

Performance Update all data in %

Fund of Hedge Funds Indices	Sep	Aug	YTD	2008	2007	2006	2005
EDHEC Fund of hedge funds Index	1.78	1.24	9.45	-19.73	10.07	11.25	6.80
HFRI FoHF Composite Index	1.69	1.10	9.80	-21.37	10.25	10.39	7.49
CISDM Fund of hedge funds Index	-	1.15	6.90	-17.04	8.68	9.11	6.47
InvestHedge Composite	1.50	1.02	7.79	-16.63	8.90	9.12	6.99
Eurekahedge Fund of hedge funds Index	1.68	0.97	8.43	-19.50	10.36	10.48	7.97
HFN Fund of hedge funds Aggregated Average	1.77	1.06	8.44	-20.01	9.27	9.60	6.81
Barclay / Global HedgeSource Fund of hedge funds Index	1.74	1.15	8.83	-22.18	8.86	9.38	6.91
Average FoHF Indices	1.69	1.10	8.79	-19.49	9.48	9.90	7.06

Investable Hedge Funds Indices	Sep	Aug	YTD	2008	2007	2006	2005
CS/Tremont Investable HF Index	1.35	1.04	7.11	-26.31	7.42	9.65	3.61
HFRX Global Hedge Fund Index	2.22	1.25	11.00	-23.25	4.23	9.26	2.72
RBC Hedge 250 Index	2.21	1.67	17.25	-21.21	8.22	10.62	-
Average Investable HF Indices	1.93	1.32	11.79	-23.59	5.12	8.95	2.98

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

Average FoHF Indices Last Month **1.69**

Average Investable HF Indices Last Month **1.93**

Industry News
Performance, inflows push hedge fund assets near USD 2tn

Hedge funds' strong performance in September pushed total industry assets near USD 2tn, according to HedgeFund.net. The average hedge fund returned roughly 3% last month, netting the industry USD 49.4bn in new assets. That, combined with inflows of USD 7bn, pushed HFN's (consistently high) estimate of global hedge fund assets to USD 1.95tn.

Europe to study impact of proposed hedge fund regulation

European lawmakers have struck upon a novel idea in their consideration of strict new rules governing hedge funds and private equity firms: They'd like to know something about what the proposal would do before they choose to enact it. The European Parliament's economic and monetary affairs committee said it would conduct an impact assessment of the proposed rules, which include stringent new reporting requirements and potential leverage limits. Sharon Bowles,

the chair of the committee, warned that the study would be limited in scope due to a lack of funding.

Fund of hedge fund industry still in reconfiguration despite strong performance

Fitch Ratings says the fund of hedge fund industry is still in reconfiguration despite being on course to register the best annual performance in ten years. Industry consolidation, decreased assets under management and changes in the rankings of fund of hedge funds managers in terms of assets managed remain key topics for the industry and point towards a reshuffling of business propositions and product offerings, according to Fitch's fund of hedge funds quarterly newsletter.

Hedge fund assets seen rebounding

Global hedge fund industry assets could recover by 10 percent or more during the second half of 2009 after a tough first half in which investors continued to pull out their cash. HedgeFund Intelligence (HFI) said there were signs investors were beginning to put money back into hedge

funds, while continued performance gains in the third quarter would also boost asset levels. During the first half of this year total global hedge fund assets fell 8.5% to USD 1.67tn. That came even though funds on average gained 7.2% in performance terms, according to Credit Suisse/Tremont. The data indicates that investors continued to pull their money out of hedge funds in the first half, perhaps in reaction to the industry's worst year of performance on record last year when funds lost close to 20% on average.

Massachusetts state fund drops 4 hedge fund firms

Massachusetts will remove USD 1.6bn from hedge fund managers Blackstone, Crestline, EIM Management, and Strategic Investment Group as it shifts its investment strategy after suffering recent heavy losses. Trustees for the roughly USD 40bn fund voted to pull out of four firms that used portable alpha, a once popular technique employed by pension funds to beat markets that underperformed during the financial crisis.

Advisors/People News

Hedge Fund Cadogan wins independence in management buyout

Cadogan Management will be spun-off from Fortis Bank's asset management arm as part of a management buyout. The USD 3.6bn New York-based hedge will become an independent firm at the close of the transaction, ending its three years under the Fortis umbrella. Fortis is being acquired by French bank BNP Paribas. The buyout deal comes two weeks after Cadogan founder Stuart Leaf and several other top executives resigned after the spin-off talks stalled. Those executives, including chief investment officer Paul Isaac and chief risk officer Michael Waldron, will return to the independent Cadogan.

UBP adds Harvard Chief Risk Officer

A veteran of Harvard University's endowment has joined UBP Asset Management, where he will serve as the fund of hedge funds shop's first chief risk officer of alternative investment. Daniel Kelly has been tapped to oversee all aspects of UBPAM's global risk-management platform, as well as investment-risk management responsibilities, which have been split from the firm's portfolio management team. Kelly spent the last 17 years at Harvard Management Co., where he was chief risk officer for the past four years.

Crestline acquires Northwater fund of hedge funds

Alternative investments firm Crestline Investors is expanding into Canada with its acquisition of most of the assets of Northwater Capital Management. The Fort Worth, Texas-based firm has acquired USD 683mn of Northwater's

client funds of hedge funds. In addition, Crestline will take on another USD 1.5bn in Northwater's beta overlay platform, bringing its total assets under management to about USD 5.8bn. Financial terms of the deal were not disclosed. Crestline will open an office in Northwater's hometown of Toronto, led by former Northwater President Paul Robson, who was named president of Crestline Capital.

Gottex investors will pay 10% on fresh profits but be allowed to claw back fees if strategy falls

Gottex is giving its clients the right to claw back part of the performance fees they have paid, in a move that mirrors the Group of 20 nations' proposals on bonuses for bankers. Investors in the flagship fund of Gottex Fund Management will still pay 10% of any fresh profits from the fund each year. But they will be able to recoup some of that if the USD 4.8bn strategy falls in subsequent years. Gottex has already cut the fixed fee on the fund from 1% to 0.75%.

Westrock taps former UBP pro Michael Pechersky to build fund of hedge funds business

Westrock Group, a financial services company, has hired Michael Pechersky, formerly of Union Bancaire Privee (UBP), to build the firm's fund of hedge funds business. Pechersky, joins as senior portfolio manager for Westrock Alternative Investments, the firm's fund of hedge funds business, and will be in charge of manager selection for the portfolio.

Product News

3A launches UCITS fund of UCITS hedge funds

3A Dynamic UCITS III launched on October 1 and invests exclusively in UCITS-compliant hedge funds, and is itself UCITS-compliant. The fund, which offers bi-monthly liquidity, will invest in between 18 and 25 hedge funds, seeking returns of between 6% and 8% annually. It is available denominated in U.S. dollars, Euros and Swiss francs, and will be marketed exclusively to professional clients.

HSBC has launched HSBC UCITS AdvantEdge fund of hedge funds

The HSBC Alternative Investments managed fund offers weekly liquidity. It will combine a number of core strategies: discretionary macro, equity market neutral, managed futures and equity long/short. Minimum investment in the fund is

EUR 25,000. State Street is fund administrator for the fund that is domiciled in Ireland. There are no plans to list at the moment. The underlying funds are expected to number 20-25 and at present has 15 funds in the portfolio. All these are UCITS fund and are globally focused.

UK's West Midlands invests in fund of hedge funds Goodhart Partners

The West Midlands Pension Fund, one of the UK's largest local government schemes, has invested GBP 40mn in a fund of hedge funds. Goodhart Partners said the pension fund, which has GBP 7bn in assets, had invested in its Global Long Short Equity Fund, which comprises 11 hedge fund portfolios.

Academic/Research

Measuring funds of hedge funds performance using quantile regressions: Do experience and size matter?

Roland Füss, Dieter G. Kaiser, Anthony Strittmatter

This article is the first to use quantile regression to analyze the impact of experience and size of funds of hedge funds on performance. In comparison to OLS regression, quantile regression provides a more detailed picture of the influence of size and experience on fund of hedge funds return patterns. Hence, it allows one to study the relevance of these factors for various return and risk levels instead of average return and risk, as is the case with OLS regression. Because fund of hedge funds size and age (as a proxy for experience) are available in a panel setting, one can perform estimations in an unbalanced stacked panel framework. This study analyzes time series and descriptive variables of 649 funds of hedge funds drawn from the Lipper TASS Hedge Fund database for the time period January 1996 to August 2007. The empirical results suggest that experience and size have a negative effect on performance, with a positive curvature at the higher quantiles. At the lower quantiles, however, size has a positive effect with a negative curvature. Both factors show no significant effect at the median.

Do hedge fund managers have stock picking skills?

Wesley R. Gray

Gray studies novel data from a confidential website where a select group of fundamentals-based hedge fund managers privately share investment ideas. These value investors are not easily defined: they exploit traditional tangible asset valuation discrepancies such as buying high book-to-market stocks, but spend more time analyzing intrinsic value, growth measures, and special situation investments. Evidence suggests that the managers' long recommendations earn economic and statistically significant long-term abnormal returns. Oddly enough, these managers share their profitable ideas with other skilled investors. This evidence is puzzling in a world where there is an efficient market for fund managers and asset prices.

Fund of hedge funds construction by statistical multiple testing methods

Michael Wolf, Dan Wunderli

Fund of hedge funds managers face the task of selecting a (relatively) small number of hedge funds from a large universe of candidate funds. They analyse whether such a selection can be successfully achieved by looking at the track

records of the available funds alone, using advanced statistical techniques. In particular, at a given point in time, they determine which funds significantly outperform a given benchmark while, crucially, accounting for the fact that a large number of funds are examined at the same time. This is achieved by employing so-called multiple testing methods. Then, the equal-weighted or the global minimum variance portfolio of the outperforming funds is held for one year,

after which the selection process is repeated. When back testing this strategy on two particular hedge fund universes, they find that the resulting fund of hedge funds portfolios have attractive return properties compared to the 1/N portfolio (that is, simply equal-weighting all the available funds) but also when compared to two investable hedge fund indices.

About Primores

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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:

- Advice regarding single fund of hedge funds investments
- Customized Solution for institutional investors (white label, sub advisory)
- PrimFunds: one stop shop solutions

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