Moonraker Fund Management. Moonraker is an independent investment management company specializing in fund of funds solutions for institutional and high net worth investors. The company's founders, Jeremy Charlesworth and Michel Piette, will put their own money into the funds together with a contribution from an "angel" investor who, says the two, is committed for the long term.

### **Morgan Stanley readies distressed fund of hedge funds**

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Morgan Stanley is intent not to lose out on the distressed boom gripping the market. So much so that they're preparing a FoHF and a fund of private equity funds to take advantage of the market's opportunities according to Jose Gonzalez-Herez executive director and portfolio manager for Morgan Stanley Alternative Investment Partners FoHF.

### **Harcourt launches multi-strategy emerging markets fund of hedge funds**

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Harcourt Investment Consulting has launched Belmont (Lux) Global Emerging Markets, a multistrategy fund of

hedge funds dedicated to harnessing the opportunities presented by hedge funds focused on emerging markets. The fund provides efficient exposure to emerging markets globally through a well-diversified portfolio of managers and strategies. The growth outlook for emerging markets countries remains strong.

### **ARP has launched a credit opportunities fund of funds**

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Absolute Return Partners LLP are pleased to announce the successful launch on the 1st June 2008 of the ARP Credit Opportunities Fund. The fund has been launched in response to client demand for an investment vehicle which is designed to take advantage of the current dislocation in large parts of the credit market. The ARP Credit Opportunities Fund is a multi-manager fund which will invest in credit funds across the spectrum. It is anticipated that loan funds and opportunistic credit funds will dominate the asset allocation in the early days. Later in the credit cycle, it is anticipated that distressed funds will become more prominent in the portfolio.

### **Blacksquare Capital launches commodity fund of hedge funds**

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London-based alternative asset manager Blacksquare Capital has launched the Blacksquare Capital Commodity Fund, a concentrated long/short fund of funds that allocates its assets to between 10 and 15 commodity and natural resource hedge fund managers.

### **TriAlpha launches global fund of property hedge funds**

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TriAlpha, the asset management arm of the Stonehage Group, an international wealth management group, has launched the TriAlpha Global Property Strategy Fund, a fund of property hedge funds. The fund seeks absolute returns by focusing on hedge fund managers that specialise in the global property sector. The portfolio will include property hedge funds from prominent management firms such as Credit Suisse, Thames River Capital and New Star Asset Management.

### **Altedge Capital launches distressed and CTA fund of hedge funds**

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Altedge Capital has launched two new fund of hedge funds products as the markets appetite for both distressed and CTA funds grow. Chris Goekjian, CEO and CIO of Altedge, will manager the distressed fund of hedge funds and firm principal Cem Habib will manage the CTA fund of hedge funds. The distressed product was launched 1 May at a time of widening credit spreads, and even though defaults remain low – rating agency Moodys recorded defaults at 1.2% – they're expected to rise to anywhere from 4% to 7% (in respect to the last credit squeeze in 2001).

### **Castlestone Management to launch new fund of hedge funds**

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Castlestone Management announced that its new fund of funds, Intelligent Portfolio (IQ - Asset Allocation) Inc., will launch on 30th June 2008. This monthly traded Fund has been created in response to demand from investors for a balanced exposure to Castlestone's range of equity, commodity and other alternative investment funds. Designed as a fund of funds allocating across a selection of the existing Castlestone Management suite, the Fund will enable investors to acquire a diverse portfolio with a single investment.

### **Ermitage launches Clean Resources fund of hedge funds and opens New York office**

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According to Hedgeweek, alternative multi-manager Ermitage Group, which runs USD 2.8bn in assets, has launched a niche fund of hedge funds to capitalise on the growing interest and public awareness surrounding environmental issues and climate change. The firm has also established a presence in New York alongside its existing offices in Jersey and London. A sister fund to Ermitage's established Resources Fund, the Clean Resources Fund has been launched with an initial USD 20mn investment.

## Academic/Research

### **Hedge fund contagion and liquidity**

N. M. Boyson, C. W. Stahel, R. M. Stulz

Using hedge fund indices representing eight different styles, the authors find strong evidence of contagion within the hedge fund sector: controlling for a number of risk factors, the average probability that a hedge fund style index has extreme poor performance (lower 10% tail) increases from 2% to 21% as the number of other hedge fund style indices with extreme poor performance increases from zero to seven. The authors investigate how changes in funding and asset liquidity intensify this contagion, and find that the likelihood of contagion is high when prime brokerage firms have poor performance (which would be expected to affect hedge fund funding liquidity adversely) and when stock market liquidity (a proxy for asset liquidity) is low. Finally, the authors examine whether extreme poor performance in the stock, bond, and currency markets is more likely when

contagion in the hedge fund sector is high. They find no evidence that contagion in the hedge fund sector is associated with extreme poor performance in the stock and bond markets, but find significant evidence that performance in the currency market is worse when hedge fund contagion is high, consistent with the effects of an unwinding of carry trades.

### **Are funds of funds simply multi-strategy managers with extra fees?**

G. Reddy, P. Brady, K. Patel

In this paper, they compare two approaches that many institutions consider when investing in hedge funds: multi-strategy hedge funds and funds of hedge funds. Because it is difficult to directly compare performance for these two strategies at the index level due to data limitations, they use the TASS database to analyze a number of underlying drivers of risk and return. They

begin by comparing hedge fund returns to the returns of traditional asset classes in order to understand the potential contribution from strategy allocation and manager selection. Unlike traditional asset classes, due to the relatively high dispersion of manager performance within a given hedge fund strategy and the relatively low dispersion of performance between strategies, they find that manager selection dominates strategy allocation for hedge funds. They estimate that the ability to rapidly move capital between strategies can potentially add 200 basis points per annum to the performance of multi-

strategy managers. Funds of hedge funds have the potential to add approximately 300-700 basis points per annum to performance by picking 40th percentile and 30th percentile managers respectively. They also find that due to relatively low correlation between hedge fund managers within a particular strategy, the benefits of manager diversification for funds of funds are quite significant. A randomly created four-manager portfolio has a significantly higher Sharpe and Sortino ratio compared to the average single manager.

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