Funds of Hedge Funds Review

23rd October 2008

Performance Update all data in %

Fund of Hedge Funds Indices	Sept	August	YTD	2007	2006	2005	2004
EDHEC Fund of Funds Index	-5.67	-1.56	-11.40	10.07	11.25	6.80	7.07
HFRI FoHF Composite Index	-5.76	-1.47	-11.82	10.25	10.39	7.49	6.86
CISDM Fund of Funds Index	-	-1.27	-4.82	8.68	9.11	6.47	7.12
InvestHedge Composite	-	-1.33	-4.83	8.90	9.12	6.99	6.39
Altvest Sub-Index: Fund of Funds	-5.69	-1.69	-11.56	8.63	10.24	7.68	7.39
Eurekahedge Fund of Funds Index	-5.63	-1.59	-11.51	10.26	10.49	7.97	7.08
HFN Fund of Funds Aggregated Average	-5.86	-1.56	-11.43	9.27	9.60	6.81	6.89
Barclay / Global HedgeSource FoF Index	-6.26	-1.62	-12.54	8.86	9.38	6.91	6.65
Average FoHF Indices	**-5.81**	**-1.51**	**-11.71**	**9.37**	**9.95**	**7.14**	**6.93**

Investable Hedge Funds Indices	Sept	August	YTD	2007	2006	2005	2004
CS/Tremont Investable HF Index	-7.80	-1.63	-12.45	7.42	9.65	3.61	5.31
DJ Hedge Fund Balanced Portfolio Index	-4.89	-0.69	-8.66	7.54	9.94	1.60	-
MSCI Hedge Fund Invest Index	-6.82	-1.35	-13.70	3.61	7.63	4.68	3.10
HFRX Global Hedge Fund Index	-6.90	-1.28	-11.61	4.23	9.26	2.72	2.69
FTSE Hedge Index	-4.86	-1.78	-15.95	0.62	6.28	2.60	3.12
Average Investable HF Indices	**-6.25**	**-1.35**	**-12.47**	**4.68**	**8.55**	**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 **-6.25%**

Portfolios of Funds of Hedge Funds	Sept	August	YTD	2007	2006	2005	2004
PrimFund Diversified (net of fees)	-6.72	-1.08	-8.86	8.53	9.54	7.78	8.39
PrimFund Growth (net of fees)	-7.65	-2.49	-14.82	13.84	13.85	9.38	15.69
PrimFund Tactical (net of fees)	-3.43	-1.76	-2.96	13.05	18.87	14.49	-
PrimFund Opportunity (net of fees)	-9.98	-2.28	-22.29	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

Hedge funds assets off USD 210bn in third quarter

Hedge funds saw a record USD 210bn drop in assets under management during the third quarter as investors redeemed an unprecedented amount of money from the industry after poor performance, according to a survey released from Hedge Fund Research. Hedge funds oversaw USD 1.72tn at the end of September, down from USD 1.93tn at the end of the second quarter. That's the largest quarterly decline on record. Net capital redemptions totaled USD 31bn in the quarter, also a record. Withdrawals came during a period of dismal performance for the funds. Hedge Fund Research's main index lost nearly 8.9% in the third quarter, leaving it down more than 10% so far this year. Funds of hedge funds, which invest in a range of outside managers, also saw assets under management fall by USD 78bn as investors withdrew USD 13.3bn in the third quarter.

Fitch increases fund of hedge funds coverage

The rating agency reports that it is stepping up its surveillance of fund of hedge fund managers and the

Primores AG
CH-8001 Zürich
Niederdorfstrasse 88
www.primores.com
T +41 43 497 24 70
info@primores.ch
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changing liquidity profiles of their funds “in light of increased redemption activity in the fund of hedge funds industry, expectations for continued outflows and the magnified challenge of liquidity management for fund of hedge fund managers.” Fitch explains that fund of hedge funds liquidity risk stems from the fact that investors in these products generally benefit from more frequent and flexible subscription/redemption opportunities than those typically offered to the fund of hedge funds itself for investment in the underlying hedge funds. If this risk is not closely managed, it could result in the manager penalizing the interests of remaining investors or even being unable to meet redemption requirements. Also, under liquidity stress, a fund of hedge funds that must sell some of its underlying funds to maintain liquidity may face redemption penalty fees, which could harm the fund of hedge funds risk profile, strategy allocation, diversification and, performance.

Advisors/People News

Ferro Capital closes Zurich office

Ferro Capital, the fund of hedge funds and wealth management firm run by a group of Commerzbank veterans, has closed its Zurich satellite office after roughly two years. Rainer Lang, who manned the office since it opened in June 2006, left the firm in August.

Product News

Gottex closes ABL fund of hedge funds due to exposure to Petters Co.

Gottex Fund Management Holdings has decided to unwind its ABL fund of funds (GVA ABL Portfolio Limited). The fund’s performance went negative due to the prolonging credit crisis as well as exposure to U.S. broker Petters Company, Inc. Gottex learned late last week of allegations of fraud at Petters Company, Inc,.

Fund of distressed hedge funds makes its debut

The vultures are circling hedge fund investors, in the form of an innovative new fund of hedge funds. Permal Investment Management Services has launched a fund of funds to buy hedge fund investments at a steep discount from other funds of funds forced to sell. The fund, which has been buying about one investment per month from various sellers, can generally buy the investments at a 25% to 30% discount to their market value, but the ongoing market disaster is playing right into its hand.

Blackpool Capital launched multi-strategy fund of hedge funds

Blackpool Capital Management has launched a multi-strategy fund of funds to provide investors with “extreme consistency with no market correlation.” The Blackpool Absolute Return Fund debuted in May and has returned 3.79% through August.

Van Biema Value Partners launches Asia Value Fund to outside investors

Van Biema Value Partners, LLC announced the official launch of van Biema Asia Value Fund, Ltd., domiciled in the Cayman Islands. The Fund commenced operations on August 1, 2008, having received an initial commitment of approximately USD 215mn from one of our large existing institutional clients. The objective of the van Biema Asia Value Fund, Ltd. is to provide investors with a diversified portfolio of small, high quality Pan-Asian Value managers.

Primores AG
CH-8001 Zürich
Niederdorfstrasse 88
www.primores.com
T +41 43 497 24 70
info@primores.ch
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Star hedge managers launch a closed-end fund of Canadian hedge funds

This fund invests in the hedge funds or portfolios run by Eric Sprott of Sprott Asset Management Inc., Rohit Sehgal of Dynamic Mutual Funds Ltd. and Normand Lamarche of Front Street Capital. Star Hedge Managers raised USD 75mn through an initial public offering of USD 10 a unit. It had targeted raising USD 500mn

GAM is planning a distressed fund

GAM, the hedge fund firm owned by Julius Baer AG, is preparing to launch a distressed debt fund of funds after watching asset prices reach extreme levels.

Swiss-Asia launches multi-strategy fund of hedge funds

Singapore-based Swiss-Asia Financial Services has launched a third fund to invest in Asia. The firm in July debuted the Swiss-Asia Jubali Khan Fund, a multi-strategy fund of funds, which invests in Asian hedge funds with minimal directional exposures. Swiss-Asia currently manages the Swiss-Asia Genghis Hedge Fund, which runs a diversified portfolio consisting of between 20 to 30 positions in Asia Pacific Basin ex-Japan hedge funds.

Academic/Research

The impact of hedge fund family membership on performance and market share

Nicole M. Boyson

They study the impact that hedge fund family membership has on performance and market share. Hedge funds from small fund families outperform those from large families by a statistically significant 4.4% per year on a risk-adjusted basis. They investigate the possible causes for this outperformance, and find that regardless of family size, fund families that focus on their core competencies have "core competency" funds with superior performance, while the family's non-core competency funds underperform. They next examine the determinants of hedge fund family market share. A family's market share is positively related to the number and diversity of funds offered, and is also positively related to past fund performance. Finally, they examine the determinants of fund family market share at the fund style/strategy level. Families that focus on their core competencies attract positive and significant market share to these core-competency funds. Hence, by starting new funds only in their family's core competencies, fund managers can enjoy increased market share while their investors enjoy good performance.

Performance measurement of hedge funds portfolios in a downside risk framework

Chokri Mamoghli, Sami Daboussi

They showed that traditional performance measures are not adequate for the performance evaluation of hedge funds portfolios because they take into account neither the asymmetry of returns nor the risk perception of investors. In order to overcome this problem, they made recourse to performance measures in the downside risk framework. By using the Credit Suisse/Tremont Hedge Fund database, they showed that Sortino ratio; upside potential ratio and Omega measure make it possible to overcome the drawbacks of Sharpe ratio. The results obtained also showed that the index of Mamoghli and Daboussi is the adequate measure which makes it possible to surmount the drawbacks of Treynor index and Mishra and Rahman index. Likewise, the results proved that alpha of Mamoghli and Daboussi measures more correctly than Jensen alpha and Mishra and Rahman alpha the performance of hedge funds.

Primores AG
CH-8001 Zürich
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T +41 43 497 24 70
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