

## Performance Update

<b>Fund of Hedge Funds Indices</b>	Oct	Sep	YTD	2005	2004	2003
EDHEC Fund of Funds Index	1.66%	-0.07%	7.33%	6.48%	7.07%	11.46%
HFRI FoHF Composite Index	1.70%	0.04%	6.57%	7.49%	6.86%	11.61%
CISDM Fund of Funds Index	-	0.16%	4.26%	6.47%	7.12%	10.23%
InvestHedge Composite	-	0.10%	3.92%	7.07%	6.15%	9.34%
Altvest Sub-Index: Fund of Funds	1.75%	-0.08%	6.27%	7.68%	7.39%	11.12%
Eurekahedge Fund of Funds Index	1.51%	-0.01%	6.07%	7.70%	6.84%	11.61%
Barclay/Global HedgeSource FoF Index	1.54%	-0.18%	5.82%	6.91%	6.65%	10.44%
<b>Average FoHF Indices</b>	<b>1.63%</b>	<b>-0.01%</b>	<b>5.75%</b>	<b>7.11%</b>	<b>6.87%</b>	<b>10.83%</b>

<b>Investable Hedge Funds Indices</b>	Oct	Sep	YTD	2005	2004	2003
CS/Tremont Investable HF Index	0.93%	-0.12%	6.44%	3.61%	5.31%	11.04%
MSCI Hedge Fund Invest Index	1.48%	0.16%	5.02%	4.68%	3.10%	14.70%
HFRX Global Hedge Fund Index	2.02%	0.50%	5.93%	2.72%	2.69%	13.39%
FTSE Hedge Index	0.84%	0.46%	3.45%	2.60%	3.12%	12.36%
<b>Average Investable HF Indices</b>	<b>1.32%</b>	<b>0.25%</b>	<b>5.21%</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>Fund of Funds of Hedge Funds</b>	Oct	Sep	YTD	2005	2004	2003
PrimFund Diversified (net of fees)	1.28%	-0.22%	5.83%	7.78%	8.39%	13.68%
PrimFund Growth (net of fees)	2.34%	-0.40%	8.11%	9.38%	15.69%	20.75%
PrimFund Opportunity (net of fees)	3.02%	-0.51%	15.66%	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

### Hedge Fund Assets Up to USD 1.34tn, Inflow USD 44.5bn in Q3

**HFR**

Hedge fund assets swelled to USD 1.34tn in the third quarter as investors poured a record USD 44.5bn into the industry, informed data provider Hedge Fund Research Inc. Over half of the new money went to relative value arbitrage, equity hedge and event-driven strategies. It was the largest quarterly gain in assets since Chicago-based HFR started tracking fund flows in 2003 and came despite middling performance from most hedge fund strategies this year.

### Man Investments Unseats UBS as Largest FoHF

**Alpha Magazine**

With a combined USD 550bn in assets, the 50 firms on the list of the world's biggest multi managers demonstrate that the fund of hedge funds business is as healthy as ever. London-based Man Investments unseats UBS to take top honours in Alpha magazine's Fund of Funds 50, the fifth annual ranking of the world's biggest multi manager hedge fund firms. Man Investments' fund capital grew by more than 11 percent to USD 39.8bn in multi manager hedge funds, helping it to overtake the Swiss giant, which sold its USD 18bn Global Asset Management fund of funds business to Julius Baer Group in December 2005. With a more than 44 percent increase in fund capital, Union Bancaire Privée held on to its No. 3 spot maintaining USD 30bn in multi manager hedge funds. Rounding out the top five are Permal Asset Management moving up to No. 4 with USD 26bn in fund capital, a gain of more than 38 percent, and HSBC Private Bank/HSBC Republic Investments with USD 25.2bn in multi manager hedge funds, a gain of nearly 25 percent.

### CalPERS Moves into Direction of Direct Hedge Fund Allocation

The USD 220bn California Public Employees' Retirement System (CalPERS) is considering its first direct investment in international hedge funds. The fund's current international hedge fund exposure is through four international fund of funds (FOF) – Emeritage European FOF, KBC Asian FOF, SPARX FOF, and Vision Asian FOF.

## **Advisor/People News**

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### **Fortis Moves In on Cadogan**

Fortis, the Belgian financial services group, took control of Cadogan Management, a USD 2.1bn New York fund of hedge funds. The two sides did not disclose terms of the deal but said executives at Cadogan would retain a 30 per cent stake in the business, into which Fortis would inject its USD 1.6bn existing fund of hedge funds business.

### **Aberdeen Appoints Head for Expanded Absolute Return Business**

Aberdeen Asset Management, a top-15 UK fund manager with USD 135bn under management, has appointed Andrew McCaffery as its inaugural head of absolute return strategies. Mr. McCaffery joins the fund manager from Attica Alternative Investments, where he was chief executive. The absolute return investment operation will complement Aberdeen's traditional fund management divisions. The move comes as UK institutional investors look increasingly to hedge funds and funds of funds in the development of new investment and business strategies.

### **AltEdge Capital Hires New London Head of Business Development**

AltEdge Capital (UK) Ltd, the hedge fund of funds manager, has appointed Max Williams as their new London head of business development focusing on the UK, Channel Islands and Asia. This appointment will reinforce the activities of Eric De Candia, President of Altedge Capital Management Ltd, who has been focusing on business development.

### **Credit Suisse Hires New Head of Risk Management**

Credit Suisse has appointed Jeffrey Halpern as head of risk management for multi-manager portfolios in its alternative investments division. Halpern was formerly head of risk management at Moore Capital where he developed risk measurement processes to support the introduction of new hedge fund strategies. Before that, he was vice president of AIG Trading Group. At Credit Suisse, Halpern will work with the bank's fund of funds business from its office in New York.

### **K2 Gets New Managing Director, Head of International Group from Citigroup Japan**

K2 Advisors, a USD 5bn fund of hedge funds based in Connecticut, announced that James Rice, who since April 2005 has been managing director and chief auditor, audit and risk review, for Citigroup Japan, will become MD and head of its international group.

### **Head of Lehman Brothers' Global Absolute Return Strategies Business to Leave**

Jolyne Caruso, head of Lehman Brothers' global absolute return strategies business and a member of the firm's management committee, will leave the bank after less than two years in the position. No additional details were available on Caruso's departure.

### **Eden Rock Bolsters Investment Team**

Eden Rock Capital Management added five new hires to the firm, which now employs 21 professionals. New to the investment team are Fabio Morandi and Vanessa Shia. Mr. Morandi comes to the firm from HSBC, Ms. Shia from KPMG. Both bring experience in accounting, financial services consulting and investment research, and will focus on performing due diligence with respect to asset-based lending managers.

### **Former Bank of Ireland head re-emerges at \$4bn UK fund of hedge funds**

The former head of fund management at Bank of Ireland has re-emerged at a \$4bn fund of hedge funds two months after leaving his previous job after a reorganisation. Kevin Dolan, who was chief executive of Bank of Ireland's asset management services division in Dublin for two years until he left in September, will become chief executive early next year of La Fayette Investment Management UK, a London-based fund of hedge funds with \$4.4bn in assets under management. He replaces Jan Pensaert, who has left La Fayette three years after joining from fund of hedge funds Permal Investment Management.

### **Gideon Berger to Head Blackstone Alternative Asset Management's London Office**

Blackstone Alternative Asset Management (BAAM), a fund of hedge funds with approximately USD 15bn dollars under management, announced that Gideon Berger, a Managing Director, will be heading the BAAM office in London effective January 2, 2007. The London office manages client relationships totalling approximately USD 4bn of BAAM's assets.

### **Optimal Lands Risk Expert Soosaipillai**

Sharmila Soosaipillai was recruited to the USD 7.5bn fund of hedge funds operation Optimal Investment Services SA, where she will serve as operational risk manager and focus on due diligence. She will be based in London and report to Rajiv Jaitly, chief risk officer.

## **Product News**

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### **Morgan Stanley Markets New Specialized FoHF**

Morgan Stanley Alternative Investment Partners is beginning to market a new fund of funds focused on distressed-debt funds, turnaround funds and other strategies that benefit from a down market.

### **First FoHF Launched Allocating to Women-Managed Hedge Funds**

Pomegranate Capital, a New York-based FoHF has identified a market inefficiency that exists in the hedge fund industry: many women portfolio managers have generated superior returns with less volatility than their peers, yet many of these managers tend to be managing smaller pools of capital. Utilizing a rigorous investment process that includes both qualitative and quantitative elements, Pomegranate intends to capitalize on this inefficiency by constructing a diversified portfolio of women managers in the US, Europe and Asia to achieve excess returns.

### **Alterama Offers Futures Fund of Funds**

New York-based Alterama Inc will launch Alpha Plus FoHF LP, a multi-strategy, multi-manager managed futures fund, on December 1. The new vehicle will offer 10 non-correlated strategies selected from a pool of more than 60 trading advisors active on AlphaMetrix Investment Advisors LLC's Mosaic Platform.

### **Signet to Launch Hedge Fund of Funds**

Signet Capital Management, the fund of hedge funds provider, is to launch its first closed-ended fund, which will invest in hedge funds that trade debt globally, such as government and corporate debt. The trust, called Signet Global Fixed Income Strategies, will be Guernsey-domiciled and listed on the Dublin Stock Exchange so that it can redistribute gains back to investors in the form of a dividend.

### **AlphaSwiss Group with New Specialized FoHF Focused on Structured Finance**

AlphaSwiss Group launches a fund of hedge funds AlphaSwiss Structured Finance, Segregated Portfolio, a sub-fund of AlphaSwiss BeQuant SPC, a Cayman Islands Segregated Portfolio Company. AlphaSwiss Structured Finance Fund is a specialized fund of hedge funds with a scientific and quantitative approach focusing on risk premiums from investments in structured finance.

### **Finland's eQ Bank to Launch Revamped FoHF**

The fund management arm of Finland's eQ Bank is in the process of launching a new fund of hedge funds via the acquisition of a portfolio from Neomarkka, the Finnish investment manager. No terms for the deal have yet been released.

### **New FoHF to Target Emerging Managers**

Hedge Fund Investment Management has launched its inaugural fund of hedge funds, targeting early-stage managers with the backing of a United Kingdom-based family office. The HFIM Multi-Strategy Fund is to comprise 10 funds of emerging hedge funds and absolute return funds. Each vehicle will provide a different investment approach and have a different return/risk characteristic.

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## Academic/Research

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### **The A,B,Cs of Hedge Funds: Alphas, Betas and Costs**

**Chen, Ibbotson**

In this paper, they focus on two issues. First, they analyze the potential biases in reported hedge fund returns, in particular survivorship bias and backfill bias, and attempt to create an unbiased return sample. Second, they decompose these returns into their three A,B,C components: the value added by hedge funds (alphas), the systematic market exposures (betas), and the hedge fund fees (costs). They analyze the performance of a universe of about 3,500 hedge funds from the TASS database from January 1995 through April 2006. Their results indicate that both survivorship and backfill biases are potentially serious problems. The equally weighted performance of the funds that existed at the end of the sample period had a compound annual return of 16.45% net of fees. Including dead funds reduced this return to 13.62%. Excluding backfill further reduced the return to 8.98%, net of fees. In this last sample, they estimate a pre-fee return of 12.72%, which they split into a fee (3.74%), an alpha (3.04%), and a beta return (5.94%). Overall, even after correcting for data biases, they find that the alphas are significantly positive and are approximately equal to the fees, meaning that excess returns were shared roughly equally between hedge fund managers and their investors.

### **Alternative Routes to Hedge Fund Return Replication**

**Kat**

With average hedge fund performance steadily deteriorating, interest in hedge fund return replication is growing. Currently, there are two competing approaches on offer. Although theoretically straightforward, factor model based replication suffers from a number of serious problems, including a lack of realistic out-of-sample testing so far. The approach may have some merit for funds following straightforward strategies like basic long/short equity for example. In general, however, it fails to convince. Partly thanks to its less ambitious goal and its concentration on the bottom line, the FundCreator approach is substantially more flexible and robust. In out-of-sample tests carried out so far, it performs remarkably well. Until the proponents of the factor model approach manage to successfully overcome their practical challenges, there is no doubt that the FundCreator approach is the preferred way forward.

### **Performance Measure to evaluate Hedge Funds**

**Eling, Schuhmacher**

The Sharpe ratio is adequate for evaluating investment funds when the returns of those funds are normally distributed and the investor intends to place all his risky assets into just one investment fund. Hedge fund returns differ significantly from a normal distribution. For this reason, other performance measures for hedge fund returns have been proposed in both the academic and practice-oriented literature. In conducting an empirical study based on return data of 2,763 hedge funds, they compare the Sharpe ratio with 12 other performance measures. Despite significant deviations of hedge fund returns from a normal distribution, their comparison of the Sharpe ratio to the other performance measures results in virtually identical rank ordering across hedge funds.

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