

Performance Update all data in %

Fund of Hedge Funds Indices	Oct	Sept	YTD	2007	2006	2005	2004
EDHEC Fund of Funds Index	-5.81	-6.18	-16.99	10.07	11.25	6.80	7.07
HFRI FoHF Composite Index	-6.89	-6.44	-18.50	10.25	10.39	7.49	6.86
CISDM Fund of Funds Index	-5.32	-5.89	-15.19	8.68	9.11	6.47	7.12
InvestHedge Composite	-	-5.64	-10.19	8.90	9.12	6.99	6.39
Altvest Sub-Index: Fund of Funds	-6.15	-6.12	-17.37	8.63	10.24	7.68	7.39
Eurekahedge Fund of Funds Index	-5.24	-6.05	-16.41	10.26	10.49	7.97	7.08
HFN Fund of Funds Aggregated Average	-5.28	-6.01	-16.23	9.27	9.60	6.81	6.89
Barclay / Global HedgeSource FoF Index	-5.99	-6.65	-18.15	8.86	9.38	6.91	6.65
Average FoHF Indices	-5.81	-6.12	-17.28	9.37	9.95	7.14	6.93

Investable Hedge Funds Indices	Oct	Sept	YTD	2007	2006	2005	2004
CS/Tremont Investable HF Index	-8.39	-8.70	-20.58	7.42	9.65	3.61	5.31
DJ Hedge Fund Balanced Portfolio Index	-8.47	-4.89	-16.40	7.54	9.94	1.60	-
MSCI Hedge Fund Invest Index	-9.16	-6.84	-21.61	3.61	7.63	4.68	3.10
HFRX Global Hedge Fund Index	-9.26	-6.90	-19.79	4.23	9.26	2.72	2.69
FTSE Hedge Index	-3.01	-4.86	-18.48	0.62	6.28	2.60	3.12
RBC Hedge 250 Index	-5.47	-8.05	-18.70	8.22	10.62	-	-
Average Investable HF Indices	-7.29	-6.71	-19.26	5.27	8.90	3.04	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 **-5.81%**

Average Investable HF Indices Current Month **-7.29%**

Portfolios of Funds of Hedge Funds	Oct	Sept	YTD	2007	2006	2005	2004
PrimFund Diversified (net of fees)	-3.16	-7.71	-12.68	8.53	9.54	7.78	8.39
PrimFund Growth (net of fees)	-5.50	-7.94	-19.75	13.84	13.85	9.38	15.69
PrimFund Tactical (net of fees)	-2.07	-3.55	-5.09	13.05	18.87	14.49	-
PrimFund Opportunity (net of fees)	-7.93	-11.17	-29.40	10.30	22.12	17.02	17.13

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
HedgeFund.net reports assets fell 16% in Q3

HFN estimates total assets in single manager funds fell 16% in Q3 2008 to USD 2.497tn. Performance losses during Q3 accounted for USD 347.5bn of the reduction and investor redemptions and liquidations accounted for an additional USD 128bn outflow. Investor redemptions alone accounted for an estimated USD 117.3bn outflow, by far the largest on record. The fund of funds industry also underwent a contraction in Q3 2008. USD 134.5bn in performance losses, USD 75.7bn of investor redemptions and USD 4.3bn in net liquidations resulted in total FoFs

assets falling 14.9% in Q3 to an estimated USD 1.224tn, the first ever quarterly reduction in FoFs assets on record. HFN has tracked flow data back to Q4 2003.

HFR reports massive outflows in October

Investors withdrew over USD 40bn from hedge funds in the month of October which, in addition to USD 115bn in performance-based asset losses, reduced the industry capital base by USD 155bn. Assets under management in the global hedge fund industry declined to USD 1.56tn at the end of October, a level last seen at the end of Q4 2006.

October losses follow a challenging third quarter during which global hedge fund capital fell by USD 210bn. Investors withdrew capital broadly across equity hedge, event driven, relative value and macro strategies; each of these four main hedge fund strategies has now experienced net investor withdrawals for 2008. In October, investors withdrew almost USD 11bn from macro strategies despite a performance gain of over four percent

year-to-date through the end of the month. The largest capital reductions during the month came from funds of hedge funds, from which investors withdrew over USD 22bn. Funds of hedge funds have underperformed the overall industry so far this year, with the HFRI Fund of Funds Index posting an 18.50 percent decline, compared to a loss of 16 percent for the HFRI Fund Weighted Composite Index.

Advisors/People News

Citadel closes fund of funds

Citadel Alternative Asset Management is closing Fusion, its USD 1bn hedge fund of funds. About 95% of the assets are internal, and that money will be moved to two Citadel seeding and incubation funds, Discovery and Pioneer. The 5% from external investors will be returned.

Kenmar opens in Singapore

American fund of hedge funds Kenmar has opened its first international office in Singapore. Kenmar Asia will be run by Chris McLeod who, before joining the firm, used to run alternative investments for ABN Amro in Hong Kong.

Alan Miller becomes partner at SilverStreet

SilverStreet Capital launched in April 2007, has secured a coup by luring Alan Miller, a high profile former New Star, Jupiter and Gartmore fund manager, back to the investment industry after a two-year absence. Mr. Miller, who launched what was believed to be the first UK equity hedge fund in 1997 while at Jupiter and co-founded New Star as chief investment officer in 2001, has become a partner at SilverStreet. Although he will not run money directly, Mr. Miller will help select managers for its fund of hedge fund offerings, a range Gary Vaughan-Smith, founding partner, intends to expand to cover private equity, infrastructure and property.

Product News

Dow Jones hedge fund indices suspended

Dow Jones Hedge Fund Indexes, Inc., announced that it will temporarily suspend publication of the Dow Jones Hedge Fund Equity Long/Short and Equity Market Neutral Strategy Benchmarks, effective November 3 until further notice. The Dow Jones Hedge Fund Balanced Portfolio Indexes also will be suspended. The decision to halt publication of the benchmarks is the result of the temporary measures taken by the investment manager of the managed account platform that supports the Dow Jones Hedge Fund Strategy Benchmarks and Dow Jones Hedge Fund Balanced Portfolio Indexes to temporarily reduce the risk profiles of some of its managers.

LaFayette limits hedge fund redemptions

LaFayette Investment Management has stopped investors from fully redeeming their holdings in some of its funds of hedge funds, after some of the funds that it has invested in seek to impose their own limitations on investors getting out.

Gottex suspends redemptions

Gottex Fund Management Holdings Limited announced the temporary suspension of redemptions of certain Gottex funds in order to protect value for its fund investors. The temporary suspensions are driven by

market illiquidity, credit tightening and adverse foreign currency movements affecting underlying funds in which Gottex funds are invested and reflect conditions prevailing across the hedge fund industry.

Hedge Fund Capital Management to launch credit opportunities fund of hedge funds

Zurich based HFCM is launching a credit opportunities fund of hedge funds, designed specifically to take advantage of the major dislocations that have taken place in credit markets in recent months. Iain Hamilton is the new Portfolio Manager of the fund.

Ermitage to launch distressed fund of hedge funds in Q1 2009

Ermitage Group is set to launch a new distressed fund of hedge funds early in the first quarter of 2009 to capitalize on a clear opportunity set. The group has already secured USD 50mn in seed capital and has commitments of up to USD 100mn in place for the launch date. It is understood that Daniel Eichner, formerly of Lighthouse Partners, is going to head up the fund.

Academic/Research

Hedge funds and financial stability: Regulating prime brokers will mitigate systemic risks

King, Maier

They review key characteristics of the hedge fund industry, and identify conditions under which this sector can pose a threat to financial stability. Direct regulation of hedge funds that increases transparency does not appear feasible, may create a moral-hazard problem, and may reduce market liquidity. Indirect regulation by prime brokers and market discipline by creditors, counterparties, and investors have been effective in limiting the risks from the hedge fund sector. To reduce systemic risks, more regulation of prime brokers is warranted to avoid competitive dynamics from undermining counterparty risk management practices.

Portfolio optimization of hedge funds in a downside risk framework

Mamoghli, Daboussi

This article examines the portfolio optimization of hedge funds in the downside risk framework in order to take into account the asymmetry of returns and the behavior of investors towards the risk which are not captured by the mean-variance model. By using the Credit Suisse/Tremont Hedge Fund database, the results showed that the downside risk measures have an impact on the composition of optimal portfolios and on the efficient frontier. The results also showed that the mean-variance model overestimates the risk because of the use of the

variance as a risk measure, but the mean-semi variance model of Harlow (1991) underestimates the risk because of the cosemivariances measures used in this model. Likewise, the results obtained proved that the new mean-semi variance model provides a better optimization of hedge funds portfolios because it makes it possible to capture the non-normality of hedge funds strategies and the risk perception of investors which are not taken into account by the mean-variance model and also makes it possible to overcome the problem of inequality of the cosemivariances measures in the mean-semi variance model of Harlow (1991).

Recovering delisting returns of hedge funds

Hodder, Jackwerth, Kolokolova

Numerous hedge funds stop reporting to commercial databases each year. An issue for hedge-fund performance estimation is: what delisting return to attribute to such funds? This would be particularly problematic if delisting returns were typically very different from continuing funds' returns. In this paper, they authors use estimated portfolio holdings for funds of funds with reported returns to back out maximum likelihood estimates for hedge fund delisting returns. The estimated mean delisting return for all exiting funds is small, although statistically significantly different from the average observed returns for all reporting hedge funds. These findings are robust to relaxing several underlying assumptions.

Hedge fund due diligence: A source of alpha in a hedge fund portfolio strategy Brown, Fraser Liang

Due diligence is an important source of alpha in a well designed hedge fund portfolio strategy. It is generally understood that the high returns possible from investing in hedge funds are somewhat offset by the relative lack of transparency on operational issues. The performance of a diversified hedge fund portfolio can be enhanced by excluding those funds likely to do poorly or fail due to operational risk concerns. However, effective due diligence is an expensive concern. This implies that there is a strong competitive advantage to those funds of funds sufficiently large to absorb this fixed and necessary cost. The consequent economies of scale that they document in funds of funds are quite substantial and support the proposition that due diligence is a source of alpha in hedge fund investment.

Hedge Funds, Systemic Risk, and the Financial Crisis of 2007-2008 Andrew W. Lo

This document is the written testimony submitted to the House Oversight Committee for its hearing on hedge funds and the financial crisis, held November 13, 2008, and is not a formal academic research paper, but is intended for a broader audience of policymakers and regulators. Academic readers may be alarmed by the lack of comprehensive citations and literature review, the imprecise and qualitative nature of certain arguments, and the abundance of illustrative examples, analogies, and metaphors. Accordingly, such readers are hereby forewarned-this paper is not research, but is instead a summary of the policy implications that I have drawn from my interpretation of that research.

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