

## Performance Update

<b>Fund of Hedge Funds Indices</b>	April	Mar	YTD	2006	2005	2004	2003
EDHEC Fund of Funds Index	1.66%	0.96%	4.79%	11.25%	6.80%	7.07%	11.46%
HFRI FoHF Composite Index	1.72%	0.86%	4.90%	10.43%	7.49%	6.86%	11.61%
CISDM Fund of Funds Index	-	0.99%	2.91%	9.11%	6.47%	7.12%	10.23%
InvestHedge Composite	-	0.99%	2.89%	8.67%	7.07%	6.15%	9.34%
Altvest Sub-Index: Fund of Funds	1.58%	0.92%	4.48%	10.24%	7.68%	7.39%	11.12%
Eurekahedge Fund of Funds Index	1.72%	0.88%	4.67%	10.14%	7.83%	7.00%	11.68%
HFN Fund of Funds Aggregated Average	1.72%	0.94%	4.57%	9.60%	6.81%	6.89%	11.74%
Barclay/Global HedgeSource FoF Index	1.62%	0.96%	4.62%	9.38%	6.91%	6.65%	10.44%
<b>Average FoHF Indices</b>	<b>1.67%</b>	<b>0.94%</b>	<b>4.23%</b>	<b>9.85%</b>	<b>7.13%</b>	<b>6.89%</b>	<b>10.95%</b>

<b>Investable Hedge Funds Indices</b>	April	Mar	YTD	2006	2005	2004	2003
CS/Tremont Investable HF Index	1.68%	0.97%	4.02%	9.65%	3.61%	5.31%	11.04%
MSCI Hedge Fund Invest Index	1.27%	0.17%	2.86%	7.63%	4.68%	3.10%	14.70%
HFRX Global Hedge Fund Index	2.21%	0.28%	3.82%	9.26%	2.72%	2.69%	13.39%
FTSE Hedge Index	1.51%	0.64%	2.75%	6.20%	2.60%	3.12%	12.36%
<b>Average Investable HF Indices</b>	<b>1.67%</b>	<b>0.52%</b>	<b>3.36%</b>	<b>8.19%</b>	<b>3.40%</b>	<b>3.56%</b>	<b>12.87%</b>

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

<b>Portfolios of Funds of Hedge Funds</b>	April	Mar	YTD	2006	2005	2004	2003
PrimFund Diversified (net of fees)	1.63%	1.13%	4.40%	9.54%	7.78%	8.39%	13.68%
PrimFund Growth (net of fees)	2.46%	1.73%	7.48%	13.85%	9.38%	15.69%	20.75%
PrimFund Opportunity (net of fees)	1.86%	1.48%	6.84%	22.12%	17.02%	17.13%	25.09%

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 a weighted composite of the targeted fund managers net of fees. All numbers shown are for illustration purposes only and are no guarantee of future performance.

## Industry News

### HedgeFund.net survey of hedge fund administrators estimates total hedge fund industry at USD 2.401 trillion, 13,000 funds, Citco tops administrator rankings

The results of the survey show that administered hedge fund assets, excluding double counting of funds of hedge funds assets and assets from managed accounts, reached USD 2.267 trillion in over 12,600 individual funds through the end of the first quarter 2007.

HFN surveyed 53 hedge fund industry administrators, including all of the top 25, and Citco Fund Services emerged as the industry leader administering USD 358bn in single manager hedge fund assets followed by HSBC's Alternative Fund Services with USD 172bn and BISYS Alternative Investment Services with USD 164bn.

## Advisor/People News

### UBS appoints hedge fund CIO for USD 38bn unit

UBS Global Asset Management's Alternative and Quantitative Investments platform (A&Q) announced the appointment of Rick Nardis as Deputy Chief Investment Officer to Alternative Investment Solutions. Mr. Nardis, who will be based in Stamford, will work closely with the CIO of AIS, William Brown, directing and implementing research and portfolio management initiatives. He will also continue to be heavily involved with risk management across the AIS platform and to oversee the work of Senior Investment Officers responsible for strategy research.

Mr. Nardis joined UBS in 2001 as a Senior Investment Officer for the then O'Connor Multi-Manager Program, which became AIS in March 2004. Prior to 2001, he worked in the Manager Research Department at Tremont Advisers, Inc. as a Primary Specialist in Long/Short Equity. Mr. Nardis has over eight years of investment industry experience and holds a BA from Columbia University.

### **Globefin hires Andrew Hoffman**

Globefin Asset Management Ltd., investment manager to the Cannonball Funds, announces the hiring of Mr. Andrew Hoffman to head the newly-formed Globefin US Advisors and opening of offices in New York.

Mr. Hoffman joins the Cannonball Funds from Asset Alliance and has been active in hedge fund manager selection, due diligence, and fund of hedge fund product origination since 2001. He joined Asset Alliance in 2006 where he launched an asset-based FOHF, having previously worked at Stillwater Capital Partners, Inc. as a Managing Director. Mr. Hoffman holds a Bachelor of Science degree (Magna Cum Laude) in Accounting from SUNY Albany and a Masters of Business Administration Degree from the Leonard N. Stern School of Business in Finance and Economics.

### **Muirfield hires Chu**

Francis Chu, until recently the head of relative value strategies at Ivy Asset Management has joined Muirfield Capital Management. After nearly ten years at Ivy, where his responsibilities included a position as portfolio manager of its flagship market neutral fund, Chu will take on the role of co-portfolio manager for non-directional strategies at Muirfield.

### **Tremont hires Santero as COO**

Santero was formerly with Ivy Asset Management where he functioned in a similar role reporting to the CIO. He was at Amvescap from 1991 to 2003 in a variety of senior positions and prior to that had worked at US Trust Company, Scudder, Stevens & Clark and Lazard Freres.

### **Sparx hires Steve Seneque as CIO**

Steve has over 17 years of research experience in economics and finance, most of it focused on Asia, including 10 years of investment management experience primarily dedicated to fund of funds in alternative investment strategies. Prior to joining SPARX, he was a managing director of Alps Advisors SA, a funds research and advisory company based in Geneva, which provides investment advice to fund of funds and high-net-worth clients. Prior to starting up Alps Advisors in 2005, he was Head of Funds Research at Optimal Investment Services SA, part of the Santander Group, where he spent 6 years between 1999 and 2005. He received his PhD in Economics from the Australian National University (ANU), Canberra Australia and a Masters of Economics of Development from ANU.

### **VCM FM & Robeco form London emerging hedge fund platform**

Robeco Group NV and VCM Fund Management LLP have formed a new London-based emerging hedge fund platform. Robeco provides its international distribution capabilities and substantial seed capital to promote emerging portfolio managers. VCM FM brings its management infrastructure including risk control, compliance, operations and legal support. Robeco is also taking a minority equity stake in VCM FM.

### **Marten Nederlof rejoins Deutsche Bank**

Deutsche Bank Securities announced that Maarten Nederlof has re-joined the bank as a Managing Director in the Hedge Fund Capital Group. He will be based in New York and report to John Dymont, Managing Director and Global Head of the Hedge Fund Capital Group.

Nederlof re-joins Deutsche Bank from K2 Advisors where he was a Managing Director and a Portfolio Manager. Before he joined K2 Advisors, he was Global Head of the Pension Strategies Group at Deutsche Bank Securities in New York. Prior to working at Deutsche Bank, Nederlof was Head of Investor Risk Management at Capital Market Risk Advisors.

### **Chung Hour Khov joins Infiniti as portfolio manager**

Chung Hour Khov joins Infiniti from UBS Global Asset Management in Zurich where, as Portfolio Manager, he was responsible for managing one of their flagship fund of hedge funds with an AUM of USD 1.3bn. Whilst at UBS Chung Hour Khov looked after four portfolios with total assets of USD 1.8bn, was responsible for the research into long/short from a global perspective and was instrumental in building up the research database of Asian Managers.

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## Product News

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### **Addax launches dedicated China fund of hedge funds**

Paris and Chicago-based Addax Capital Management launched a China-focused fund of hedge funds dubbed the Zhong Guo Fund. The fund, which means middle kingdom in Chinese, currently invests in nine underlying managers mainly employing long/short strategies, and will increase its portfolio to 12 funds in the near term. The fund's underlying managers are Western-educated Chinese nationals based in either Hong Kong or Singapore with research offices in China.

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## Academic/Research

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### **Multi strategy funds outperform fund of hedge funds on a risk-adjusted basis Agarwal**

There has been explosive growth in two products from the hedge fund industry - multi-strategy (MS) funds and funds of hedge funds (FOFs), both of which offer diversification across different hedge fund strategies. In well-functioning markets, both investment vehicles should offer similar returns.

Over the period 1994 – 2004, Agarwal finds that MS funds outperform FOFs on a risk-adjusted basis by 2.6% to 4.8% per year on net-of-fee and by 3.0% to 4.1% per year on gross-of-fee basis. The superior performance of MS funds continues to hold even when they control for fund characteristics such as size, management and incentive fees, and other conventional control variables.

Since FOFs underperform MS funds on both net- and gross-of-fee basis, their underperformance cannot be entirely explained by their double-layered fee structure. The question then is how MS funds and FOFs can co-exist in equilibrium in view of the significant differential in performance? They suggest that investors perceive greater agency risk in the structure of MS funds relative to FOFs and therefore require greater compensation for investing in MS funds. MS funds are able to generate these higher returns because they possess greater investment flexibility and are able to invest in less liquid assets. It is also possible that MS funds generate greater returns because managers with "better" ability self-select into joining MS funds and the competition among MS funds results in the rents from superior ability being passed on to the investors in the form of better returns. Controlling for the differences in agency risk, flexibility, and fee structure between MS funds and FOFs, their results suggest that self-selection by managers with superior ability in MS funds may be the driving force behind their superior performance relative to FOFs.

### **Where do Alphas come from?: A new measure of the value of active investment management Andrew Lo**

The value of active investment management is traditionally measured by alpha, beta, tracking error, and the Sharpe and information ratios. These are essentially static characteristics of the marginal distributions of returns at a single point in time, and do not incorporate dynamic aspects of a manager's investment process. In this paper, Lo proposes a new measure of the value of active investment management that captures both static and dynamic contributions of a portfolio manager's decisions. The measure is based on a decomposition of a portfolio's expected return into two distinct components: a static weighted-average of the individual securities' expected returns, and the sum of covariances between returns and portfolio weights. The former component measures the portion of the manager's expected return due to static investments in the underlying securities, while the latter component captures the forecast power implicit in the manager's dynamic investment choices. This measure can be computed for long-only investments, long/short portfolios, and asset allocation rules, and is particularly relevant for hedge-fund strategies where both components are significant contributors to their expected returns, but only one should garner the high fees that hedge funds typically charge. Several analytical and empirical examples are provided to illustrate the practical relevance of these new measures.

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