Performance Update

Fund of Hedge Funds Indices	Feb	Jan	YTD	2004	2003	2002
EDHEC Fund of Funds Index	1.40%	0.06%	1.46%	7.07%	11.46%	1.25%
HFRI FoHF Composite Index	1.43%	-0.02%	1.40%	6.79%	11.59%	1.02%
CISDM FoHF Diversified Median	1.24%	0.08%	1.32%	7.52%	10.04%	0.65%
CISDM FoHF Niche Median	1.12%	0.46%	1.59%	8.33%	10.62%	1.99%
InvestHedge Composite1)	-	0.19%	0.19%	6.12%	9.28%	1.99%
Altvest Sub-Index: Fund of Funds	1.40%	0.14%	1.55%	7.39%	11.12%	1.23%
Eurekahedge Fund of Funds Index	1.27%	0.11%	1.39%	6.47%	11.22%	2.03%
Barclay/Global HedgeSource FoF Index	1.39%	0.13%	1.52%	6.60%	10.36%	1.79%

1) Updated by the end of the month.

Investable Hedge Funds Indices	Feb	Jan	YTD	2004	2003	2002
CSFB/Tremont Investable HF Index	0.81%	-0.64%	0.17%	5.31%	11.04%	5.67%
MSCI Hedge Fund Composite Index	0.74%	-0.31%	0.42%	3.10%	14.7%	5.30%
S&P Hedge Fund Index	0.38%	-0.18%	0.19%	3.95%	11.12%	4.14%
HFRX Global Hedge Fund Index	0.88%	-0.95%	0.07%	2.69%	13.39%	-
FTSE Hedge Index	0.68%	-0.43%	0.24%	3.12%	12.36%	2.05%

Industry News

Edhec seeks higher standard of reporting

Funds of hedge funds have generally failed to give adequate consideration to risk and return characteristics in reports to investors, though attitudes appear to be changing for the better.
Research by the French business school Edhec finds that many Europe-based fund of hedge funds managers use mean variance structure, designed for investment in traditional asset classes, to report risk. Edhec considers this method inappropriate, as it does not inform investors of extreme risks, and cannot help them identify different risk combinations within a fund of funds.
Survey respondents broadly agreed that funds of hedge funds should provide investors with normal loss and extreme risk indicators such as volatility, maximum drawdown and modified Value-at-Risk.
Edhec said that to allow investors to better appreciate a fund of hedge funds' risk profile, managers should provide information on key performance drivers, including volatility, liquidity and credit risk. This would entail their offering static/dynamic style and factor analysis transparency.

GBP 5bn pension fund to start investing through fund of hedge funds

The £5 billion West Midlands Metropolitan Authorities pension scheme has appointed Mercer Investment Consulting to advice on its hedge funds move. The fund has made a £50 million initial allocation to hedge funds, said Carolyn White, an investment manager at the scheme. The fund will invest through fund of hedge funds and will search for a manager later this year.

Reuters subsidiary to acquire HedgeWorld and TASS Research

Lipper, a leading fund analysis and research firm, has entered into an agreement with Tremont Capital management to acquire TASS Research, a hedge fund database which covers some 6600 hedge funds. In addition, US and Bermuda-based HedgeWorld, which provides online news, research and analysis, will be acquired from a group of companies owned by a consortium of private investors including Tremont. The acquisition of TASS Research is expected to help Lipper capitalize on the growth and institutionalization of hedge funds and significantly broadens the range of collective investments the firm tracks.

US institutions opt for international equities and alternative investments

New research from Greenwich Associates reveals that US funds' hedge fund allocations grew to 1.6% of plan assets over the past 12 months. Despite a decrease in expected rates of return on hedge funds, the consultants at Greenwich Associates believe that hedge fund investments will remain on its current trajectory of cautious growth, due to the return advantage that the asset class offers over other investment options, and the additional benefits promised by hedge funds.
Where do US funds expect to invest in the next three years? According to the survey, the answer is simple: alternative asset classes. More than a third of US institutional investors expect to make a significant increase to hedge funds in the next three years, while another 30 per cent plan sizable additions to private equity, and almost a quarter plan similar increases to their equity real estate.

Railpen appoints hedge fund managers

Railpen, the £15 billion industry-wide pension scheme for the U.K. rail industry, has appointed U.S.-based Blackstone Alternative Asset Management, Grosvenor Capital Management and The Rock Creek Group to oversee its £600 million hedge fund portfolio.
Railpen said each manager would invest one third of the portfolio through managed accounts, in which the fund managers select the underlying hedge funds but the investments are held directly in the name of the client. Each manager has selected about thirty hedge funds.

Advisor/People News

FRM hires new US CEO

Financial Risk Management named Carrie McCabe chief executive officer of its U.S. business. She will be based in New York. The $13 billion fund of hedge funds firm noted McCabe would handle the expansion of its business in the U.S. The CEO position is a new one for the firm. McCabe joined FRM after a spell running her own investment adviser business. McCabe also served as CEO of Blackstone Alternative Asset Management.

Key Asset Management hires Marketing Chief

Shyam Moorjani joined Key Asset Management last month as head of marketing. Mr. Moorjani had been head of institutional client reporting at J.P. Morgan Fleming Asset Management before joining Key. He will report to Thomas Raber, managing director and head of global sales and marketing.

FIM Limited hires Biancardi to develop Institutional Business

FIM continues the expansion of its business by adding another highly seasoned professional to its London team. Biancardi is a 15-year veteran of Morgan Stanley and Lehman Brothers, where he held such senior positions as Head of Emerging Markets Equities, Deputy Head of European Equity Research, Head of Private Client Services and Head of Strategic Client /Prime Brokerage Services.

Carlyle to set up hedge fund and fund of funds

U.S. private equity giant The Carlyle Group will set up its own hedge fund and fund of funds later this year to diversify its business and better compete. Carlyle will set up the new funds rather than acquiring them. The company will hire fresh talent and appoint industry figureheads to head them.

Aspen closes registered fund of hedge funds

In a move that may indicate investment advisors are rethinking their footing within the registered hedge funds of hedge funds marketplace, Aspen Strategic Alliances (ASA) of Atlanta, advisor to four hedge funds of hedge funds that commenced operations less than one year ago, will pull the plug on the funds, liquidate assets and return investments to investors.

The four funds, each under the ASA funds banner name, were initially registered in July 2003 but first commenced operation eight months later in March 2004. The four funds that will be liquidated between the end of February and April 30 are: the ASA Debt Arbitrage Fund, the ASA Hedge Equity Fund, the ASA Managed Futures Fund and the ASA Market Neutral Fund.

Product News

GAM reopens Multi-Arbitrage to investors

Swiss-based UBS unit GAM will open its Multi-Arbitrage fund of hedge funds to new money on March 28 after expanding its research capability. GAM Multi-Arbitrage had $727.2 million under management at the end of last year compared with $110.4 million at the end of 2003. GAM said it had been able to reopen the fund as it had expanded its specialist arbitrage team and research capabilities over the past year, which had enabled it to hunt out new hedge fund managers and strategies that it now wanted to invest in. It is the latest in a line of GAM multi-manager funds to reopen to investors.

Fischer & Co launches Special Opportunity fund of hedge funds

Fischer & Co. has launched a special opportunity fund of hedge funds. The New York firm believes a fund of hedge funds using a broader special-situation strategy could compete against more traditional fund strategies. The fund marked a departure from the Fischer & Co. existing product line—Fischer Enterprise Fund and Fischer Garrison Fund—because of its exposure to short-term volatility and concentration on specialized opportunity. The fund will have 10 to 15 underlying managers specializing in long-short catalyst-driven equity, PIPE, real estate and structured finance.

Endurance launches multi-strategy fund of hedge funds

Endurance, which seeks to produce robust, risk-adjusted returns with low correlation to the equity and fixed income markets, was launched with proprietary capital in January 2004 and is currently invested in 17 hedge fund managers.

Noel Moore, Burt Gutterman, Charlene Dow and Keith Bronstein are members of the investment committee. Moore has a 14-year track record managing client funds in a global macro strategy at Sangamon Trading, while Gutterman is the CEO of Sangamon. Dow has worked with Moore for eight years assisting with corporate and fund accounting, administration, and proprietary allocations to hedge funds while Bronstein is president and managing director of a Chicago-based proprietary trading firm.

PSolve launches new fund of hedge funds

British-based PSolve Alternative Investments has launched a new fund of hedge funds aimed at both pension funds and private individuals. Several pension funds have already committed $53 million to the Select Opportunities Fund. The fund will invest around two thirds of its assets in hedge funds able to deliver steady returns of between 8 and 10 percent, operating in traditional areas like equities and bonds. The remainder will be invested in riskier assets like real estate, which could yield a much higher return.

The fund is registered in Ireland and is available for inclusion in self-invested pension plans and offshore bonds. Retail investors pay 1.5 percent annual management fees and institutions 1 percent. Investors pay performance fees of 10 percent on returns above 5 percent, but that is capped at 1.5 percent. PAI now manages around $260 million in three funds of hedge funds.

Academic/Research

Dominating Fund of Funds with simple Hedge Fund Strategies
Gregoriou, Hübner, Papageorgiou and Rouah construct simple portfolios of hedge funds whose performance characteristics dominate those of funds of funds using three different measures: the alpha, the Sharpe ratio and the Information ratio. Portfolios made up of non-directional funds with the highest Sharpe ratios and/or Information ratios are likely to exhibit a significant amount of persistence and continue to dominate the best funds of funds on all three performance measures. This makes them attractive alternatives to funds of funds, which only show persistence in alphas. The large risk exposure of directional hedge fund strategies, however, does not make them likely to dominate funds of funds, even when combined with non-directional hedge funds strategies. These results seem to imply that the extra layer of fees paid to fund of fund managers are largely unmerited, as they can create portfolios of funds, using simple portfolio construction rules and readily available market information, that greatly outperform the best FoHF.

Building a risk measurement framework for fund of hedge funds **Jones, Goodworth**
Jones and Goodworth present a factor-decomposition based framework that facilitates non-parametric risk analysis for complex hedge fund portfolios in the absence of portfolio level transparency. Their approach has been designed specifically for use within the fund of hedge funds environment, but is equally relevant to those who seek to construct risk managed portfolios of hedge funds under less than perfect underlying portfolio transparency. Using dynamic multivariate regression analysis coupled with a top-down qualitative understanding of hedge fund return drivers, they are able to perform a robust factor decomposition to attribute risk within any hedge fund portfolio with an identifiable strategy. Furthermore, through use of Bayesian-adjusted correlated Monte Carlo simulation techniques, these factors can be employed to generate implied risk profiles at either the constituent fund or aggregate funds of funds level. As well as being pertinent to risk forecasting and monitoring, such methods also have application to style analysis, profit attribution, portfolio stress testing and diversification studies.