

Performance Update all data in %

By clicking on the index name you will be able to access a fact sheet containing more detailed information

Fund of Hedge Funds Indices	Oct	Sep	YTD	2009	2008	2007	2006
EDHEC Fund of hedge funds Index	1.52	2.19	3.23	10.67	-19.72	10.07	11.25
HFRI FoHF Composite Index	1.56	2.32	3.59	11.46	-21.37	10.25	10.39
CISDM Fund of hedge funds Index		1.92	2.05	10.34	-17.05	8.68	9.11
InvestHedge Composite	1.48	1.93	3.15	9.21	-17.13	8.84	9.11
Eurekahedge Fund of hedge funds Index	0.59	2.05	2.12	9.78	-19.79	10.36	10.48
HFN Fund of hedge funds Aggregated Average	1.60	2.11	3.08	9.56	-19.97	9.27	9.60
Barclay / Global HedgeSource Fund of hedge funds Index	1.41	2.16	2.74	10.24	-22.18	8.86	9.38
Hedgagate Swiss FoHF Index USD		2.49	1.08	8.61	-19.84	10.99	9.81
UCITS Alternative Index Fund of Funds	0.71	-0.31	-0.79	1.65	-12.01	-	-
Greenwich Global Fund of hedge funds Index	1.89	2.50	3.66	12.17	-21.77	9.58	9.50
Average FoHF Indices	1.35	1.94	2.39	9.37	-19.08	9.66	9.85

Investable Hedge Funds Indices	Oct	Sep	YTD	2009	2008	2007	2006
CS/Tremont Blue Chip Index	1.94	3.48	13.47	17.38	-26.31	7.42	9.65
HFRX Global Hedge Fund Index	1.12	1.72	3.05	13.40	-23.25	4.23	9.26
RBC Hedge 250 Index	1.35	2.21	3.94	19.25	-21.21	8.22	10.62
Greenwich Investable Strategy Indices	1.21	1.43	1.67	4.28	-18.06	3.20	10.71
Average Investable HF Indices	1.41	2.21	5.53	13.58	-22.21	5.77	10.06

Replication Indices	Oct	Sep	YTD	2009	2008	2007	2006
Hedge Fund Replication Index	0.80	2.20	3.15	9.06	-13.80	8.10	13.30

Average FoHF Indices Last Month 1.35
Average Investable HF Indices Last Month 1.41
Industry News
A third of institutions to up hedge funds in 2011

Over a third of institutional investors are planning to increase the amount they invest in hedge funds over the course of 2011, according to a survey conducted by research firm Prequin. According to the report, 35.3% of respondents are looking to raise their level of investments in the sector, compared to 10.2% who expect to decrease their allocations and 54.4% who are planning to keep their investments at the same level. The survey also revealed that global macro strategies are viewed as presenting the best investment opportunities for 2011, with 72% of investors believing that it offers the best potential for next year, compared to 60% for distressed strategies and 36% for credit. Direct investments emerged as the preferred fund structure, with 71.6% of

respondents investing this way, compared to 62.4% in funds of hedge funds. Only 11.6% currently invest in Ucits funds, while a mere 1.1% allocate to listed hedge funds.

Swiss Corporate pension fund takes on fund of hedge fund managers

The CHF 100mn Personalvorsorgestiftung Cargologic has invested in funds of hedge funds with Fisch Asset Management, Goldman Sachs Asset Management and Stockholm-based RPM Risk & Portfolio Management this year. Head of Pension Fund Claudio Corti told mandate-tracking service MandateWire that the fund adjusted its strategy at the end of last year, with hedge fund implementations taking place until early this year. The scheme reinvested in hedge funds through RPM's Odin fund,

as well as with GSAM and Fisch, having divested completely from other undisclosed funds of hedge funds in 2008.

U.K. pension cuts Madoff-scarred firm, doubles IAM investment

A British pension fund has decided to double its investment with fund of hedge funds International Asset Management. The Dorset County Pension Fund has redeemed its investment with Pioneer Alternative Investments and will

put the money with IAM. Prior to the move, IAM, Pioneer and Gottex Fund Management each managed an equal share of the GBP 1.4bn pension's 6% hedge fund allocation, or about USD 25mn each. "We decided to redeem from Pioneer last year due to the hedge fund's exposure to Bernard Madoff," Nick Buckland, the Dorset County Council's investment officer, said.

Advisors/People News

Gottex enjoys rare net inflow launches new fee structure

Gottex Fund Management said its fee-earning assets grew 7% over the last three months to USD 7.8bn. The growth was attributed to the firm's new separately-managed accounts program, which more than doubled in size between July and September. The unit, Gottex Solutions Services, now manages USD 1bn. By contrast, Gottex's fund management business saw a further 1% drop in assets to USD 6.75bn, attributable to redemptions in the face of strong investment performance.

SYZ unites Asset Management Groups

Switzerland's SYZ & Co. has merged its alternative investments and traditional institutional asset management divisions into a single overarching money management arm. The newly-created SYZ Asset Management will oversee all of the bank's funds, including those run by its 3A fund of hedge funds unit. The new division features exclusive research, analysis, portfolio and risk management, marketing and operations features, allowing the firm to simultaneously market all of its asset management wares to its pension fund, insurance company and corporate clients, among others.

Man Group to cut up to 200 jobs

Man Group plans to eliminate as many as 200 staff positions and consultants over the next six months as part of deeper-than-expected cuts following its acquisition of GLG Partners this month, a person familiar with the matter said. The planned cutbacks, which would be among the largest at a major hedge fund firm in recent history, will primarily come from layoffs, though some reductions will come via attrition and not renewing consultants, the person said. The size of

the reduction is several times as much as Man projected when it announced the deal in May. The combined firm currently has about 1,800 employees.

Dutch pension manager, Lyxor unveil transparent, SRI hedge fund platform

Dutch pension fund manager PGGM has launched a socially-responsible hedge fund platform, to which it will direct all of its former fund of hedge funds investments. PGGM has partners with Lyxor Asset Management on the platform, which will have between 20 and 60 managers initially. Lyxor will handle operations, technology and infrastructure. The pension fund will invest in segregated managed accounts on the platform, which PGGM said would be "exclusive and private" for its clients. The pension manager said it would stop making allocation to funds of hedge funds. PGGM said it would take about six months from when the platform goes live to switch out of funds of funds.

FRM agrees USD 50m seed capital for US start-up

FRM Capital Advisors, the seeding arm of fund of hedge funds firm Financial Risk Management, will invest up to USD 50m in Sensato Capital Management, a San Francisco-based manager run by the former co-heads of active equity strategies at Barclays Global Investors. The deal, which will boost Sensato's assets to USD 70m, is the latest example of seed investors taking an active role in a tough fundraising environment.

UBP backs off New York, fund of hedge funds business

Union Bancaire Privée is cutting back on its New York office—home to its alternative investments headquarters.

The Swiss private bank said it was refocusing its attention on Europe and Asia "to have more employees nearer our clients," UBP Asset Management marketing chief Emmy Labovitch told Financial News. As a result, "UBP is going to reduce its headcount in New York in favor of Europe and Asia." New York will remain the center of UBP's fund of hedge funds operations, which lost some USD 700mn in the Bernard Madoff Ponzi scheme. Since then, it has seen its fund of funds assets fall from USD 43bn to just USD 16bn.

Pictet says funds of hedge funds 'aren't dead' after net inflows this year

Pictet & Cie., Switzerland's biggest closely held private bank, said net inflows of USD 340mn into its funds of hedge funds business this year show the asset class still appeals to investors. "Funds of funds aren't dead at Pictet," Nicolas Campiche, head of the bank's alternative investments unit, said in an interview in London. "We live and die by performance and risk so the interests of the manager and client are aligned."

Zurich's Octane to move to London

Octane Holdings, which was acquired from its management last year by South Africa's Sanlam, will pick up sticks from Zürich and head to the British capital. While few, if any, hedge fund firms have outright relocated from London to Switzerland, several have opened offices in the country to allow their employees to escape higher British taxes, among them Brevan Howard Asset Management, BlueCrest Capital Management and Moore Capital Management. What's more, several high-profile hedge fund managers, including Moore's Philippe Blochet, a co-founder of Brevan Howard, have made plans to move to Switzerland.

Man research head Castán to LGT Capital Partners

The Man Group has lost its hedge fund research chief to fund of hedge funds shop LGT Capital Partners. Jaime Castán has joined LGT as co-head of the hedge fund investment management team, a new post at the Swiss firm. He will oversee the firm's research competence centers from his new base in Pfäffikon, Switzerland. At Man, Castán was head of hedge fund research and chairman of Man Investments' manager board.

Fund firm FIM sees clients flee after Madoff fraud

London-based fund manager FIM, facing legal action from investors who lost money in Bernard Madoff's USD 65bn fraud, has seen its assets slump after clients exited in the

wake of the scandal, accounts showed. FIM was consultant to Kingate funds, feeder funds that gathered money to invest with U.S. financier Madoff who is now serving a 150-year jail sentence for a fraud revealed in December 2008. According to 2009 company accounts filed this month, investors last year withdrew more than two thirds of the assets from funds of funds portfolios run by FIM Advisers. This knocked the group's assets to USD 652mn at the end of last year from USD 2bn at end-2008, although current assets were likely to be even lower after two of its funds were liquidated this year.

Culross Global Management opens Swiss outpost

A USD 600mn London-based fund of hedge funds manager has opened an office in Switzerland, joining a small but growing number of firms to establish a presence in the country. Culross Global Management, which employs 11 people, has opened an office in Zug to be closer to its clients. Culross plans to add some staff in Zug and may move some over from its London office in due course. This year has seen a number of managers open office in Switzerland.

GAM fails to plug fund of hedge funds leak

Swiss asset manager GAM continued to suffer outflows from its fund of funds business in the third quarter on the back of reduced appetite from private clients, bucking the trend of money returning to the wider fund of funds industry. GAM said in an interim management statement for the three months to September 30: "Funds of hedge funds and managed portfolios continued to experience net outflows, mainly from the third-party private client segment, driven in part by a shift in client preferences towards single manager and onshore products." A spokeswoman for GAM Holding said that healthy institutional demand for fund of hedge funds was not enough to compensate for lower interest from private investors and their advisers, and attrition from former private bank distribution partners UBS and Julius Baer, although these negative effects have slowed in 2010.

Ermitage leases proprietary portfolio management system to CaIPERS

Ermitage Group is licensing its advanced portfolio management solution to CaIPERS in what is the first deal of its kind in the hedge fund industry. The proprietary system, known as Optics, was developed over four years by Ermitage, and is used for constructing portfolios to client-specified risk-return objectives. The system allows users to create customised investment portfolios designed to meet specific requirements based on risk, return and other preferences

taking into account additional elements such as geographical and sector exposures, liquidity and transparency. CalPERS will be applying Optics to its risk-managed absolute return strategies programme and global equity programme.

Fund of hedge funds specialist IAM adds to New York team

Fund of hedge fund specialist International Asset Management is adding to its New York-based team. The firm has appointed Jon Pollowitz as an investment analyst and Stephen Bienashski as a junior investment analyst. Pollowitz joins from Cadogan Management where he spent three years as a senior research analyst. Prior to that, he was an equity research associate at Bear Stearns. Before joining IAM, Bienashski held roles at Regions Financial Corporation and

Merrill Lynch. These two appointments follow the recent addition of Nan Mead as vice president of client development to the New York team.

Hedge fund fraud: Stanford Beaten in jail

The Texas financier who is being held without bail awaiting trial on charges of an USD 8bn fraud scheme, was reported to have been beaten up in prison for talking on the phone. Stanford was connected to a fund of hedge funds run by two members of U.S. Vice President Joe Biden's family, Paradigm Global Advisors. The FBI raided three of Stanford's offices in Houston, Memphis, and Tupelo, Mississippi. On February 27, 2009, the SEC amended its complaint to describe the alleged fraud as a "massive Ponzi scheme". He was arrested by the FBI on June 18, 2009.

Product News

AIFAM starts fund of hedge funds, targets USD 150mn from Japan Pension

AIFAM Inc. started a fund of hedge funds that invests in managers who use a long-short equity strategy, as it aims to raise money from Japanese pension funds. The AIFAM Hedged Equity Fund started this month with USD 17mn of internal capital and is expected to increase assets to about USD 50mn by the end of March through allocations from Japanese pension funds, said Takuma Aoyama, chief investment officer of AIFAM, which is 24.9% owned by Tokio Marine Holdings Inc. The fund, which will have a maximum capacity of about USD 1bn, will aim to raise about USD 150mn in the first year, he said.

Erste Group plans its first UCITS fund launch

Austria's Erste Group Bank plans to launch the firm's first UCITS alternative investment offering, a global multi-strategy fund of hedge funds, in the early part of next year. The bank is planning to launch the new fund, ESPA Alternative Diversified Fund, in January with EUR 50mn in proprietary capital. Further day-one commitments are expected, mostly from local investors. The fund, which will be domiciled in Austria, and managed by the Alternative Investments Group led by Mark Cachia, aims to launch with between 15-20 underlying managers.

Academic/Research

Capitalizing on Capital Hill: Informed trading by hedge fund managers

Huang, Gao

In this paper, they examine the hypothesis that hedge fund managers obtain an informational advantage in securities trading through their connections with lobbyists. Using datasets on hedge fund long-equity holdings and lobbying expenses from 1999 to 2008, they show that hedge funds that are connected to lobbyists tend to trade more heavily in

politically sensitive stocks than those that do not. They further show that connected hedge funds perform significantly better on their holdings of politically sensitive stocks. Using a difference-in-differences approach, they find that connected hedge funds, relative to non-connected ones, outperform by 1.6 to 2.5% per month in politically sensitive stocks, relative to non-political stocks. These results suggest that hedge fund managers exploit private information, which can be an important source of their superior performance.

Their study provides evidence for the ongoing debate about regulatory reform governing informed trading based on private political information.

Hedge fund regulation and misreported returns

Cumming, Dai

This paper introduces a cross-country law and finance analysis of the misreporting behaviour in the hedge fund industry in terms of smoothing returns so that a fund consistently generates positive returns. They find strong evidence that international differences in hedge fund regulation are significantly associated with the propensity of fund managers to misreport monthly returns. They find a positive association between wrappers and misreporting, particularly for funds that do not have a lockup provision. Also, they find some evidence that misreporting is less common among funds in jurisdictions with minimum capitalisation requirements and restrictions on the location of key service providers. They assess the robustness of their finds to a number of specifications, including, different specifications of misreporting bin widths, subsets of the data by fund type, as well as specifications controlling for collinearity and selection effects and other robustness checks. They show misreporting significantly affects capital

allocation, and calculate the wealth transfer effects of misreporting and relate this wealth transfer to differences in hedge fund regulation.

Optimal portfolio allocations with hedge funds

Detemple, Rindisbacher, Garcia

This paper analyzes optimal investment decisions, in the presence of non-redundant hedge funds, for investors with constant relative risk aversion. Factor regression models with option-like risk factors and no-arbitrage principles are used to identify and estimate the market price of hedge fund risk, the volatility coefficients of hedge fund returns and the correlation between hedge fund and market returns. Timing ability causes stochastic fluctuations in these return characteristics. Outside investors optimally hold hedge funds for diversification purposes and are motivated to hedge fluctuations in return components caused by timing ability. The paper examines the portfolio structure and behavior and the impact of timing and selection abilities. Incorporating carefully selected hedge fund classes in asset allocation strategies can be a source of economic gains.

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:

- Selection and monitoring of funds of hedge funds to achieve optimal results within your overall portfolio.
- Single recommendation of fund of hedge funds to cover a specific strategy (e.g. commodity) or another specialization.

- Optimize the fee structure of your existing fund of hedge funds investments.
- Develop, document and manage a matrix of funds of hedge funds to provide your clients a range of investment opportunities.

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