

Performance Update

Fund of Hedge Funds Indices	Aug	July	YTD	2004	2003	2002
EDHEC Fund of Funds Index	0.80%	1.34%	2.38%	7.07%	11.46%	1.25%
HFRI FoHF Composite Index	0.78%	1.73%	3.51%	6.86%	11.61%	1.02%
CISDM FoHF Diversified Median	-	1.66%	2.85%	7.52%	10.04%	0.65%
CISDM FoHF Niche Median	-	1.61%	5.45%	8.33%	10.62%	1.99%
InvestHedge Composite ¹⁾	-	1.60%	2.82%	6.12%	9.28%	1.99%
Altvest Sub-Index: Fund of Funds	0.81%	1.72%	3.92%	7.39%	11.12%	1.23%
Eurekahedge Fund of Funds Index	0.77%	1.64%	3.45%	6.62%	11.49%	2.09%
Barclay/Global HedgeSource FoF Index	0.86%	1.66%	3.34%	6.61%	10.36%	1.79%

Investable Hedge Funds Indices	Aug	July	YTD	2004	2003	2002
CSFB/Tremont Investable HF Index	0.54%	0.94%	1.71%	5.31%	11.04%	5.67%
MSCI Hedge Fund Invest Index	0.41%	1.05%	1.64%	3.10%	14.7%	5.30%
S&P Hedge Fund Index	0.32%	0.98%	1.44%	3.95%	11.12%	4.14%
HFRX Global Hedge Fund Index	0.43%	1.67%	0.31%	2.69%	13.39%	-
FTSE Hedge Index	0.11%	0.64%	0.44%	3.12%	12.36%	2.05%

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	Aug	July	YTD	2004	2003	2002
PrimFund Diversified	0.43	1.37%	3.96%	8.39%	13.68%	-

Inception of the fund was July 1st 2004. The simulated data prior reflects the net performance of a weighted composite of the targeted fund managers

Industry News

Russell Survey: Investing in alternatives to surge worldwide

Institutional investor commitment to alternative investments is poised to reach record levels by 2007, according to the seventh global report on alternative investing released by Russell Investment Group. Investments in hedge funds, private equity and real estate are all forecast to rise; survey results show hedge fund use continues to increase most dramatically across all regions, and, in North America, the commitment to hedge funds has doubled. Topline findings from this year's study include:

- Compared to 2003, hedge funds have captured a growing share of allocations to alternatives across most regions, particularly in Australia, where they now account for 13%, up from 1% in 2003. In North America and Europe, hedge funds now account for 10% of the overall allocation to alternatives, roughly double the 6% and 5% levels found in 2003, respectively.
- Hedge funds of funds have convincingly become the investment vehicle of choice for hedge fund allocations. Among North American investors using hedge funds, a full 91% now invest in hedge funds of funds, while only 41% of tax-exempt institutional investors invest in single hedge funds - a substantial drop from the 82% and 83% seen in 2001 and 2003 respectively. Most other geographic regions have followed a similar pattern.

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Funds of hedge funds expect best returns from Japan

Funds of hedge funds expect to make solid, though not spectacular, profits over the next six months, with the best opportunities coming from spotting trends in the Japanese equities market, a Reuters poll shows. The Reuters survey of 12 funds of hedge funds, which together manage some \$76.5 billion in assets, forecast above average returns for investments in Japanese stocks, thanks to improving economic growth and the prospect of reforms.

Bank of New York creates data warehouse for funds of hedge funds

The Bank of New York has created a data warehouse for funds of hedge funds that provides an automated and secure solution for meeting the real-time information needs of hedge fund managers. The data warehouse allows the Bank to cover a full range of reporting and transactions required by funds of hedge funds. The platform provides consolidated reporting and distribution capabilities, transparent trade work flow management, position maintenance at a tax-lot level, data enrichment, document management, and significant operational efficiency. It also maintains contact information for parties of interest and can act as a state-of-the-art storage resource for business records that enables a client to store data about its fund structures, financial statements and dealing forms.

SPARX and IXIS team up for Asian hedge fund platform

SPARX Asset Management, Japan's leading independent investment manager has partnered with European bank IXIS Corporate & Investment Bank to launch an Asian hedge fund platform. The partners will combine their efforts to create a framework that provides Asian hedge fund products catering to investor demand, channeling more investments to Asian hedge fund managers both directly and through structured products.

Advisor/People News

Credit Suisse merges hedge fund businesses

Credit Suisse's asset management arm has merged its various hedge fund businesses and appointed Ramon Koss and Anthony Pesco as co-heads of the new unit. The decision to bring together the hedge fund businesses under one umbrella was made in August. Koss was previously head of alternative investments and mutual funds at Credit Suisse in Zurich. His responsibilities now include implementing the merger, research and portfolio management. Pesco is in charge of sales integration. Both will report to David Blumer. Jim Vos, who was previously head of hedge fund investments in New York will now report to Koss and Pesco.

Man replaces asset management chief

John Morrison, currently head of marketing and client services for Man Investments, is becoming chief executive of the division. He is replacing Chris Chambers. Mr. Chambers will step down as head of Man Investments and as a director of the company by the end of this month and will leave Man Group after a transition period. The change comes at a time when Man Group's asset growth has slowed down from the robust rates of previous years. That slowdown is roughly in line with trends in capital flows to the hedge fund industry at large. Man managed US\$43 billion in assets as of May—making it the largest freestanding and publicly traded hedge fund business.

Ivy asset management boosts investment staff in London

Ivy Asset Management Corp. (Ivy), the U.S.-based fund of funds firm with more than \$14.5 billion in assets under management, has strengthened its presence in London by hiring Stuart Davies as managing director and head of investments for Ivy Asset Management (UK) Limited (Ivy UK), and Peter Rose as director of investments for Ivy UK. Mr. Davies will report to Adam Geiger, Ivy's global head of investments, who is based in New York.

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Berger to start new fund of hedge funds after shuttering old firm

Neal Berger, chief investment officer of multi-strategy firm Apogee Capital Partners, has decided to close Apogee and start a fund of hedge funds firm called Eagle's View Capital Management.

Honniball leaves Man Global Strategies to join Alphatraxx in Hong Kong

Alphatraxx, a recently established Hong Kong-based fund of hedge funds, has appointed Sébastien Honniball as an investment manager and one of its five partners. Honniball previously worked for Man Global Strategies, where he was involved in identifying potential hedge fund investment opportunities in Europe and Asia.

Barbara Rupf Bee to be named CEO of HSBC Republic Investments

The new head of HSBC Republic Investments Limited has signalled her intent to expand the reach of the company to institutions across Europe. Barbara Rupf Bee, who joined HSBC two years ago from Swiss bank UBP, officially becomes chief executive of the fund of hedge funds specialist this month. She replaces Paul Dunning, who stepped down in June "to pursue private projects".

Barclays names new hedge fund research head

Vera Kaeppler will be responsible for global hedge fund strategy, manager selection, portfolio construction (managing three Barclays' in-house discretionary hedge fund models) and Family Office Advisory. The unit oversees over 2.5bln USD. Previously, she was a hedge funds analyst at IAM in London, and responsible for manager selection and portfolio management.

Product News

Pacific World launches Asian fund of hedge funds

Hong Kong-based Pacific World Asset Management will launch an Asian fund of hedge fund product. The firm, founded by Chris Choy, has been managing fund of hedge fund portfolios since 1998 and has assets over \$800 million, making it one of Asia's oldest and largest home-grown fund of hedge funds managers. Despite its Asian location, it has traditionally not invested in Asian hedge funds, focusing instead on low volatility global arbitrage portfolios.

Hardt Group launches Incubator Participation Fund

Hardt Group offers a vehicle which invests in talented early stage hedge fund managers. The Incubator Participation Fund will provide investors with both sector and regional diversification as well as an enhanced return potential. The investors can gain in four ways: revenue share of the management and performance fees based on asset growth, a discount on direct investment fees, participation in the potential excess returns of early stage managers and future capacity. The minimum is set at \$20 million with a minimum 3 years lock up.

Academic/Research

Quantitative Topics in Hedge Fund Investing

Five current topics in hedge fund investing are examined from a quantitative perspective. First, they argue that investors should employ multi-factor models with observable market factors when attempting to separate alpha from beta. Second, they highlight the importance of testing for positive serial correlation in hedge fund returns, and they present evidence that this problem is pervasive. Third, they examine some of the difficulties with applying academic techniques to portfolio construction, and suggest several pragmatic solutions to overcome them. Fourth, they provide evidence that manager selection may be more important than strategy allocation for hedge fund investing. Fifth, they discuss the implication of negatively skewed returns in the construction of a portfolio of hedge funds.

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