

Performance Update

Fund of Hedge Funds Indices	Sep	Aug	YTD	2006	2005	2004	2003
EDHEC Fund of Funds Index	2.00%	-2.22%	8.02%	11.25%	6.80%	7.07%	11.46%
HFRI FoHF Composite Index	2.12%	-2.17%	8.09%	10.39%	7.49%	6.86%	11.61%
CISDM Fund of Funds Index	-	-1.97%	4.92%	9.11%	6.47%	7.12%	10.23%
InvestHedge Composite	-	-2.18%	4.83%	8.67%	7.07%	6.15%	9.34%
Altvest Sub-Index: Fund of Funds	1.94%	-2.37%	7.08%	10.24%	7.68%	7.39%	11.12%
Eurekahedge Fund of Funds Index	2.15%	-2.27%	8.03%	10.22%	7.87%	7.06%	11.80%
HFN Fund of Funds Aggregate Average	1.97%	-2.28%	7.19%	9.60%	6.81%	6.89%	11.74%
Barclay/Global HedgeSource FoF Index	1.97%	-2.41%	7.13%	9.38%	6.91%	6.65%	10.44%
Average FoHF Indices	2.03%	-2.23%	6.91%	9.86%	7.14%	6.90%	10.97%

Investable Hedge Funds Indices	Sep	Aug	YTD	2006	2005	2004	2003
CS/Tremont Investable HF Index	1.75%	-1.81%	5.41%	9.65%	3.61%	5.31%	11.04%
MSCI Hedge Fund Invest Index	1.69%	-2.25%	3.65%	7.63%	4.68%	3.10%	14.70%
HFRX Global Hedge Fund Index	1.28%	-2.55%	4.02%	9.26%	2.72%	2.69%	13.39%
FTSE Hedge Index	1.43%	-3.56%	2.20%	6.27%	2.60%	3.12%	12.36%
Average Investable HF Indices	1.54%	-2.54%	3.82%	8.20%	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.

Portfolios of Funds of Hedge Funds	Sep	Aug	YTD	2006	2005	2004	2003
PrimFund Diversified (net of fees)	1.11%	-1.30%	7.41%	9.54%	7.78%	8.39%	13.68%
PrimFund Growth (net of fees)	2.36%	-3.75%	11.30%	13.85%	9.38%	15.69%	20.75%
PrimFund Opportunity (net of fees)	2.00%	-3.53%	9.18%	22.12%	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

Global hedge fund assets up 19% in H1 to USD 2.48tn

Assets under management in global hedge funds have reached nearly USD 2.5tn at the mid-year point of 2007 according to new research compiled by HedgeFund Intelligence. The survey, which is based on information from one of the most comprehensive database of the hedge fund industry, follows HedgeFund Intelligence's last Global Review, published in March, which found industry assets had cleared the USD 2tn mark and growing at 30% per annum. The mid-year survey, conducted with well over 5,000 single-manager hedge funds using the same methodology as the original survey, revealed that by July 2007 industry assets had grown further to USD 2.481tn, at an even faster growth rate of over 19% during the first half of the year. The survey's other findings included: new asset gathering driving asset growth; the bulk of assets remain in the hands of the 'Billion Dollar Club' – with the top 372 firms, each managing more than USD 1bn in hedge fund assets – collectively managing USD 1.892tn, or three quarters of the industry's total assets; US dominance strengthened; New York most popular city; Europe assets up 17%; Asia up 13%; Japan see outflows and about half of industry assets still allocated via funds of funds.

Funds of hedge funds see opportunities in special situations, fixed income, global macro

Market turbulence has created windows of opportunity for managers of funds of hedge funds eager to scavenge profits from ongoing volatility even while they are wary of an economic downturn, a Reuters poll showed. The quarterly survey of 12 such managers in the U.S. and Europe showed that six still see event-driven strategies as delivering the best returns in the final three months of the year, and first quarter of 2008. The same strategy, which aims to take advantage of companies involved in takeovers, mergers or bankruptcies, was favoured in the last poll. Yet the survey of managers, who together control USD 141bn in assets, highlighted a shift away from pure takeover activity, seen as one of the main drivers of profits in July's poll. That has coincided with a sharp drop-off in mergers and

acquisitions activity since the global credit crunch took hold in August and brought money markets nearly to a standstill. Special situations, such as company restructurings, as well as more defensive strategies such as fixed income and global macro economic managers are coming increasingly into focus.

Advisor/People News

Gottex Fund Management says plans Swiss IPO, wins UK pension mandate

Gottex Fund Management plans to float its shares on the Swiss stock exchange in an Initial Public Offering. The group did not give any further financial details, and did not say when it planned the IPO to happen. Gottex had appointed Morgan Stanley as global coordinator and Goldman Sachs, Morgan Stanley and Credit Suisse as joint bookrunners.

Lancashire County Council pension fund has hired Gottex to manage a GBP 100mn fund of hedge funds. This is the GBP 3.47bn local authority pension fund's first foray into the fund of hedge fund space, having tendered in June 2006 with the support of Mercer Investment Consulting. According to the tender contract notice issued by the pension fund, 52 firms applied to manage the mandate.

Fund of hedge funds NewMarket sells stake to fixed income shop

Princeton Advisory Group, Inc. announced that it has formed a strategic alliance with NewMarket Capital Partners, LLC, an alternative investment management firm, to offer investors integrated absolute return strategies. Under the agreement, Princeton Advisory Group has acquired a minority interest in NewMarket Capital, and NewMarket Capital will remain an independent firm led by its current management team. Terms of the transaction were not disclosed.

Dr. Francesco Mainolfi has left the Richcourt Group

Dr. Francesco Mainolfi has left his post as CIO and co-CEO of Hamilton Lane's Richcourt Group and is in the process of launching a new venture with a new team. Mainolfi previously headed up the World Bank's hedge fund program, he joined Richcourt in April 2005. The Richcourt Group has nearly 20 hedge fund professionals with offices in New York, Paris and Monaco. Hamilton Lane acquired a controlling stake in The Richcourt Group in November 2004.

HSBC fund of hedge funds unit has new head

Nigel Webber was appointed CEO of HSBC Alternative Investments, the investment bank's fund of hedge funds division, which has about USD 5.9bn in assets under management. Mr. Webber will also retain his current role as CIO of HSBC Private Bank. He replaced Barbara Rufp Bee, who was named global head of institutional sales at HSBC Investments, a new position.

Morgan Creek fund of hedge funds opens Beijing office on global expansion

Morgan Creek Capital Management, a fund of hedge funds, has opened a Beijing office to oversee its investments in the region as it embarks on a global expansion. Jason Zhang, who previously worked for Stanford Management Company, which manages Stanford University's financial and real estate assets, was appointed to head up the office and will be in charge of investments in the region.

Integrated Asset purchases majority of Altigefi to expand in France

London-based Integrated Asset Management PLC said it bought a majority stake in fellow fund of hedge funds group Altigefi, a signal that consolidation in the industry is starting to intensify. Altigefi, based in Paris, has USD 1bn under management and brings Integrated's funds under management to USD 2.5bn. Integrated, which owned a 9% stake in Altigefi, bought an additional 40% stake in the fund from Altigefi's co-founders, Bruno Lescoat and P.E. Coiffard. It has an agreement to buy an additional 2% from Altigefi owner Financière Atlas, the French subsidiary of German private bank Sal. Oppenheim Jr. & Cie., once the deal is approved by French regulators. Integrated will pay about EUR 8mn, or about USD 11mn, in cash and some shares, with an additional sum of about EUR 0.75mn if assets grow beyond a particular level.

Product News

Abbey Capital launches Abbey Capital Macro Fund

Domiciled in Malta, the Abbey Capital Macro Fund will offer access to a group of Global Macro managers with low historic correlations offering diversification across market sectors, time frames and trading styles. The Abbey Capital Macro Fund will invest with managers trading financial and commodity markets. The addition of the Abbey Capital Macro Fund to the company's range of managed futures and foreign exchange funds will provide clients with access to a wide range of fund vehicles using Abbey Capital's institutional due diligence approach to manager selection, risk management and portfolio construction.

Geneva Partners launched Global Activist Fund

Geneva Partners has launched a fund of hedge funds called Global Activist Fund, with USD 50mn in assets. Three-fourths of its portfolio will be allocated to high-profile activist hedge funds, such as Pershing Square and Third Point.

Academic/Research

Do hedge fund managers misreport returns?

Pool and Bollen

They find a significant discontinuity in the pooled distribution of reported hedge fund returns: the number of small gains far exceeds the number of small losses. The discontinuity is present in live funds, defunct funds, and funds of all ages, suggesting that it is not caused by database biases. The discontinuity is absent in the three months culminating in an audit, funds that invest in liquid assets, and hedge fund risk factors, suggesting that it is generated neither by the skill of managers to avoid losses nor by nonlinearities in hedge fund asset returns. A remaining explanation is that hedge fund managers avoid reporting losses to attract and retain investors.

Hedge Funds: Ability persistence and style bias

Navone, Belleri

In this paper they analyze the persistence of the ability of hedge fund managers. Using a database of 3627 hedge funds from 1994 to 2004 they demonstrate that the ability does not persist for top performers once the strategy of the fund is correctly assessed. In order to do this they define as manager ability the difference between fund return and the return of a portfolio of hedge fund indices whose weights have been estimated minimizing the tracking error over the last 36 months. Their results are different from other contributions that measure the ability of the fund manager on the base of the investment strategy declared by the hedge fund. Using a consistent subsample of their data they demonstrate that this result is driven by a "style bias" that they define as the fact that the strategy of the fund is consistently different from the stated one.

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 in 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.

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