PRIMNEWS
Fund of Hedge Funds Review
23rd May 2005

Performance Update

Fund of Hedge Funds Indices	April	Mar	YTD	2004	2003	2002
EDHEC Fund of Funds Index	-1.33%	-0.44%	-0.38%	7.07%	11.46%	1.25%
HFRI FoHF Composite Index	-1.33%	-0.56%	-0.54%	6.79%	11.59%	1.02%
CISDM FoHF Diversified Median1)	-	-0.31%	1.01%	7.52%	10.04%	0.65%
CISDM FoHF Niche Median1)	-	-0.20%	1.39%	8.33%	10.62%	1.99%
InvestHedge Composite1)	-	-0.44%	1.01%	6.12%	9.28%	1.99%
Altvest Sub-Index: Fund of Funds	-1.27%	-0.47%	-0.24%	7.39%	11.12%	1.23%
Eurekahedge Fund of Funds Index	-1.39%	-0.56%	-0.52%	6.47%	11.22%	2.03%
Barclay/Global HedgeSource FoF Index	-1.39%	-0.48%	-0.40%	6.60%	10.36%	1.79%

1) Updated by the end of the month.

Investable Hedge Funds Indices	April	Mar	YTD	2004	2003	2002
CSFB/Tremont Investable HF Index	-1.11%	-0.08%	-1.06%	5.31%	11.04%	5.67%
MSCI Hedge Fund Composite Index	-1.15%	-0.46%	-1.19%	3.10%	14.7%	5.30%
S&P Hedge Fund Index	-0.85%	-0.54%	-1.17%	3.95%	11.12%	4.14%
HFRX Global Hedge Fund Index	-1.76%	-0.97%	-2.78%	2.69%	13.39%	-
FTSE Hedge Index	-1.06%	-0.27%	-1.09%	3.12%	12.36%	2.05%

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

Industry News

Fund of hedge funds assets rose 5% according to Barclays during the first quarter
The Barclay Group said assets in the fund of hedge funds industry rose more than 5% in the first quarter as hedge fund investors favoured the diversification and lower risk of multi-manager strategies, with assets in funds of hedge funds reaching $514.2 billion in the first three months of the year from $486.8 billion. Outside the fund of funds industry, hedge fund growth slowed as assets in the quarter grew only 2.3%.

Calpers to invest in Asian hedge funds
Calpers is expected to make its first investment in Asian hedge funds. Investments in Asian hedge funds doubled to about $65 billion last year, helped by growing demand from US investors, many of which had cut their exposure to the region following the 1997-98 Asian financial crisis. According to people familiar with the situation, the $181 billion fund, which manages money for public employees in California, held talks in Tokyo and Hong Kong last month, and is believed to have interviewed several funds of hedge funds, including Tokyo-based Sparx Asset Management, Hong Kong-based Vision Investment Management and Singapore-based KBC Alpha Asset Management. Last November, Calpers said it planned a $500 million maiden investment in funds of hedge funds, as part of a programme to lift total hedge fund assets from $850 million to $2 billion.

Sainsbury's scheme doubles hedge fund allocation

The £3bn pension fund of retailer J Sainsbury has doubled its exposure to funds of hedge funds - investing new money and resources diverted from passively managed UK equities. Allocation to hedge funds had gone up, from £25m or 1.66% of the portfolio in 2004, to 3.33% or £90m.

The pension fund last year tapped hedge fund boutique La Fayette and Financial Risk Management (FRM). This year the two managers' mandates have been increased to about £45m each, mainly thanks to new money inflows. Pearson added that some of the new funds allocated to hedge funds had also been diverted from the UK equity portfolio, managed by Legal & General and Hermes Pensions Management.

Sainsbury invests in La Fayette's Regular Growth Fund, a multi-strategy, multi-manager fund of hedge funds. John Capaldi, head of product management at FRM, said the firm's £45m slice of Sainsbury assets are invested in a multi-strategy fund, which features 14 different hedge funds styles and is operated by 65 managers.

The J Sainsbury Pension Fund's intended asset allocation is 55% to equities, 35% to bonds and 10% to alternatives.

HFR: New fund flows of $27 billion in Q1 bring total hedge fund assets to $1.006 billion

New 1Q fund flows of $27.3 billion bring total assets under management to $1.006 trillion; Event-Driven is top asset gainer; Convertible Arbitrage sees continued outflows.

Funds of Funds saw $9.4 billion in new asset flows in 1Q 2005, bringing total assets in the category to $371 billion, accounting for roughly one-third of all hedge fund assets.

Advisor/People News

New hires at Silver Creek

Bryan Weeks, former managing director of Russell Investment Group, now is overseeing the fund of funds firm Silver Creek Capital Management LLC's operations. Bolstering the business development activities of the US$3.7 billion firm, Mr. Weeks was named president and takes over some of the operational duties from Silver Creek founders Eric Dillon and Timothy Flaherty.

Mr. Weeks recently left Tacoma, Wash.-based Russell Investment Group, where he led the institutional relationship management business, handling institutional sales, service and business management of the Frank Russell Co.'s asset management unit. He also was president of Russell Capital, a registered broker-dealer and investment adviser.

At the same time, Silver Creek hired Spencer Potts to handle hedge fund manager due diligence, investor relations and business development out of the company's New York office. Previously, Mr. Potts was a director in Merrill Lynch's hedge fund origination group, which is responsible for the sourcing and analysis of hedge funds for Merrill's institutional clients.

Morgan Creek teams up with Julian Robertson

Mr. Yusko, formerly chief investment officer of the University of North Carolina at Chapel Hill and now an investment adviser, plans to launch a series of funds of hedge funds offerings through a joint venture with legendary hedge fund manager Julian Robertson called Tiger Select Fund Management.

Mr. Robertson will not actively manage any of the assets, but the Robertson Foundation will be a seed investor for the first fund of funds, which will invest solely in long/short strategies. The foundation will also become a minority interest owner in Morgan Creek Capital Management, Mr. Yusko's advisory firm. Morgan Creek has US$1 billion in assets under advisement.

Mr. Yusko is once again marketing the investment process he built at UNC. He also has formed ties with Salient Partners and Hatteras Investment Partners, where he has developed funds of hedge funds. The formation of Tiger Select enhances Morgan Creek's ability to provide discretionary management products to complement its existing investment advisory platform.

AXA hires Veronique Courlier

AXA Investment Managers has appointed Veronique Courlier as global head of hedge fund activities. Courlier will be based in the company's London office and will take charge of both the firm's single strategy funds and funds of hedge funds. Prior to joining AXA, Courlier was head of alternative investments at Olympia Capital Management. She has over 15 years of experience with alternative investments. AXA currently has €358 billion ($461 billion) under management. The firm's hedge funds manage €650 million in client assets.

Optima Fund Management hires co-head of risk management

Optima Fund Management LLC (Optima) has appointed Ken Kambiz Akoundi, PhD as co-head of risk management. Prior to joining Optima, Dr Akoundi was a founding member of the RiskMetrics Group, where he last held the position of chief knowledge officer. During his tenure with RiskMetrics, he helped strategise and develop new markets including pension funds, US-based foreign banks, and custody banks in the United States, as well as Canada. Prior to founding of RiskMetrics Group, Dr Akoundi was a project manager in the risk management services department at JP Morgan, where he managed software development, maintenance, and training. He has also lectured on various risk-management topics at NYU, Columbia, and Polytechnic University. Dr Akoundi holds a Doctorate in philosophy in civil engineering from Polytechnic University in New York. He is fluent in French, Persian, and Turkmen.

Lanaras joins CMA from HSBC

Capital Management Advisors Group's Geneva subsidiary has hired Constantine Lanaras as Chief Operating Officer. Mr. Lanaras worked from 1988 to 2005 at Republic Private Bank and HSBC Private Bank in Geneva, most recently as Managing Director where he was also the representative of the Relationship Management division in all operational and IT related projects of the Swiss Private Bank. Mr. Lanaras will be responsible for CMA's operations and will report directly to cofounders Sabby Mionis and Angelos Metaxa.

Product News

Citigroup and PAAMCO launch FoHF service for HNWIs

Citigroup and Pacific Alternative Asset Management Company, LLC, have launched a joint venture offering fund of hedge funds access to ultra high net worth investors.
The joint venture entity, Global Hedge Strategies, LLC, will provide Citigroup's ultra high net worth investors with access to a range of institutional alternative asset management services. The joint venture seeks to serve the substantial demand for alternative investments among affluent investors and formalises and enhances a five year long portfolio advisory relationship between Pacific Alternative Asset Management Company, the funds of hedge funds manager, and The Citigroup Private Bank.

First German fund of hedge funds on the MSCI Hedge Invest Index

The MSCI Hedge Invest Lyxor Tracker-Hi Fund will replicate the performance of the MSCI Hedge Invest Index in Euro, which provides high diversification and risk dispersion as a result of its composition. The Index is the largest investable hedge fund index and currently consists of 121 funds across 14 strategies. More than USD 3bn have already been invested in the Index via its Tracker funds.
Hansainvest is one of the pioneers of German fund of funds under the new investment law and acts as the asset management company for the above mentioned fund, which has been approved by the German financial market authority, BaFin.

Academic/Research

Systemic Risk and Hedge Funds **Chan, Getmansky, Haas, Lo**

Systemic risk is commonly used to describe the possibility of a series of correlated defaults among financial institutions - typically banks - that occur over a short period of time, often caused by a single major event. However, since the collapse of Long Term Capital Management in 1998, it has become clear that hedge funds are also involved in systemic risk exposures. The hedge-fund industry has a symbiotic relationship with the banking sector, and many banks now operate proprietary trading units that are organized much like hedge funds. As a result, the risk exposures of the hedge-fund industry may have a material impact on the banking sector, resulting in new sources of systemic risks. In this paper, they attempt to quantify the potential impact of hedge funds on systemic risk by developing a number of new risk measures for hedge funds and applying them to individual and aggregate hedge-fund returns data. These measures include: illiquidity risk exposure, nonlinear factor models for hedge-fund and banking-sector indexes, logistic regression analysis of hedge-fund liquidation probabilities, and aggregate measures of volatility and distress based on regime-switching models. Their preliminary findings suggest that the hedge-fund industry may be heading into a challenging period of lower expected returns, and that systemic risk is currently on the rise.

Funds of Hedge Funds versus Portfolios of Hedge Funds **Capocci, Nevolo**

Using a comprehensive database made up of 2247 individual hedge funds (among which 1346 follow a directional strategy and 877 a non-directional one) and 647 funds of hedge funds for the period January 1994-December 2002, Capocci and Nevolo investigate whether portfolios of individual hedge funds can outperform existing funds of hedge funds. For this purpose, they have built portfolios using Carhart (1997) deciles classification. In regressing each of their individual hedge funds decile portfolios, first against the funds of hedge funds Global Index, then against each funds of hedge funds decile, and finally against each individual funds of hedge funds present in their database, they find that the best individual and directional hedge funds deciles are those of the middle, indicating that neither a momentum nor a contrarian strategy seems appropriate in portfolio construction in order to beat existing funds of hedge funds. However, it emerges that their non-directional hedge funds deciles consistently and significantly beat existing funds of hedge funds.