

## Performance Update

Fund of Hedge Funds Indices	Oct	Sep	YTD	2003	2002	2001
EDHEC Fund of Funds Index	0.68%	1.01%	3.04%	11.46%	1.25%	-
HFR FoHF Composite Index	0.78%	0.90%	2.72%	11.59%	1.02%	2.80%
CISDM FoHF Diversified Median	0.60%	0.77%	3.28%	10.04%	0.65%	4.99%
CISDM FoHF Niche Median	0.55%	0.78%	6.14%	10.62%	1.99%	6.75%
InvestHedge Composite <sup>1)</sup>	-	0.69%	2.12%	9.28%	1.99%	5.42%
Altvest Sub-Index: Fund of Funds	0.61%	0.95%	3.18%	11.12%	1.23%	2.28%
Eurekahedge Fund of Funds Index	0.58%	0.62%	2.06%	10.76%	1.76%	4.00%
Barclay/Global HedgeSource FoF Index	0.65%	0.81%	2.65%	10.36%	1.79%	4.45%

1) Updated by the end of the month.

## Industry News

### Hedge funds inflows regain momentum in Q3 according to HFR

Based on the HFRI Fund Weighted Composite Index, which measures equally-weighted performance across 19 distinct fund sectors, the industry saw USD 16.9 billion in net asset inflows in the quarter, a marked improvement over the USD 7.5 billion in inflows seen in the second quarter.

The increase suggests a return to the faster rate of capital flow experienced in the 12-month period ending March 30, 2004, when net inflows averaged USD 21.2 billion per quarter.

As a result of stronger inflows and performance gains, total hedge fund assets under management rose to USD 889.8 billion, up 2.7% from the USD 865.9 billion tallied at the end of Q2. Year-to-date, hedge funds have seen USD 46.6 billion of inflows.

One overriding sector trend that emerges from the Q3 data is the rising popularity of multi-strategy funds such as the Event Driven and the Relative Value Arbitrage category.

### TASS Research shows hedge fund flows surpass USD 100bn for 2004

The hedge fund industry has attracted more than USD 100 billion in net assets for the first three quarters of the year, although the pace of growth slowed from the first half of 2004. According to research compiled by Tremont Capital Management, Inc.'s TASS Research, net flows into hedge funds totaled USD 25.1 billion for the third quarter. This growth comes on the heels of the first and second quarter when hedge funds attracted USD 43.3 billion and USD 38.2 billion, respectively.

For the third quarter of 2004, hedge fund flows continued to favor the Global Macro, Fixed Income Arbitrage and Multi-Strategy categories. The three most popular strategies based on net inflows were Long/Short Equity, Event Driven and Global Macro. The categories accounted for more than half of the quarterly net asset flow and also were the most popular for all of 2003. Convertible Arbitrage is a strategy that experienced net outflows during the quarter owing to lackluster performance.

### Heineken hedge move

The EUR 1.5bn Heineken pension fund is considering increasing its strategic allocation to hedge funds from 5% to 10% over the coming months to diversify its portfolio and decrease dependence on equities. The fund, which also employs a tactical allocation to commodities, made its first foray into hedge funds last year and is currently holding an overweight position in the sector.

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### **Fund of hedge funds may see USD 3bn influx from Japan**

Over half of Japan's 300 biggest pension funds said they will invest in fund of hedge funds next year, according to a recent survey. Each fund is expected to invest at least USD 20-30 million, which could mean over USD 3 billion invested.

Among the large Japanese pension funds that already invest in hedge funds and will continue to do so, include the 100 pension funds under Hitachi Group managed by Hitachi Investment Management; the pension funds for the Japan Travel Bureau and KDDI Corp., and the Government Pension Investment Fund.

### **Art Institute paints a smaller picture for hedge funds in investment landscape**

The board of trustees at the Art Institute of Chicago is ready to put the poor investments of the past behind it but will keep hedge funds as part of a newly restructured asset allocation for its endowment fund. The endowment became the poster child for improved investor due diligence and transparency after it lost most of a USD 22.5 million investment in a single hedge fund investment in 2001.

As a result of its encounter with the alleged fraud in that investment committed by Conrad Seghers and James Dickey, founders of Integral Investment Management LP, Dallas, the Art Institute had cashed out of all of its hedge fund investments by September 2001. Cambridge Associates LLC, Boston, has now picked new managers for the endowment's new hedge fund allocation.

### **CalPERS considers doubling hedge fund bet**

Having ramped up its hedge fund investment total to almost USD 1 billion in recent months, the California Public Employees' Retirement System is now proposing to double its allocation to hedge funds. Through the end of September, the pension system had committed more than USD 925 million to hedge funds. By year-end, hedge fund assets will likely reach USD 1 billion as CalPERS officials scrutinize two additional funds that would be brought into the stable.

The timeline for the plan to move another USD 1 billion into hedge funds, currently laid out as a staff proposal, is unspecified.

## **Advisor/People News**

### **Skandia appoints Liberty Ermitage for USD 100 million account**

Skandia Liv, the life insurance subsidiary of Skandia, has appointed the Liberty Ermitage Group, Jersey, to run its Japanese long/short equity account. The account will be funded gradually up to USD 100 million. Liberty has been represented in the Nordic region by Intervallor AB since September 2001.

### **Hamilton Lane acquires Richcourt**

Hamilton Lane, based outside of Philadelphia, is entering into the world of hedge funds with the acquisition of Richcourt Group, which invests in hedge funds on behalf of wealthy families and institutions. Hamilton Lane has USD 34 billion under management and helps investors including endowments and pension funds channel money into private equity. The deal will bring Hamilton Lane an operation that manages more than USD 1.5 billion in hedge fund assets. Richcourt was previously owned by Citco Group Ltd.

### **Merger creates larger fund of funds business for BNP and Fauchier**

BNP Paribas Asset Management through its joint venture with Fauchier Partners plans to merge with Fauchier in order to grow a fund of funds business.

BNP Paribas said it would acquire a 50% economic interest in Fauchier Partners in consideration for contributing its shares in the BNP Paribas Fauchier Partners and additional cash payments. Fauchier will become one of Europe's largest dedicated managers of funds of hedge funds with USD 3.5 billion in assets. The merger is pending regulatory approval.

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## Product News

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### **Harris Alternatives Stellar Partners to be renamed Aurora Global Opportunities**

Harris Alternatives LLC announce that effective January 1, 2005, Stellar Partners L.P. will be renamed. The fund will be known as Aurora Global Opportunities L.P.

The new name is intended to clarify the fund's investment focus and more closely align the fund with the Aurora brand name, for which Harris Alternatives LLC is best known. Stellar Partners L.P. launched on January 1, 1994. The fund is a multi-strategy, multi-manager fund of hedge funds with a global opportunistic investment philosophy and an absolute return orientation.

### **Discovery Capital launches liquidity fund of hedge funds**

New York-based fund manager Discovery Capital Management rolled out a fund of funds designed to provide investor access to cash. DCM Liquid Reserve Fund launched Nov. 1 at the behest of an unnamed multi-family office in need of offsetting illiquidity in its private equity portfolio.

The goal is cash-like stability, liquidity, low risk and low volatility, as opposed to maximizing return. The target return for the fund is a 300 to 500 basispoints average over Libor.

The fund of hedge funds has 50 underlying managers. DCM Liquid Reserve Fund has a USD 250,000 minimum investment and a 1.5% fee. DCM launched the fund at USD 20 million. Consultant Ibbotson assisted the launch of the fund and will provide asset allocation, manager evaluation, portfolio optimization and risk analysis for DCM.

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## Academic/Research

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### **Investable Hedge Fund Indices: An Assessment and Review**

**Jacobson**

Investable Hedge Fund Indices (IHFI's) have grown in numbers since the first meaningful introduction of these during 2003. While making their presence wide spread through a number of main providers, investors have been left with the task of considering whether or not IHFI's achieve in practice a better if not outright alternative to established Hedge Funds of Funds (HFOF's). What the assessments provided by this report show is that IHFI's are not very different to HFOF's and in many ways HFOF's remain a more viable alternative. Large dispersions are shown to exist for the same types of Hedge Fund Strategies amongst the different IHFI providers. The subscription and redemption costs, notice periods and annual fees make the actual performance which investors can expect to realise from Buy and Hold investing, substantially less than that reported for the underlying indices on which the IHFI's are based. In summary, many practical challenges remain open with investing in IHFI's and will require considerable time and resources to shift the vote towards IHFI's away from HFOF's if at all.

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