

**Performance Update** all data in

<b>Fund of Hedge Funds Indices</b>	<b>Apr</b>	<b>Mar</b>	<b>YTD</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
EDHEC Fund of hedge funds Index	1.00	0.16	1.31	-19.73	10.07	11.25	6.80
HFR1 FoHF Composite Index	1.02	0.09	1.46	-21.37	10.25	10.39	7.49
CISDM Fund of hedge funds Index	-	-0.02	0.80	-17.04	8.68	9.11	6.47
InvestHedge Composite	0.53	-0.12	1.18	-16.63	8.90	9.12	6.99
Eurekahedge Fund of hedge funds Index	0.93	-0.05	0.95	-19.75	10.36	10.48	7.97
HFN Fund of hedge funds Aggregated Average	1.13	-0.08	0.09	-20.01	9.27	9.60	6.81
Barclay / Global HedgeSource Fund of hedge funds Index	0.75	-0.03	1.11	-22.18	8.86	9.38	6.91
<b>Average FoHF Indices</b>	<b>0.89</b>	<b>-0.01</b>	<b>1.02</b>	<b>-19.53</b>	<b>9.48</b>	<b>9.90</b>	<b>7.06</b>

<b>Investable Hedge Funds Indices</b>	<b>Apr</b>	<b>Mar</b>	<b>YTD</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
CS/Tremont Investable HF Index	-0.26	-0.04	-1.11	-26.31	7.42	9.65	3.61
HFRX Global Hedge Fund Index	1.61	-0.03	2.30	-23.25	4.23	9.26	2.72
RBC Hedge 250 Index	2.39	0.39	3.10	-21.21	8.22	10.62	-
<b>Average Investable HF Indices</b>	<b>1.25</b>	<b>0.11</b>	<b>1.43</b>	<b>-22.63</b>	<b>5.12</b>	<b>8.95</b>	<b>2.98</b>

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

**Average FoHF Indices** Last Month **0.89**

**Average Investable HF Indices** Last Month **1.25**

<b>Portfolios of Funds of Hedge Funds</b>	<b>Apr</b>	<b>Mar</b>	<b>YTD</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
PrimFund Diversified (net of fees)	0.21	-0.40	-1.27	-18.19	8.53	9.54	7.78
PrimFund Growth (net of fees)	0.40	-0.22	0.26	-25.08	13.84	13.85	9.38
PrimFund Tactical (net of fees)	0.21	-0.76	-0.97	-6.58	13.05	18.87	14.49
PrimFund Opportunity (net of fees)	0.69	-0.09	0.47	-35.81	10.30	22.12	17.02

Inception of PrimFund Diversified was July 2004, of PrimFund Growth April 2005, of PrimFund Tactical April 2008, 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**
**AIMA details fund of hedge funds best practices**

The AIMA issued what it calls the world's first guide to sound practices for hedge fund-of-funds managers. The Alternative Investment Management Association's 99 page-guide provides advice about everything from starting hedge fund-of-funds companies to performance measurement, operational due diligence and fund governance.

**Funds of hedge funds get USD 85bn in withdrawals post-Madoff**

Investors pulled a record USD 85bn from firms that invest in hedge funds in the first quarter after the disclosure of

Bernard Madoff's USD 65bn fraud, according to data compiled by Hedge Fund Research Inc. The pace of withdrawals from those funds of hedge funds quickened from the prior record of USD 50bn in the last three months of 2008, the Chicago-based research firm said. Assets in the funds dropped to USD 525.6bn, the least since 2006. Investors pulled USD 103bn from hedge funds overall from January through March.

**L.A. Hose & Pistol seeks emerging funds of hedge funds**

While some pension plans are quietly licking their wounds and cursing their funds of funds' losses last year, one West

Coast plan wants more exposure to it. The USD 14bn Los Angeles Fire and Police Commission, which had approximately USD 385.7mn in fund of hedge funds assets

across the three managers at the end of December, is preparing a search for an emerging fund of hedge funds manager.

## Advisors/People News

### **Guinness family firm takes stake in hedge fund group**

The investment office of the Guinness family, which made its fortune in brewing, has taken a stake in 47 Degrees North and will back future fund launches. Under the deal, Iveagh will be a minority shareholder in 47 Degrees North and provide seed capital for new launches, which are set to include emerging managers and innovative hedge fund strategies, the hedge fund firm said in a statement. It did not give the size of the stake.

### **Hong Kong fund of hedge funds names risk head**

Hong Kong fund of hedge funds firm, Sail Advisors, has appointed Miodrag Janjusevic as chief risk officer. He is taking the place of Jeff Nie at the firm. In his new role, he will oversee portfolio and investment risk, operational due diligence and quantitative research. Janjusevic was previously at Deutsche Bank Asia, as director of strategic solutions, managing cross asset risk solutions for hedge funds and institutional clients.

### **Integrated asset management to sell fund of hedge funds business to Sal. Oppenheim**

Hedge fund manager Integrated Asset Management Plc has sold the majority of one of its London fund of hedge funds business to a subsidiary of Sal. Oppenheim Jr & Cie S.C.A, for approximately EUR 3.5mn (USD 4.6mn) in cash and the cancellation of Sal. Oppenheim's entire share interest.

### **Madoff-burned fund of hedge funds to liquidate flagships**

Austin Capital Management told investors that it would "dissolve" the three funds "as quickly as possible." "Given the level of assets under management, we believe it would be difficult to continue to make the appropriate investments in our firm (people, technology, etc.) to ensure its long-term survival and difficult to continue to properly manage the

fund and fulfill our obligation to investors," the firm, based in the Texas capital of the same name, wrote. Austin did not invest directly with Madoff, who pleaded guilty last month to running a USD 65bn Ponzi scheme, but had roughly 7.5% of its assets invested with Madoff feeder Rye Investment Management, which itself has closed its doors in the wake of the scandal.

### **Fairfield Greenwich hands over control of fund of hedge funds to Sciens**

Fairfield Greenwich, which had more investor capital tied up with Bernard Madoff's Ponzi scheme than any other firm, is turning over the bulk of its fund-of-funds business to Sciens Capital. While the exact terms of the transaction are unknown, Sciens will initially advise New York-based Fairfield as it restructures four funds of hedge funds whose combined assets under management have fallen to about USD 2.5bn, from a peak of USD 5bn last year. Assuming investors sign off on the restructuring plan, Sciens would then take over management of the funds, sharing some of the fee revenue with Fairfield.

### **Investor sues UBP over Madoff losses**

Union Bancaire Privée's offer to refund clients half their money lost in the Bernard Madoff scandal has been met with a rude response from one investor: a class-action lawsuit. Andrea Baron, who says she invested in UBP's funds of hedge funds since 2004, sued the Swiss bank in New York, accusing managing director Roman Igolnikov and others of being "grossly negligent" in investing more than USD 800mn with Bernard L. Madoff Investment Securities. "The complaint is without merit and UBP will defend it vigorously," the bank said in a statement.

### **Julius Baer to spin off funds unit, including fund of hedge funds business GAM**

Julius Baer, the Swiss banking group, surprised investors on by saying it would split its private banking and fund management activities into two separate listed companies.

The move was seen as paving the way for the eventual disposal of the group's fund management businesses, concentrated in the well-known GAM fund of hedge funds

business, and leaving the company as a "pure play" private bank.

## Product News

### **Lyxor unveils two funds of hedge funds**

Lyxor Asset Management, Société Générale's wholly-owned subsidiary, has launched two new UCITS III funds aimed at giving a large audience access to the performance and diversification benefits of the Hedge Fund Industry: the Lyxor Hedge Fund Index Fund and the Lyxor Active Edge fund. The Lyxor Hedge Fund Index Fund is designed to mirror the performance of the Lyxor Hedge Fund Index – an investable, asset-weighted index tracking the performance of the Hedge Fund industry. The Lyxor Active Edge fund is an actively managed fund allocating dynamically across strategies.

### **Customised portfolio offered to investors through fund of hedge funds platform**

Fund of hedge fund manager Crystal Capital Partners has launched a service to enable investors to build customized hedge fund portfolios using web-based tools. The company, based in Miami, Florida, is giving investors access to its proprietary portfolio construction and analytical software, known as Crystal Tools. These can be used to evaluate and gain exposure to hedge funds and customize the risk/return profile and liquidity and transparency of the portfolio.

### **Listed funds - return of liquidity lifts listed fund of hedge funds**

Listed funds of hedge funds are once again attracting investor attention as their performance improves while their shares continue to trade at sharp discounts to their net asset value. Their positive returns in the first quarter, superior to those of many equity funds, have even converted one-time sceptics. Recent performance figures suggest hedge funds are stabilising after a torrid 2008 when many were forced to unwind positions, impose lock-ins or even close because of a wave of redemptions and poor returns.

### **Swiss hedge fund manager announces equity buyback and investment program**

Swiss alternative investment company ALTIN AG has said it intends to maintain its share price by buying back between 5% and 10% of its own shares, its Board of Directors has also approved a capital reduction program. ALTIN's hedge fund's management performance was predictably negative (-29.20%) in 2008, yet considerably higher than key stock market indices.

## Academic/Research

### **Aggregate hedge funds flows and returns**

Beltratti, Morana

In the paper a multivariate unobserved components model for returns and net inflows into hedge funds is employed to assess whether the flows of funds into the industry are dynamically related to returns. The econometric model is used to estimate expected flows and expected returns as unobserved components. The results point to strong autocorrelation in both flows and returns and to positive correlation between past returns and future flows, while the

evidence concerning the linkage between past flows and future returns is mixed.

### **Did any 'real' top hedge funds survive the sub-prime crisis?**

Yen, Hsu

Controlling for the data-snooping bias, this study aims to identify all outperformers for periods prior to the outbreak of the sub-prime mortgage crisis and to test if any of these in-sample 'real' top hedge funds survived this credit crunch during the Jul. 2007 to Aug. 2008 (out-of-sample) period.

They apply Fung and Hsieh's seven factor model to retrieve the abnormal returns (or alpha values) of hedge funds of various categories across different sample periods. Using Romano and Wolf's stepwise reality check to control for the data-snooping bias that would otherwise affect our results, they investigate whether 'real' top hedge funds abnormal returns (or alpha values) are persistent across the periods prior to and after the outbreak of the crisis. The monthly returns of 12,996 hedge funds from the HFR hedge fund database backdating to Jan. 1994 are examined and they find that some 'real' outperformers do generate a significantly positive alpha during the crisis, a result robust to the data-snooping bias.

### Jumping the Gates: Using beta-overlay strategies to hedge liquidity constraints

Healy, Lo

In response to the current financial crisis, a number of hedge funds have implemented "gates" on their funds that restrict withdrawals when the sum of redemption requests exceeds a certain percentage of the fund's total assets. To reduce the investor's risk exposures during these periods, the authors propose a futures overlay strategy designed to hedge out or control the common factor exposures of gated assets. By

taking countervailing positions in stock, bond, currency, and commodity exposures, an investor can greatly reduce the systematic risks of their gated assets while still enjoying the benefits of manager-specific alpha. Such overlay strategies can also be used to reposition the betas of an investor's entire portfolio, effectively rebalancing asset-class exposures without having to trade the less liquid underlying assets during periods of market dislocation. To illustrate the costs and benefits of such overlays, they simulate the impact of a simple beta-hedging strategy applied to long/short equity hedge funds in the Lipper/TASS database.

### Investor irrationality and closed-end hedge funds

Dietiker

This study questions the rationality of people investing in HFs. Dietiker uses a sample of London listed closed-end hedge funds to evaluate two criteria that imply irrational behaviour. He finds that the rationality of investors cannot be rejected for the majority of time. However, the results also imply that investors react irrationally when facing the worsening economic conditions in the second half of 2008.

## About Primores

### About Primores

Primores is an independent and research driven advisory firm exclusively dedicated to the fund of hedge funds universe.

Through a unique blend of qualitative and quantitative analysis Primores is able to provide investors with the highest quality investment solutions in the fund of hedge funds world.

As a leading specialist Primores offers:

- Advice regarding single fund of hedge funds investments

- Customized Solution for institutional investors (white label, sub advisory)
- PrimFunds: one stop shop solutions

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