

Performance Update

Fund of Hedge Funds Indices	Feb	Jan	YTD	2005	2004	2003
EDHEC Fund of Funds Index	0.73%	2.86%	3.61%	6.48%	7.07%	11.46%
HFRI FoHF Composite Index	0.41%	2.89%	3.34%	7.52%	6.86%	11.61%
CISDM Fund of Funds Index	-	2.47%	2.47%	6.47%	7.12%	10.23%
InvestHedge Composite	-	2.62%	2.62%	7.07%	6.15%	9.34%
Altvest Sub-Index: Fund of Funds	0.32%	2.87%	3.20%	7.68%	7.39%	11.12%
Eurekahedge Fund of Funds Index	0.49%	2.83%	3.33%	7.75%	7.76%	11.49%
Barclay/Global HedgeSource FoF Index	0.40%	2.86%	3.28%	6.85%	6.65%	10.44%
AAC Fund of Hedge Fund Benchmark	-	2.85%	2.85%	7.54%	6.43%	11.32%
Average FoHF Indices	0.47%	2.78%	3.09%	7.17%	6.93%	10.88%

Investable Hedge Funds Indices	Feb	Jan	YTD	2005	2004	2003
CSFB/Tremont Investable HF Index	0.28%	1.86%	2.14%	3.61%	5.31%	11.04%
MSCI Hedge Fund Invest Index	0.24%	2.19%	2.43%	4.68%	3.10%	14.70%
S&P Hedge Fund Index	0.80%	2.01%	2.83%	2.28%	3.88%	11.10%
HFRX Global Hedge Fund Index	0.17%	2.45%	2.63%	2.72%	2.69%	13.39%
FTSE Hedge Index	0.83%	2.13%	2.98%	2.60%	3.12%	12.36%
Average Investable HF Indices	0.46%	2.13%	2.60%	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	Feb	Jan	YTD	2005	2004	2003
PrimFund Diversified (net of fees)	0.37%	2.40%	2.78%	7.78%	8.39%	13.68%
PrimFund Growth (net of fees)	0.33%	3.34%	3.68%	9.34%	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.

Industry News

10% of large UK schemes now in hedge funds

Mercer

Some 10% of large UK pension funds now invest in hedge funds, according to a survey by Mercer Investment Consulting.

On average, 7% of schemes now invest in hedge funds and 7% employ an active currency manager. For larger schemes, the figures increase further, with almost 10% investing in hedge funds and around 15% using an active currency manager. The survey also found that the average allocation to bonds remains the same as last year, at 35%.

The firm surveyed more than 425 UK defined benefit pension schemes with more than £177bn in assets reveals and that the average allocation to bonds has increased by just four percentage points in the last three years. The survey found that the average allocation to equities had dropped from 63% in 2005 to 62% this year. Investment in UK equities has decreased from 37% in 2005 to 35%.

Top 50 hedge funds control 40% of the market

Morgan Stanley

The top 50 hedge fund firms now control 40 per cent of the global market, with the top 200 managing 90 per cent, according to a report by Morgan Stanley. The reason for the concentration of the assets in this way is the result of changes to the strategies hedge fund managers are pursuing. As traditional strategies produce lower returns, managers are moving towards illiquid strategies that generate higher returns. This is leading to investors placing their trust in larger firms that they believe have the resources and skill set to run them.

Elsewhere, the report also suggested that funds of hedge funds may start feeling the pinch as institutional investors and experienced high net worth individuals grow in confidence and no longer need to go through intermediaries. Growth among funds of hedge fund managers had slowed to 6 per cent in 2005 and Morgan Stanley claimed it might fall to zero or find itself in negative territory in the future.

Advisor/People News

Fauchier appoints new CEO

Fauchier Partners, a funds of hedge funds operator managing USD 4 billion in assets and half-owned by BNP Paribas Asset Management, announced that Patrick Fauchier is stepping up from chief executive to chairman. Christopher Fawcett, who co-founded the firm with Mr. Fauchier, is becoming chief executive.

Glenwood adds new head of manager selection

Glenwood Capital Investments LLC said that it has hired Lance Donenberg to help the USD 5.3 billion hedge fund firm pick new managers. As head of manager sourcing, Donenberg will lead a four-person team responsible for selecting hedge fund investments. He also will join Glenwood's investment committee and report to Mike Jawor, chief investment officer for the firm.

Ex Ivy managing director joins Arden

Former Ivy Asset Management managing director John Rogers has joined Arden Asset Management. Rogers will serve as managing director under company president Averell Mortimer and focus on product development. Rogers joined Ivy in 2000, where he served as managing director. He has an investment banking background.

Attalus hires new people

Attalus Capital, a Philadelphia based institutional fund of hedge funds firm with around USD 1 billion in assets, has hired Bob Serhus as a portfolio manager. He was most recently CIO of Julius Baer Investment Management's fund of hedge funds group. At Attalus, he will co-manage the USD 800 million multi-strategy fund of hedge funds, along with Michelle Egan, and he will work on all hedge fund research. Attalus has also hired Paul Respicio from BlackRock as an analyst. Respicio has four years investment experience and will focus on relative value strategies.

Infiniti Group appoints new co-head of capital markets division

Infiniti Group has appointed Matthew Birch as Co-Head of the company's Capital Markets division. Birch, previously the Director of Business Development for Medley Global has been employed to assist expansion of the capital markets business, develop Infiniti's wholesale funding infrastructure, and design and implement innovative derivative products.

Product News

Stenham launches new fund of hedge funds

Stenham Universal launched 1992 and Stenham Universal II launched 2002 are closing 1 March each with assets of over USD 300m. A new Stenham Multi Strategy fund is launched 1 March with the same mandate as the Universal funds.

The new fund will replicate Stenham Universal II in terms of strategy allocations, although this will be achieved with different managers. The management expects the new fund to achieve similar performance to that of Stenham Universal II.

RBC launches investable hedge fund index

RBC's Alternative Assets Group, a business unit of RBC Capital Markets, announced the launch of the RBC Hedge 250 Index, a broadly-diversified and representative investable hedge fund index.

The RBC Hedge 250 Index is comprised of 250 individual funds - which is up to six times greater than the number of funds referenced by other investable indices. Funds represented in the new RBC index capture approximately 20 per cent of total hedge fund assets under management, including many funds that are closed to new investors, have longer lock-up provisions or have recently launched operations.

Academic/Research

Regulation of hedge funds

Spindler, Bednarz

The growth in numbers of, and of capital managed by, hedge funds as well as their activities have spurred a debate about regulation of hedge funds worldwide. In Germany, however, the discussion focused on the hedge funds' voting behavior and their investment strategies, which is due to the fundamental animosity against entirely short-term oriented investors that we sometimes experience in Germany. The term locusts used for hedge fund investors by some prominent politicians provides a vivid example for this sentiment.

This article analyses the case for regulating hedge funds. It examines the positive and negative effects of hedge funds' activities on capital markets and provides an overview of the legal frameworks regulating hedge funds in Germany, the USA and the UK. Further, it provides an overview of the international discussion about hedge fund regulation. Whereas in Germany the discussion focuses on the impact of hedge fund activities on corporate governance, the international debate concentrates on preserving the stability of financial markets and on improving investor protection.

This paper holds that the negative effects of certain types of conduct on the stability of capital market, which may further the occurrence of so called 'market shocks', provide a sound explanation for hedge fund regulation through, in particular, the imposition of strict transparency requirements. At the same time, the authors argue against restricting the business conduct of hedge funds and the imposition of corporate law- oriented regulations, such as limits on the exercise of voting rights.

Managerial characteristics and hedge fund performance

Maxam, Nikbakht, Petrova

The tremendous growth in assets managed in hedge funds is well recognized. However, monitoring, valuation and performance assessment is confounded by the paucity and inconsistency of available data. Hedge funds do not regularly report their performance and rarely divulge holdings. Utilizing a unique data set they are able to shed some light on the relationship between performance and various hedge fund manager characteristics. They examine the influence of characteristics such as education and prior work experience on performance by hedge fund style for 147 hedge funds over the 1994-2004 period. Their results indicate that managers with degrees from top US schools outperform their peers unless those degrees are in economics or technical fields. Managers with undergraduate degrees in economics and especially those from top ranked schools significantly underperform their peers and the same result occurs, but less significantly, with technical degrees. Prior work experience does not change these results and they are also robust to the type of strategy employed by the hedge fund and alternative measures of performance including the Stutzer Index and Omega Measure. Thus, their results have interesting implications for the selection of hedge fund managers and particularly for the formation of diversified asset class targeted hedge fund products such as funds of funds.

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