

Performance Update all data in %

Fund of Hedge Funds Indices	Apr	Mar	YTD	2007	2006	2005	2004
EDHEC Fund of Funds Index	1.07	-2.64	-2.90	10.07	11.25	6.80	7.07
HFRI FoHF Composite Index	1.06	-2.65	-3.15	10.26	10.39	7.49	6.86
CISDM Fund of Funds Index	0.85	-2.30	-2.69	8.68	9.11	6.47	7.12
InvestHedge Composite	-	-2.45	-3.34	8.68	8.67	7.07	6.15
Altvest Sub-Index: Fund of Funds	1.06	-2.67	-2.87	8.63	10.24	7.68	7.39
Eurekahedge Fund of Funds Index	1.10	-2.71	-3.11	10.21	10.38	7.92	7.00
HFN Fund of Funds Aggregated Average	1.04	-2.60	-2.98	9.27	9.60	6.81	6.89
Barclay / Global HedgeSource FoF Index	1.01	-2.73	-4.37	8.86	9.38	6.91	6.65
Average FoHF Indices	1.03	-2.59	-3.15	9.33	9.88	7.14	6.89

Investable Hedge Funds Indices	Apr	Mar	YTD	2007	2006	2005	2004
CS/Tremont Investable HF Index	0.84	-2.38	-1.49	7.42	9.65	3.61	5.31
MSCI Hedge Fund Invest Index	0.82	-2.89	-3.38	3.61	7.63	4.68	3.10
HFRX Global Hedge Fund Index	1.20	-2.46	-1.62	4.23	9.26	2.72	2.69
FTSE Hedge Index	0.38	-3.24	-5.28	0.62	6.28	2.60	3.12
Average Investable HF Indices	0.81	-2.74	-2.94	3.97	8.21	3.40	3.56

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

Average FoHF Indices Current Month **1.03%**

Average Investable HF Indices Current Month **0.81%**

Portfolios of Funds of Hedge Funds	Apr	Mar	YTD	2007	2006	2005	2004
PrimFund Diversified (net of fees)	0.34	-1.57	-1.51	8.53	9.54	7.78	8.39
PrimFund Growth (net of fees)	0.28	-2.77	-3.57	13.84	13.85	9.38	15.69
PrimFund Opportunity (net of fees)	0.47	-4.36	-8.51	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

New capital flows into hedge funds dried up first quarter

Investors pulled back on investing in hedge funds in the volatile first quarter of 2008 with a net inflow of just USD 16.5bn in new capital coming into the industry, according to Chicago-based hedge fund industry data provider Hedge Fund Research. HFR also reported that there were more than 1,100 new hedge fund launches and more than 550 liquidations during 2007, and that the HFRI Fund Weighted Composite Index fell 3.06 per cent during the three months the end of March. According to HFR, total capital under management in the hedge fund industry was

virtually unchanged at USD 1.875tn, compared to USD 1.868tn at the end of 2007, and assets in funds of hedge funds were also virtually unchanged at just over USD 800bn. The slow start to 2008 follows a year in which investors allocated a record USD 194bn to the industry. Selected strategies proved attractive to investors seeking to take advantage of current market conditions. Investors allocated more than USD 8.2bn in new capital to equity hedge strategies, which nonetheless saw total assets under management decline on weak performance, and more than USD 6.5bn to relative value strategies. Funds seeking opportunities in distressed credit saw significant positive flows, with distressed and special situations strategies

attracting a combined total of nearly USD 8bn in new funds. By contrast, investors redeemed nearly USD 1bn from macro strategies, while within the event-driven group of strategies investors reduced capital in merger arbitrage funds by more than USD 4bn.

Total hedge fund assets fell 1.4% in Q1 2008 to USD 2.848tn

The report from hedgefund.net estimates total hedge fund assets fell 1.4% in Q1 2008 to USD 2.848tn. New allocations to hedge funds were an estimated USD 53.02bn during the quarter and performance losses decreased assets by an estimated USD 93.18bn resulting in total hedge fund assets experiencing a quarterly decrease for the first time on record. The 1.4% decrease in Q1 2008 compares to an increase of 11.5% in the first quarter 2007. Fund of funds' assets increased during Q1 2008, despite performance losses as new allocations were the second highest in almost four years. Total assets in funds of funds increased 1.1% to an estimated USD 1.404tn. Performance losses of USD 57.19bn were offset

by new allocations of an estimated USD 71.85bn, an indication that large institutions continued to increase exposure to the hedge fund industry through funds of funds.

Top 100 hedge funds have 75% of industry assets

The largest hedge funds in the world account for 75% of hedge fund industry assets, compared with 69% the previous year, continuing the trend of larger funds eclipsing smaller players. The largest 100 hedge funds have USD 1.3tn in assets under management, a 35% increase over 2007, according to Alpha magazine's Hedge Fund 100 report. JP Morgan Asset Management topped the list with USD 44.7bn in assets, boosted by Highbridge Capital. The 10 largest hedge funds had assets of USD 324bn, a 29% increase over last year.

Advisors/People News

WR Capital hires former Merrill executive

WR Capital Management has appointed Andrew Weisman as director of research and executive vice president. Weisman will focus on developing new and existing hedge fund products for the firm and its investors. Prior to joining WR Capital, Weisman served as chief portfolio manager and head of investment analytics for the Merrill Lynch hedge fund development and management group. In addition, the firm has also added Sandeep Patel to its investment committee. Patel most recently served as the head of portfolio construction for the same group that Weisman was involved with at Merrill.

Optima Fund Management adds senior level hire to research team

Robert Phillips has been hired to join Optima Fund Management LLC as part of the research team in the capacity of Deputy Chief Investment Officer and Managing Director. Phillips, who will report to Fabio Savoldelli, CIO and Chief Global Strategist, joins from Union Bancaire Privée where he is a Director in the fund of funds group. His hedge fund research background also includes experience as Director and Strategy Head of

Equity Hedge Fund Research at Merrill Lynch overseeing research coverage of over 75 hedge fund managers and playing a key role in managing over USD 15bn of assets.

Infiniti Group staff complete management buyout

The Infiniti Group announced that a consortium of senior staff and strategic investors has acquired the firm in a management buyout. The MBO led by Co-Founder and Chairman, Kenji Steven and CEO, Ian Shearer will result in Infiniti Capital being re-capitalized and restructured to focus on its core growth business of serving clients in Japan and the Asia Pacific Region. Infiniti will be retaining a presence in Zurich and offices in Hong Kong, London and Christchurch.

Gideon Nieuwoudt joins Silver Creek Capital Management, will open London offices

Silver Creek Capital Management LLC, a manager of funds of hedge funds with approximately USD 10bn in assets under management, announced that Gideon Nieuwoudt, former Head of European and Asia Research for Union Bancaire Privée Alternative Investments, will

join Silver Creek as a Managing Director in July. With Mr. Nieuwoudt, Silver Creek expects to open a London office to expand its research effort and increase coverage of global hedge fund managers in the summer 2008. Mr. Nieuwoudt will be responsible for continuing to expand Silver Creek's non-US business with a focus on increasing the investment opportunities in Europe and Asia. He will also serve on the firm's investment committee.

SkyBridge announced strategic relationship with Australia's Challenger Financial Services Group

SkyBridge Capital, which provides strategic capital to new and early-stage hedge funds, and Challenger Financial Services Group Limited, a leading Australian financial services company, jointly announced an agreement to form a long-term strategic relationship focused on the launch of the first global institutional hedge fund seeding and alternative investment management platform. In conjunction with the new strategic relationship, Challenger will make a significant capital commitment to the SkyBridge funds. As part of their new strategic relationship, Challenger will support SkyBridge in penetrating new markets in the Australasia region to source both new capital as well as talented hedge fund managers. In addition, Challenger's Richard Howes, Principal Executive Officer - Balance Sheet Asset Management, will become a member of the SkyBridge Investment Committee.

Product News

Ermitage rolls out green fund of hedge funds

Ermitage Group has launched a fund of hedge funds focused on clean resources. The fund is intended as a more concentrated sister fund to the firm's established resources fund, designed to capitalize on growing investor interest in socially—and environmentally-responsible resources. It debuted March 1 with USD 20mn, some of which has come from the firm's wealth management arm.

Union Bancaire Privée preps distressed fund of hedge funds

Another hedge fund operator is diving into the burgeoning distressed-debt market looking for a piece of the action. Switzerland's Union Bancaire Privée is looking

Martello Investment Management closes fund of hedge funds

Martello Investment Management is closing up shop because it failed to gather sufficient assets. Although the fund of hedge funds oversaw USD 1bn, it had just USD 250mn in assets under management, upon which it collected a typical hedge fund fee. The remaining USD 750mn represented assets under advisory, for which Martello earned a lower fee.

Credit Suisse hires Quaesta Capital CEO Wiedmann as FX head

Credit Suisse has hired a replacement for the departing head of its foreign exchange team, appointing the chief executive and founder of an FX-focused hedge fund to the role. Martin Wiedmann will join the Swiss bank as a managing director and head of global foreign exchange sales and distribution, based in Zurich. He is expected to take up his role on June 1, and will report to Steve Yanez, head of global foreign exchange. Wiedmann joins from Quaesta Capital, a Zurich-based FX-focused hedge fund of funds he established in 2005 after leaving his position as global head of foreign exchange distribution at UBS.

to make some noise with the launch of a pair of funds of hedge funds in June focused on distressed hedge fund and private equity managers.

Morgan Creek Capital unveils credit fund of hedge funds

Morgan Creek Capital Management, the USD 10.4bn fund of funds shop, has launched a distressed offering to exploit opportunities in the credit markets. The Chapel Hill, N.C.-based firm launched the Dislocation Fund, a USD 36mn vehicle that will invest in hedge and private equity funds, and is looking to raise some USD 500mn.

Thames River unveils multi-asset fund of funds for Potter and Burdett

Gary Potter and Robert Burdett will invest in a combination of equity, bond and alternative funds for a new Thames River Capital multi-asset fund of funds. The Thames River Multi-Select fund, which will be available for sale in the UK and the continent, will launch on the 3 June. It will be domiciled in Dublin and employ Uctis III powers. A total of 40% of the fund will be invested in the

suite of products offered by Thames River and its emerging markets boutique - Nevsky Capital. The remaining 60% will be invested what Potter and Burdett perceive to be the 'best of the rest' third part providers.

Academic/Research

Hedge fund forum shopping

D. Cumming, S. Johan

Hedge funds have been the subject of media attention in the United States (US) and around the world given the pronounced growth of the hedge fund sector in recent years and the comparative dearth of regulations faced by hedge fund managers. The first part of this paper provides an overview of the potential agency problems associated with managing a hedge fund, and associated rationales for hedge fund regulation. While hedge funds are hardly regulated in the US, there are nevertheless jurisdictions outside the US with different and sometimes more onerous sets of regulatory requirements. Examples of international differences in hedge fund regulation include minimum capitalization requirements, restrictions on the location of key service providers and different permissible distribution channels via private placements, banks, other regulated or non-regulated financial intermediaries, wrappers, investment managers and fund distribution companies. The second part of this paper provides an analysis of hedge fund strategies in the context of international differences in hedge fund regulation. Certain fund strategies have been characterized in the law and finance literature, as well we in popular media and public policy debates, as being inherently more risky and associated with more pronounced agency problems. For instance, managed futures, long/short and event driven strategies might be associated with greater risk and agency problems than market neutral equity strategies and various arbitrage strategies. At issue, therefore, is whether funds engage in forum shopping to select jurisdictions that potentially offer greater scope for agency problems associated with hedge fund management. The data examined offer little or no support for the view that

hedge fund managers pursuing riskier strategies or strategies with potentially more pronounced agency problems systematically select jurisdictions with less stringent regulations. For the most part, fund strategies are not systematically and statistically related to different regulations observed in different jurisdictions. In fact, to the extent that there is evidence of forum shopping, it is such that funds pursuing riskier strategies or strategies with greater potential agency problems select jurisdictions with more stringent regulations. We may infer from the evidence that forum shopping by fund managers in relation to fund strategic focus is not consistent with a 'race to the bottom'. Rather, hedge fund managers appear to select jurisdictions that are in funds' investors' interests in order to facilitate capital raising by the hedge fund.

130/30 investing: Just another hype or here to stay?

David Blitz

By having the flexibility to take on short positions, so-called 130/30 funds provide classic beta exposure in combination with an enhanced potential for generating alpha. They discuss the main theoretical pros and cons of 130/30 investing and compare various ways in which 130/30 funds are being constructed in practice. They conclude that a 130/30 approach potentially offers significant efficiency gains, but that sufficient alpha generating capability is required to actually capitalize on this potential, especially on an after-cost basis. They are skeptical with regard to 130/30 equity funds that do not attempt to create an integrated 130/30 portfolio, and also with regard to several recent variations on the 130/30 theme, such as 130/30 bond funds and 130/30 indices.

Crisis and hedge fund risk

Billio, Getmansky, Pelizzon

They study the effect of financial crises on hedge fund risk. Using a regime-switching beta model, they separate systematic and idiosyncratic components of hedge fund exposure. The systematic exposure to various risk factors is conditional on market volatility conditions. They find that in the high-volatility regime (when the market is rolling-down and is likely to be in a crisis state) most strategies are negatively and significantly exposed to the Large-Small and Credit Spread risk factors. This suggests

that liquidity risk and credit risk are potentially common factors for different hedge fund strategies in the down-state of the market, when volatility is high and returns are very low. They further explore the possibility that all hedge fund strategies exhibit a high volatility regime of the idiosyncratic risk, which could be attributed to contagion among hedge fund strategies. In their sample this event happened only during the Long-Term Capital Management (LTCM) crisis of 1998. Other crises including the recent subprime mortgage crisis affected hedge funds only through systematic risk factors, and did not cause contagion among hedge funds.

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