

Performance Update all data in %

Fund of Hedge Funds Indices	Oct	Sep	YTD	2008	2007	2006	2005
EDHEC Fund of hedge funds Index	-0.05	1.71	9.22	-19.73	10.07	11.25	6.80
HFRI FoHF Composite Index	-0.08	1.73	9.75	-21.37	10.25	10.39	7.49
CISDM Fund of hedge funds Index		1.58	8.59	-17.04	8.68	9.11	6.47
InvestHedge Composite	-0.14	1.48	7.62	-16.63	8.90	9.12	6.99
Eurekahedge Fund of hedge funds Index		1.55	8.27	-19.50	10.36	10.48	7.97
HFN Fund of hedge funds Aggregated Average	-0.34	1.66	8.02	-20.01	9.27	9.60	6.81
Barclay / Global HedgeSource Fund of hedge funds Index	-0.10	1.71	8.69	-22.18	8.86	9.38	6.91
Hedgegate Swiss FoHF Index USD		1.71	7.36	-19.85	10.98	9.82	8.11
Average FoHF Indices	-0.14	1.64	8.66	-19.54	9.67	9.89	7.19

Investable Hedge Funds Indices	Oct	Sep	YTD	2008	2007	2006	2005
CS/Tremont Investable HF Index	-0.49	1.90	7.16	-26.31	7.42	9.65	3.61
HFRX Global Hedge Fund Index	-0.06	2.22	10.93	-23.25	4.23	9.26	2.72
RBC Hedge 250 Index	-0.22	2.25	17.04	-21.21	8.22	10.62	-
Average Investable HF Indices	-0.26	2.12	11.71	-23.59	6.62	9.84	3.17

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

Average FoHF Indices Last Month **-0.14**

Average Investable HF Indices Last Month **-0.26**

Industry News
Hedge fund assets to top USD 2tn, Deutsche says

Hedge fund assets may top the previous USD 2tn high by the end of next year as double-digit average returns lure investors. Hedge fund assets parked with Deutsche Bank have risen recently and global investors plan to allocate new capital next year.

Managed account assets to rise 70 % by 2011

Assets in the hedge fund industry invested through managed accounts will reach USD 790bn by 2011, up from USD 468bn in 2009, according to research by Tabb Group. The survey of 62 US hedge funds also found that 77% cited operations, safety of strategy and liquidity risk as their three top concerns.

Morningstar institutional investors survey

Morningstar reported their survey of institutional investors showed very favorable expectations for the future performance of alternative investments. According to the survey, the future for hedge fund allocations is particularly

bright: More than 60% of institutions and advisors believe that alternatives will be as important or more important than traditional investments over the next five years.

Emerging markets provide leading strategy but many fund of hedge funds still with liquidity issues

Gross exposures remain well below historical levels among funds of hedge funds, says Standard & Poor's Fund Services in its latest update on the sector. "Many fund of hedge funds are still dealing with liquidity issues beyond the recovery in equity and credit markets," said S&P Fund Services lead analyst Randal Goldsmith. "Underlying net market exposures within fund of hedge funds are also below historical levels, but have increased during the third quarter. In general, net exposures have moved up only gradually because hedge fund managers held in fund of hedge funds portfolios have not been convinced on the sustainability of the rally in markets and have preferred to concentrate on alpha generating opportunities."

Advisors/People News

Man, Credit Suisse ink third-party deal

Man Group is offering its managed accounts platform through Credit Suisse. The deal will allow investors to gain from the research and due diligence carried out by Man on the underlying fund managers. Investors will also have access to Credit Suisse's structuring services, allowing them to buy capital protected, leveraged or packaged versions of the funds. Investing through a managed account platform raises fees by 50-100 basis points a year, according to Man.

Liongate Capital Management set up shop in Dubai

Liongate Capital Management has set up shop in Dubai and appointed Fahad Al-Bader to head up the new outpost. Before joining Liongate in 2008, Al-Bader was head of hedge funds at the Kuwait Fund, head of alternative investments at Ryada Capital and an Investment Analyst at KIA (the Kuwait Investment Authority). As part of the Dubai office, Liongate Capital Management has also established an advisory board comprised of seasoned regional investors in hedge funds.

De Candia joins Duet

Duet Group has appointed Eric De Candia chief executive of Duet Alternative Investments, its fund of hedge funds platform. The Duet division has also appointed Karim Khimji as chief investment officer for Europe and Douglas Morse as chief investment officer for the US, with both

reporting to Mr De Candia. Prior to joining Duet Group, Mr De Candia was co-founder, president and principal of AltEdge Capital Management, where he was also a member of the investment committee and head of business development.

Fullerton Fund Management to help Woori set up a fund of hedge funds

Fullerton Fund Management, a fully-owned subsidiary of Temasek Holdings, is planning to help Seoul-based Woori Investment & Securities establish a fund of hedge funds. The fund will be managed by Woori Absolute Partners, while Fullerton Fund Management will provide investment advisory services. The target launch date is early 2010, and both parties are currently discussing the details of the fund - including the fund size - which have not been decided.

Nederlof joins PAAMCO

Pacific Alternative Asset Management Co. has hired Maarten Nederlof as a managing director and head of portfolio solutions. Nederlof was previously a managing director at global co-head of the hedge fund capital group at Deutsche Bank for two years and a managing director and portfolio manager at K2 Advisors for four years before that. He referred a call to a spokesman, who declined to comment beyond confirming Nederlof's hire.

Product News

Bainbridge Partners launches CTA/global macro fund of hedge funds

Bainbridge Partners has launched Aperio Master Multi-Trading to capture opportunities in the CTA/global macro area. The fund opens with approximately USD 20mn subscribed from clients already invested in Bainbridge Partners' other products. The fund targets a 10%-12% annualised volatility and hopes to achieve 15% annualised return. The fund will be dynamically allocated to approximately 10 -15 managers, all falling in various categories of the asset class.

Ivy Asset Management plans UCITS fund of hedge funds

Ivy Asset Management is looking at ways to structure a fund of hedge funds to make it Ucits compliant at the fund level, while allocating to a combination of Ucits-compliant funds and managed accounts in offshore strategies, around 15 in total. Ivy, which manages USD 5.3bn, is a wholly-owned subsidiary of Bank of New York Mellon.

Frey to debut multistrategy fund of hedge funds

Frey Quantitative Strategies will launch its first multistrategy fund of hedge funds in December with USD 350mn. The portfolio will be managed by the firm's London-based qualitative team and Port Jefferson, N.Y.-based quantitative team, said Henrik P. Molin, director of development. The fund's return target is between 10% and 15% with volatility of between 5% and 7.5%. Mr. Molin said the fund will offer full transparency to investors.

Hedge fund vet launches first U.S. 'Green' fund of hedge funds

Bookbinder is the managing member of Bookbinder Capital Management, which he formed over 10 years ago. His firm focuses exclusively on investing in hedge funds and recently rolled out TerraVerde Capital Partners, a fund of hedge funds that invests only in green hedge funds.

Academic/Research

The impact of illiquidity and higher moments of hedge fund returns on their risk-adjusted performance and diversification potential

(L. Cavenaile, A. Coen, G. Hubner)

This paper studies the joint impact of smoothing and fat tails on the risk-return properties of hedge fund strategies. First, we adjust risk and performance measures for illiquidity and the non-Gaussian distribution of hedge funds returns. They use two risk metrics: the Modified Value-at-Risk and a preference-based measure retrieved from the linear-exponential utility function. Second, they revisit the hedge fund diversification effect with these adjustments for illiquidity. Their results report similar fund performance rankings and optimal hedge fund strategy allocations for both adjusted metrics. They also show that the benefits of hedge funds in portfolio diversification are still persistent but tend to weaken after the adjustment for illiquidity.

A comparison of hedge funds and private equity funds - convergence and competition in the alternative asset sector

(Thorsten Stöpel)

Traditionally, private equity and hedge funds have been two distinct alternative investment vehicles. Hedge funds used to invest into highly liquid public securities only, creating wealth by trading and exploiting arbitrage opportunities while private equity funds create wealth by screening private and public companies carefully for long term investments, nursing their portfolio companies over many years with the goal of a successful exit strategy. The shift from their traditional business models is caused by hedge funds seeking new investment alternatives in illiquid assets and private equity firms seeking diversification through liquid

investments. As the lines between private equity and hedge funds are blurring, convergence among these industries takes place. While there is still competition for talented managers, investors and the best deals among the two, convergence is the new direction. Side pockets and in-house hedge funds allow managers to work closer together and share their expertise in the different fields. They also increase efficiencies due to a larger investor or capital base and due to cost

Redefining hedge fund alpha and risk exposures after the financial crisis

(R. Gupta, H. B. Kazemi, E. Szado)

The hedge funds industry has evolved tremendously in recent years. According to the CASAM CISDM Industry Report, assets under management in hedge funds had grown from less than USD 50bn at the end of 1990 to over USD 2.1tn at the end of 2007. However, assets managed by hedge funds have dropped significantly since then to less than USD 1.3tn at the end of June 2009. Since hedge funds have been marketed to investors as risk diversifiers in addition to being return enhancers, the actual "manager skill" or "value added" or "alpha" deserves careful examination at this time. In this article we examine the validity of the concept of "alpha". They use both single factor (Jensen's alpha) and multi-factor models to estimate alpha. They use three different indices with vastly differing construction processes and compositions. Unlike most previous studies, they choose specific factors for each strategy. Their results show that strategy specific factors had greater explanatory power but were insufficient to explain the wide variety of fund exposures. Multi-factor models were an improvement but nevertheless insufficient. They conclude that quantitative

analysis is generally insufficient when it comes to measuring manager skill (alpha). Manager skill or “alpha” should be determined in a qualitative setting as well. Unfortunately, there is no measure that encompasses both quantitative and

qualitative attributes although hedge fund ratings agencies have made some headway in this regard.

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