

## Performance Update

all data in %

| <b>Fund of Hedge Funds Indices</b>     | <b>Feb</b>  | <b>Jan</b>   | <b>YTD</b>   | <b>2007</b> | <b>2006</b> | <b>2005</b> | <b>2004</b> |
|--|-------------|--------------|--------------|-------------|-------------|-------------|-------------|
| EDHEC Fund of Funds Index              | 1.57        | -2.72        | -1.19        | 10.07       | 11.25       | 6.80        | 7.07        |
| HFRI FoHF Composite Index              | 1.56        | -2.92        | -1.40        | 10.25       | 10.39       | 7.49        | 6.86        |
| CISDM Fund of Funds Index              | -           | -2.53        | -2.53        | 8.32        | 9.11        | 6.47        | 7.12        |
| InvestHedge Composite                  | -           | -2.26        | -2.26        | 8.68        | 8.67        | 7.07        | 6.15        |
| Altvest Sub-Index: Fund of Funds       | 1.46        | -2.61        | -1.19        | 8.63        | 10.24       | 7.68        | 7.39        |
| Eurekahedge Fund of Funds Index        | 1.35        | -2.83        | -1.51        | 10.10       | 10.40       | 7.92        | 6.99        |
| HFN Fund of Funds Aggregated Average   | 1.54        | -2.70        | -1.20        | 9.27        | 9.60        | 6.81        | 6.89        |
| Barclay / Global HedgeSource FoF Index | 1.39        | -2.91        | -1.56        | 8.86        | 9.38        | 6.91        | 6.65        |
| <b>Average FoHF Indices</b>            | <b>1.48</b> | <b>-2.69</b> | <b>-1.61</b> | <b>9.27</b> | <b>9.88</b> | <b>7.14</b> | <b>6.89</b> |

| <b>Investable Hedge Funds Indices</b> | <b>Feb</b>  | <b>Jan</b>   | <b>YTD</b>   | <b>2007</b> | <b>2006</b> | <b>2005</b> | <b>2004</b> |
|---------------------------------------|-------------|--------------|--------------|-------------|-------------|-------------|-------------|
| CS/Tremont Investable HF Index        | 0.99        | -0.97        | 0.01         | 7.42        | 9.65        | 3.61        | 5.31        |
| MSCI Hedge Fund Invest Index          | 1.19        | -2.48        | -1.32        | 3.61        | 7.63        | 4.68        | 3.10        |
| HFRX Global Hedge Fund Index          | 1.77        | -2.06        | -0.32        | 4.23        | 9.26        | 2.72        | 2.69        |
| FTSE Hedge Index                      | 2.06        | -2.84        | -0.84        | 1.31        | 6.27        | 2.60        | 3.12        |
| <b>Average Investable HF Indices</b>  | <b>1.50</b> | <b>-2.09</b> | <b>-0.62</b> | <b>4.14</b> | <b>8.20</b> | <b>3.40</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 **1.48%**

 Average Investable HF Indices Current Month **1.50%**

| <b>Portfolios of Funds of Hedge Funds</b> | <b>Feb</b> | <b>Jan</b> | <b>YTD</b> | <b>2007</b> | <b>2006</b> | <b>2005</b> | <b>2004</b> |
|---|------------|------------|------------|-------------|-------------|-------------|-------------|
| PrimFund Diversified (net of fees)        | 1.18       | -1.17      | 0.00       | 8.53        | 9.54        | 7.78        | 8.39        |
| PrimFund Growth (net of fees)             | 1.60       | -2.51      | -0.95      | 13.84       | 13.85       | 9.38        | 15.69       |
| PrimFund Opportunity (net of fees)        | -0.09      | -4.23      | -4.32      | 10.30       | 22.12       | 17.02       | 17.13       |

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 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 hedge funds start to show impact of sub-prime trading**

The meltdown in US sub-prime lending is certain to have an impact on UK fund of hedge funds, analysis of recent performance shows. Although it is too early to say which of the funds has been hit, research from WINS Investment Trusts highlights two funds that have stood on either side of the sub-prime dividing line. One of the best-performing funds of 23 in the sector is Thames River Hedge Plus. Managed by Ken Kinsey-Quick, the fund saw its net asset value (NAV) soar after it took a timely investment in Paulson Credit Opportunities, a hedge fund that shorts the US sub-prime market, at the end of last year. As a

result, it has a three-month NAV growth of 7% in comparison to the average fund of hedge fund's 3.8%. Its share price rose over 5.3% over July, while the average share price of funds in the sector fell by 0.1%. However, the KGR Asia Dynamic fund shows the potential pitfalls. Like other funds it has profited from investments in Asia. Its three-month NAV grew 5.6%, but its share price fell 3.1% in July after it announced it was pulling out of an Australian fund called Basis Pac RIM, which itself had a 15% exposure to the US sub-prime market though a sister fund.

### **Funds of hedge funds increasingly correlated with world equities**

Funds of hedge funds are becoming more correlated with world equities as they grow in popularity and their managers invest in equity-based strategies. The 36 months correlation between a leading index of funds of hedge funds and the MSCI Europe, Africa and Far East index was above 0.8 in December last year, having risen steadily from 1993, when it was around 0.

### **Boutiques lead winners at 2007 InvestHedge Awards**

More than 400 of the leading players in the global fund of hedge funds industry came together last at the Pierre Hotel in New York for the sixth annual InvestHedge Funds of Hedge Funds Awards for the best risk adjusted performance among the global funds of hedge funds universe. The GEMS group, founded in 1987, walked away with two awards, including the prestigious Fund of the Year prize, the nominees for which were unveiled at the Award ceremony in New York on 13 March. GEMS, which has USD 5bn under management, also won the Event Driven & Distressed category. Sixteen groups took home 20 awards, with four funds of hedge funds each picking up

two accolades. Ten of the 16 firms could be considered boutiques as defined by size of firm and investment philosophies. The complete list of winners by category: US Strategies: Lyrical Multi-Manager Fund; Asian Strategies: Persistent Edge Asia Partners; Emerging Markets: H21 BRIC Plus; Global Equity: Berens Global Value Fund; Global Multi-Strategy Fund (USD 100mn – USD 500mn): The Merriwell Fund Limited Partnership; Global Multi-Strategy Fund (over USD 500mn): -Thames River Warrior; European Equity: RMF Long/Short Equity Europe; European Multi-Strategy: Orbita European Growth Strategy; Arbitrage: SSARIS Relative Value Strategy; Event Driven & Distressed: GEMS Recovery Portfolio; Global Macro: Trading Capital Holdings; Commodities & Natural Resources: Permal Multi-Manager Natural Resources Fund; Fixed Income & Credit: Mont Blanc Fixed Income Fund; Asset Based Lending & Finance: Mont Blanc Select; Emerging Managers: Protégé Partners; 10-Year Performance Awards: Archstone Partners; Group of the Year: The Capital Holdings Funds/LCF Rothschild Group; Institutional Firm of the Year: Blackstone Alternative Asset Management; New Fund of the Year: H21 BRIC Plus; Fund of the Year: GEMS Recovery Portfolio.

## Advisors/People News

### **MSS Capital opens doors to start-ups**

MSS Capital, the London-based firm which manages almost USD 1bn in a fund of funds platform linked to the FTSE Group's hedge fund index, is seeking managers for a new platform of start-up funds. The firm will provide risk management and infrastructure support for new hedge fund and long-only managers, allowing them to concentrate on establishing a track record.

### **Morgan Creek capital's AUM hits USD 10bn**

A surging influx of cash over the past 24 months has swelled money under management at Chapel Hill hedge and investment shop Morgan Creek Capital to USD 10bn. Among hedge operations that invest in other hedge funds instead of putting money directly into securities, Morgan Creek moves into the top dozen hedge firms based in the

United States and into the top 30 based in either North America or Europe.

### **GLG scoops Baring fund of hedge funds mandate from Fauchier**

GLG Partners Inc. (GLG) has scooped a mandate to advise Baring Asset Management on an USD 85mn Asian fund of hedge funds despite strong returns last year by Fauchier Partners, the fund's previous investment manager. Baring, in a regulatory filing Monday, said the replacement will be effective April 1. With Fauchier Partners as manager, the Baring Asia Hedge Select Fund was up 14% last year and has lost only about 1.5% this year amid a sharp decline in Asian stock markets. The fund invests in Asia-focused hedge funds, mainly in equity strategies. Baring declined to comment on the reason for the switch. The mandate will help boost GLG's small but growing funds of hedge funds business, which made up

only USD 598mn, or about 2.5%, of the London-based firm's USD 24bn in assets under management at Dec. 31. Most of GLG's business is in running individual hedge funds, across a range of strategies.

### **Gottex enters into advisory agreement with Credito Emiliano's alternative asset management arm**

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Swiss fund of funds manager Gottex Fund Management Holdings Ltd. has entered into an advisory agreement with Euromobiliare Alternative Investments SGR, the alternative asset management arm of Italian banking group Credito Emiliano S.p.A, also known as Credem.

### **Harcourt's AUM increased by 22% to USD 5.5bn in 2007**

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Harcourt Investment Consulting AG, the Switzerland-based global alternative investment solutions provider, announces that assets under management as of 31 December 2007 have reached USD 5.5bn, corresponding to a growth of USD 1bn for the full year 2007. The assets increased by 22% from the end of 2006, the growth originated from existing as well as from new clients. The majority of these inflows originated from institutional clients. On 31 December 2007 institutional investors accounted for USD 4.4bn compared with USD 3.8bn at the end of 2006.

### **Duff Capital Advisors purchases Azimuth intellectual property and takes over as managing member and investment advisor of its funds**

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Azimuth Holdings LLC ("Azimuth") announced that Duff Capital Advisors LLC ("DCA") had purchased for an undisclosed amount the intellectual property of Azimuth and replaced Azimuth as managing member and investment advisor of its funds, Azimuth Diversified Fund, LLC, Azimuth Diversified Fund II, LLC and

Azimuth Select Fund, LLC, (the "Funds") all diversified funds of hedge funds.

### **Caliburn to open Singapore office, plans more fund launches in 2008**

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Caliburn Capital Partners, the London- and Geneva-based fund of funds firm co-founded by Tony Morrongiello, will open an office in Singapore on May 1. The move is to support the firm's continual expansion and in anticipation of further fund launches. Its assets have grown to USD 1.2bn from USD 250mn in 2007. The team has grown to 40 at the end of 2007 from 25 at its June 2006 launch. The firm hopes to launch two more funds of funds in 2008.

### **Reallocation of portfolio management roles at fund of hedge funds manager Infiniti Capital**

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Infiniti Capital announced that Mr. Iain Hamilton will no longer be employed by Infiniti Capital A.G. as a portfolio manager and his last day of employment is 30 June 2008. Iain's last day in the office was Friday 7th March 2008. The management of the Andante Segregated Portfolio, Paradigm Segregated Portfolio and the Fixed Income Plus Segregated Portfolio has been transferred to alternative portfolio managers in their investment team.

### **FourWinds makes two senior hires and opens Hong Kong office**

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FourWinds Capital Management, the global natural resources fund management company announces the appointment of Andrew Nason as Head of the Environment Group and of JK Lim as Head of the Asia Environment Team. FourWinds also announces the opening of its Hong Kong office. The FourWinds office in Hong Kong adds to the company's existing locations in London, Boston and Geneva. The team will focus on originating and managing environmental resource investments in Asia and the Pacific Rim.

## Product News

**Addax launches Asian ex-Japan fund of hedge funds**

Paris and Chicago-based fund of hedge funds manager Addax Asset Management has just launched a new fund, the Vietnam, pan-Asian ex-Japan fund, according to NewsManagers.com. The fund, not yet open to investors, starts with €5mn (USD 7.4mn) in AUM, 34% of which will be invested in Addax' China-focused fund, the Zhong Guo fund, which was launched in December 2006 and returned 44.83% in 2007 (AUM: €16mn / USD 23.7mn).

**Hedge fund firm readies environmental fund of funds**

Hong Kong-based alternative asset management firm PCM Capital Management is gearing up to launch a green-focused fund of hedge funds on 1 April. The new vehicle, the PCM Green Power Fund, will have an Asian focus and invest in environmental and alternative energy related sectors, including clean energy, CO2 derivatives, power trading, water management, waste management, and related industries. Like its sister fund—the PCM Asia Pioneer Fund—the new vehicle will employ a vigorous top-down and bottom-up investment approach.

**Mezzacappa Management launches emerging markets fund of funds**

Mezzacappa Management, a USD 1.2bn fund of hedge funds manager, has launched an emerging markets offering. The Mezzacappa Emerging Markets Fund, the firm's fifth fund of hedge funds, launched in January, and will allocate to all the emerging markets. CIO Lenore Petteruti said that Mezzacappa has decided to launch an offering dedicated to emerging markets since the firm has a long-term constructive view on their potential, and has been an investor in the field through its other fund of hedge funds. The fund's underlying managers include global long/short equity, event-driven, credit and macro strategies.

**Axa launches Asian fund of hedge funds**

Axa Investment Managers plans to launch a new fund of hedge funds in April 2008. The Irish-based product is named the Axa Asian Opportunity Fund and features exclusively Asian managers, mostly based within the Asia geographical region. The target size of the fund is USD 1.5bn and is aimed mostly at Axa's existing client list of European and Middle Eastern investors.

**Geneva firm launches multi-asset fund of hedge funds**

Bedrock Alternative Asset Management launched its first fund of hedge funds, with plans for another in the near future. The Geneva-based firm's Dimension Fund debuted with USD 36mn in assets, and Bedrock expects a further USD 20mn in commitments for its offering next month. The firm characterizes the Dimension Fund as a "multi-asset class product" rather than a multi-strategy fund of funds, because multi-asset class managers can allocate and re-allocate capital tactically and strategically much faster than the process of rebalancing hedge fund positions in a fund of funds portfolio, according to the firm.

**Eddington launches global macro fund of hedge funds, prepares equity fund of hedge funds**

London-based Eddington Capital Management is opening its global macro fund of hedge funds to outside investors, while at the same time it is preparing an equity fund of funds for launch. Eddington, which prefers to "quietly" launch its products with seed capital before making them available to other investors, is opening its Eddington Macro Opportunities Fund to outside capital on April 1, nine months after launching it. The USD 55mn Macro Fund finished its first six months up 14.91% and is up 16.42% in the first two months of 2008. In addition, Eddington on May 1 will launch the Eddington Equity Opportunities Fund for seed investors before opening it up to outside investors in August.

## Academic/Research

**Investing in talents: Manager characteristics and hedge fund performances**

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H. Li, R. Zhao, X. Zhang

Using a large sample of hedge fund manager characteristics, they 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. 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.

**Do hedge funds profit from mutual-fund distress?**

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J. Chen, S. Hanson, H. G. Hong, J.C. Stein

This paper explores the question of whether hedge funds engage in front-running strategies that exploit the

predictable trades of others. One potential opportunity for front-running arises when distressed mutual funds -- those suffering large outflows of assets under management -- are forced to sell stocks they own. They document two pieces of evidence that are consistent with hedge funds taking advantage of this opportunity. First, in the time series, the average returns of long/short equity hedge funds are significantly higher in those months when a larger fraction of the mutual-fund sector is in distress. Second, at the individual stock level, short interest rises in advance of sales by distressed mutual funds.

**Do sophisticated investors believe in the law of small numbers?**

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G. Baquero, Marno Verbeek

Believers in the law of small numbers tend to over infer the outcome of a random process after a small series of observations. They believe that small samples replicate the probability distribution properties of the population. They provide empirical evidence indicating that investors are mistakenly driven by this psychological bias when hiring or firing a fund manager. Using quarterly data between 1994 and 2000 of 752 hedge funds, they look at investment and divestment decisions of investors after a successful (or losing) streak of a fund manager. Apparently, sophisticated investors exhibit a "hot-hand" bias that may seriously harm their wealth.