Performance Update

Fund of Hedge Funds Indices	Sep	Aug	YTD	2005	2004	2003
EDHEC Fund of Funds Index	0.00%	0.66%	5.65%	6.48%	7.07%	11.46%
HFRI FoHF Composite Index	0.04%	0.75%	4.77%	7.49%	6.86%	11.61%
CISDM Fund of Funds Index	-	0.63%	4.09%	6.47%	7.12%	10.23%
InvestHedge Composite	-	0.51%	3.81%	7.07%	6.15%	9.34%
Altvest Sub-Index: Fund of Funds	-0.04%	0.68%	4.48%	7.68%	7.39%	11.12%
Eurekahedge Fund of Funds Index	0.02%	0.61%	4.50%	7.75%	6.84%	11.57%
Barclay/Global HedgeSource FoF Index	-0.17%	0.62%	4.26%	6.91%	6.65%	10.44%
Average FoHF Indices	-0.03%	0.64%	4.51%	7.12%	6.87%	10.82%

Investable Hedge Funds Indices	Sep	Aug	YTD	2005	2004	2003
CS/Tremont Investable HF Index	-0.19%	0.54%	5.39%	3.61%	5.31%	11.04%
MSCI Hedge Fund Invest Index	0.16%	0.43%	3.49%	4.68%	3.10%	14.70%
HFRX Global Hedge Fund Index	0.50%	0.76%	3.83%	2.72%	2.69%	13.39%
FTSE Hedge Index	0.91%	0.54%	3.91%	2.60%	3.12%	12.36%
Average Investable HF Indices	0.35%	0.57%	4.16%	3.40%	3.56%	12.87%

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

Fund of Funds of Hedge Funds	Sep	Aug	YTD	2005	2004	2003
PrimFund Diversified (net of fees)	-0.23%	0.66%	4.49%	7.78%	8.39%	13.68%
PrimFund Growth (net of fees)	-0.48%	0.79%	5.55%	9.38%	15.69%	20.75%

Inception of PrimFund Diversified was July 2004, of PrimFund Growth April 2005. 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

Europe's Hedge Fund Assets Top USD 400bn **EuroHedge**

Assets of Europe's hedge funds rose by 23 percent in the first half of this year, shrugging off mediocre investment performance in May and June as institutions continued to pour into the sector. The European industry's assets rose to more than USD 400bn at the end of June, up from USD 325bn at the start of the year, and up by 44 percent from June 2005. The biggest hedge fund groups enjoyed the fastest asset growth. The top 25 firms held almost USD 180bn at the end of June, equal to about 44 percent of all European hedge fund assets.

Alaska Pension Board Adopts Allocation to Hedge Fund

The Alaska Permanent Fund Corporation Board of Trustees approved approximately USD 400mn in allocations to two new alternative asset managers. Lehman Brothers Alternative Investment Management LLC and Pacific Alternative Asset Management Co. will each manage USD 200mn in Alaska state pension funds, as part of the board's November 2005 decision to raise the Alaska Permanent Fund's absolute return allocation to 4%.

London IPOs Work Extremely Well, Assets Double Since January to Over USD 5bn

US fund of hedge fund groups are raising permanent capital by listing vehicles in London, as the proposition of getting exposure to hedge funds through liquid shares takes off with wealthy individuals and institutional investors. Closed-end investment companies give investors daily liquidity and the ability to buy or sell shares at any amount. They are floated by asset managers or hedge fund marketers, and the underlying funds are selected by a contracted investment adviser - in most cases, the sponsoring asset manager. Reflecting their growing popularity with well-heeled individuals and institutional investors, assets at the London-listed companies have nearly doubled since the start of 2006, to more than USD 5bn.

CalSTRS Plans 3% Increase in Alternatives Allocation
The California State Teachers' Retirement System will increase allocations to alternative investments by three percentage points, and the real estate portfolio will increase by five percentage points. These changes, accounting for nearly USD 11.5bn of CalSTRS's USD 144 bn portfolio, include shifts of 6% away from fixed-income and 1% each from US equity and cash.

More HF Assets to Come From Institutions **Casey, Quirk & Associates**
A new white paper based on interviews with more than 100 institutions and investment managers estimated that institutional investment in hedge funds will rise 10 percentage points to 40% of assets under management by 2010. They estimated that institutions will allocate more than USD 500bn to hedge funds over the next four years — accounting for half of the new money entering the sector. That is expected to take institutional exposure to hedge funds to around USD 1tn in an industry with total AuM of some USD 2.5tn. The study estimated that institutions currently account for around USD 360bn of the 1.2tn under management.

Advisor/People News

Former RMF Team Creates FoHF
A team of nine former RMF/Man Investment analysts has formed a new fund of funds called 47 Degrees North Capital Management based in New York and Pfaeffikon, Switzerland. It will be backed by Jim Kelly, former co-founder of Moore Capital Management and presently the president and chief operating officer of Third Point Capital. The team, whose partners are Claude Porret, Raphael Blunschi and Bruno Wicki, is ramping up a line of four funds of funds that will reflect the expertise of the managers in seeding and picking emerging managers.

Eldon Mayer Named Chief Investment Officer of MayerCap
MayerCap, LLC, the New York based fund of funds management company, has named Eldon Mayer, the firm’s co-founder, as chief investment officer. Alex Boguslavsky, portfolio manager of the firm’s corporate financing fund, has joined the investment committee along with Mayer and Ron Panzier, a co-founder and chief risk officer.

AIG Global Investment Hires MD for Alternative Investments Europe
AIG Global Investment Group (AIGGIG) has appointed Ion Bogdaneris as managing director of alternative investments Europe. In this position Bogdaneris, who will be located in AIGGIG's London office and report to Robert Thompson, senior managing director and head of global alternative investments based in New York, will oversee a wide range of alternative investment strategies.

Greek Group to Buy 30% Stake in ARIS, Jason Papastavrou`s FoHF
Marfin Financial Group announced that it has reached an agreement through its fully owned subsidiary Marfin Bank to acquire a 30% membership interest of ARIS Capital Management, LLC, with the option of purchasing another 21% of the outstanding membership interest of the company within a 3 year period. Total consideration for the acquisition of the 30% membership was USD 3mn. ARIS Capital Management, founded in December 2003, is an SEC registered investment adviser based in New York City that specializes in managing multi-strategy funds of hedge funds. Total assets under management are approximately USD 140mn.

Olympia Capital Management Continues to Reinforce Research Team
Olympia Capital Management is pleased has appointed Timothy Lee in the role of senior analyst with the firm's research team in New York. Lee joins Olympia with a long experience in the hedge fund industry, having occupied various roles as trader, portfolio manager and analyst at Niederhoffer, Moore Capital, Julius Baer and most recently at Bear Stearns.

Product News

Harcourt has Launched Belmont Asset Based Lending Fund
Harcourt Investment Consulting AG has launched Belmont Asset Based Lending Ltd, Harcourt's first fund of funds fully dedicated to asset based lending strategies. The fund was launched in July 2006 and will allow investors to achieve ultimate diversification benefits and a high level of stability, given the low correlation of the strategy with the equity and fixed income markets.

New Japan Fund of Funds Rolls Out
Wolver Hill Asset Management, based in New York, will roll out its Japan Multi Strategy Fund on October 1, with sub advice coming from Tokyo-based Rogers Investment Advisors. The fund of hedge funds will allocate to 11 Japan-based and two offshore managers of whom five are closed to new investors. Access to the closed managers is the result of relationships developed by RIA's founder Ed Rogers, who headed Deutsche Bank's prime services sales business in Tokyo until May this year.

RMF Completes Collateralised Fund Obligation for Fund of Hedge Funds
RMF Investment Management has completed a EUR 235mn collateralised fund obligation in a bid to offer efficient leveraged access to its Four Seasons fund of hedge funds portfolio. The product type pioneered by the hedge fund firm's parent Man Investments was launched in partnership with French investment bank Ixis and is the first of its kind from RMF. The RMF Four Seasons CFO issued five tranches of debt, and one of equity. The proceeds of this issue were invested in shares of RMF Four Seasons.

Armajaro to Launch Market Neutral FoHF as a Pure Portable Alpha Fund
Armajaro Asset Management announced the launch of the Wentworth Fund. Armajaro has created an innovative method of investing in long short equity hedge fund managers and stripping out the equity market risk. The resultant "synthetic" equity market neutral fund gives investors the benefit from the stock selection skills of selected managers with minimal exposure to the equity market. The Wentworth Fund provides exposure to the equity market neutral strategy.

Pamplona Capital Management Launches Emerging Market Fund of Hedge Funds
Pamplona Capital Management LLP launched an emerging market fund of hedge funds on 1 October 2006. Pamplona FoHF EM Ltd. will target long term returns of between 15% and 20% with a target annualized monthly volatility of below 10%.

Cazenove Launches FoHF via IPO
Cazenove Absolute Equity, part of investment company Cazenove Capital Management, launches a new fund of hedge funds via an IPO aimed at retail and institutional investors.

Thomas H. Lee Plans USD 400mn London IPO for New FoHF
Thomas H. Lee Capital Management LLC, the New York-based money manager run by billionaire Thomas Lee, plans to raise USD 400mn in an initial public offering for a fund that will invest in hedge funds. The fund, Lee Diversified Opportunities Ltd., will sell stock in pounds, dollars and euros and the shares will be listed in London. It aims to invest in at least 45 hedge funds selected by the manager. The fund will be able to borrow as much as 150 percent of its net asset value.

Academic/Research

Funds of Hedge Funds Protect Capital and Outperform **ABN Amro**
According to a new performance analysis by ABN Amro, funds of hedge funds appear to have given investors what they want, namely to preserve their capital, even maintaining a positive performance run in the face of a market correction. While the funds of hedge funds have seen some hardship regarding fund raising, the ABN Amro research suggests that the funds are performing well. The ABN Amro research shows that when the FTSE 100 had its worst month in May, recording a fall of 5% amid

concerns over interest rates and commodity prices, no sterling-hedged fund of hedge funds listed in London underperformed it. Also, funds of hedge funds still show signs of being able to outperform on the upside. During the best month for the FTSE 100 in March, when it gained 3%, four LSE-listed funds of hedge funds beat this.

Hedge Fund Indices for Retail Investors: UCITS Eligible or Not Eligible? Lhabitant
In this paper, he reviews non-investable hedge fund indices, the various steps of their construction and the numerous performance biases that affect their returns. These biases are so important that in his view, the majority of existing hedge fund indices are not representative of the hedge fund universe - at best, they represent a biased sample of funds that have agreed to report to a database or an index provider. The case of the so-called investable hedge fund indices, which are often presented as an alternative to actively managed funds of hedge funds, is not much better. His observations reveal that existing investable indices are less representative of the hedge fund universe and more biased than their non-investable cousins. They are, in essence, funds of hedge funds managed according to arbitrary rules and primarily designed to support high-fee tracking products. As a result of their numerous biases, lack of representativity and/or construction, their view is that existing hedge fund indices do not fulfil the three basic criteria required to become UCITS III eligible - sufficient diversification, ability to serve as an adequate benchmark and appropriate publication. He therefore suggests excluding them from the list of UCITS III eligible assets.

Comparison of Alternative Approaches Giamouridis/Ntoula
This paper compares a number of different approaches for determining the Value at Risk (VaR) and Expected Shortfall (ES) of hedge fund investment strategies. They compute VaR and ES through completely model-free methods, as well as through mean/variance and distribution model-based methods. Among the models considered certain specifications can technically address autocorrelation, asymmetry, fat tails, and time-varying variances which are typical characteristics of hedge fund returns. They find that conditional mean/variance models coupled with appropriate distributional assumptions improve our ability to predict VaR, 1% VaR in particular. They also find that the goodness of ES prediction models is primarily influenced by the distribution model rather than the mean/variance specification.

Hedge Fund Risk Dynamics: Implications for Performance Appraisal Bollen/Whaley
Hedge fund managers have the freedom to shift asset classes, strategies, and leverage in response to changing market conditions and arbitrage opportunities. Consequently, accurate performance appraisal requires a model of hedge fund risk dynamics. The standard measure of performance is the abnormal return defined by a hedge fund's constant exposure to risk factors. They allow the exposures to change within an optimal change point regression. Using a large sample of funds during the period January 1994 through December 2004, they demonstrate that estimates of abnormal returns, and corresponding fund rankings, are highly dependent on correctly identifying changes in exposure to risk factors.

Conditional Return Smoothing in the Hedge Fund Industry Bollen/Pool
They show that if true returns are independently distributed, and a manager fully reports gains but delays reporting losses, then reported returns will feature conditional serial correlation. They use conditional serial correlation as a measure of conditional return smoothing. They estimate conditional serial correlation in a large sample of hedge funds. They find that the probability of observing conditional serial correlation is related to the volatility and magnitude of investor cash flows, consistent with conditional return smoothing in response to the risk of capital flight. They also present evidence that conditional serial correlation is a leading indicator of fraud.