PRIMNEWS

Fund of Hedge Funds Review

21st September 2006

Performance Update

Fund of Hedge Funds Indices	Aug	July	YTD	2005	2004	2003
EDHEC Fund of Funds Index	0.73%	-0.05%	5.73%	6.48%	7.07%	11.46%
HFRI FoHF Composite Index	0.80%	-0.23%	4.76%	7.49%	6.86%	11.61%
CISDM Fund of Funds Index	-	-0.16%	3.44%	6.47%	7.12%	10.23%
InvestHedge Composite	-	-0.09%	3.29%	7.07%	6.15%	9.34%
Altvest Sub-Index: Fund of Funds	0.67%	-0.27%	4.51%	7.68%	7.39%	11.12%
Eurekahedge Fund of Funds Index	0.64%	-0.16%	4.46%	7.75%	6.84%	11.57%
Barclay/Global HedgeSource FoF Index	0.64%	-0.18%	4.45%	6.91%	6.65%	10.44%
Average FoHF Indices	0.70%	-0.16%	4.38%	7.12%	6.87%	10.82%

Investable Hedge Funds Indices	Aug	July	YTD	2005	2004	2003
CS/Tremont Investable HF Index	0.53%	0.27%	5.57%	3.61%	5.31%	11.04%
MSCI Hedge Fund Invest Index	0.43%	-0.08%	3.32%	4.68%	3.10%	14.70%
HFRX Global Hedge Fund Index	0.76%	-0.57%	3.31%	2.72%	2.69%	13.39%
FTSE Hedge Index	0.87%	-0.79%	3.20%	2.60%	3.12%	12.36%
Average Investable HF Indices	0.65%	-0.29%	3.85%	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	Aug	July	YTD	2005	2004	2003
PrimFund Diversified (net of fees)	0.65%	-0.62%	4.72%	7.78%	8.39%	13.68%
PrimFund Growth (net of fees)	1.20%	-0.13%	6.49%	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

Fund of Hedge Funds Industry Grows 16% in Six Months **InvestHedge**

The funds of hedge funds industry enjoyed an excellent first half of 2006, despite volatile markets, with total assets growing by more than USD 100bn according to the latest survey of the InvestHedge Billion Dollar Club. The strong performance compares with the USD 72bn that was added by the Club for the whole of 2005 year. The largest funds of funds – those with more than USD 1bn in assets under management – now control a combined amount of USD 720bn in assets. Funds under management among firms in the InvestHedge Billion Dollar Club rose 16% to USD 720bn during the half, more than double the 7% growth recorded in the first of 2005. There are now 135 funds of hedge fund management companies in the InvestHedge Billion Dollar Club, which manage more than 40% of the hedge fund universe, assuming a global investment of hedge funds of USD 1.7tn.

Barclay Group Acquires AAC Database, to Create World`s Largest Hedge Fund Database

The Barclay Group, a leading independent provider of alternative investment research data, announced that it has purchased the Alternative Asset Center (AAC) database, creating the world's largest database of hedge fund performance. The Integration of AAC and Barclay data will enable the Barclay Group to provide up-to-date monthly performance figures on nearly 7,000 hedge funds.

218 Hedge Funds Manage USD 984bn **HedgeFund Intelligence**

The biggest U.S. hedge funds are closing in on the USD 1tn mark, with their combined assets under management hitting USD 984bn on July 1. Assets of the 218 hedge fund companies with more than USD 1bn under management, known as the Absolute Return Billion Dollar Club, gained on average 15% since the beginning of the year, despite a rocky performance for many hedge funds in May and June. The biggest firms are continuing to get bigger, with the top 20 controlling a third of the assets, and there are now 65 firms that manage USD 5bn or more.

HedgePole Offers Middle Office Solutions and Price Collection Services for FoHF
HedgePole announced that the company offers new tailor made and cost effective middle office solutions to FoHFs. Services include trade processing, cash management, FX hedging, NAV controlling and a dedicated hedge fund price collection through its proprietary web based system. HedgePrice enables client to view NAVs online and to feed prices electronically into their portfolio.

Advisor/People News

Mesirow Advanced Strategies Names Chairman, CEO, CIO
Howard M. Rossman was named chairman of Mesirow Advanced Strategies (MAS), Mesirow Financial's hedge fund of funds division; Martin B. Kaplan was named CEO and Stephen C. Vogt, CIO. The positions are new. Mr. Rossman, who joined Mesirow financial in 1985, had been president of MAS. Mr. Kaplan joined MAS in 1995 and Mr. Vogt joined MAS in 2001 both were senior managing directors and remain members of the investment and management committees. Their previous positions will not be filled. MAS has USD 11bn in assets under management.

Swiss Listed Partners Group Profits, Assets Jump
Alternative asset management firm Partners Group announced assets under management grew to CHF 13.8bn by June 2006. This represents a rise of CHF 2.9bn in the first six months of the year. The company attributed the increase to a strong investment performance and higher than expected inflows. Private equity assets grew by CHF 2.1bn, while hedge fund assets rose by CHF 500mn, with a CHF 100mn contribution from private debt and 200mn from wealth management.

Olympia Takes Remaining Stake in Dawnay Day Olympia
The Paris-based Olympia Group of Companies now controls 100% of UK's Dawnay Day Olympia (DDO), following an agreement reached with the Dawnay Day Group and the other shareholders of DDO. The name of the UK-based DDO has been changed to Olympia Capital Management Ltd. This change reinforces Olympia's commitment to the UK market and the Paris-based Group intends to make Olympia Capital Management Ltd the hub for its international expansion.

Stephan Fritz Joins Harcourt Investment Consulting
Harcourt Investment Consulting AG announced that Stephan Fritz, will be joining Harcourt as Managing Partner. Prior to joining Harcourt, Stephan Fritz worked at NIB Capital Bank from 2001 to 2006, in his latest position as a Managing Director of NIB Capital in Den Haag and Member of the Board of NIB Capital-Petercam Derivatives in Brussels.

Man Group Names Clarke Chief, Fink as Deputy Chairman
Man Group Plc, the world's largest hedge-fund manager, said finance director Peter Clarke will replace Stanley Fink as chief executive next year. Fink, 49, will become non-executive deputy chairman in April 2007. Clarke, who's worked at Man for the past 13 years, has been finance director for the last six. Fink took over as CEO in 2000 and led the transformation of Man Group from a commodities trader into a hedge fund manager. Under Fink, Man's funds under management grew to USD 54bn from USD 4.7bn.

Finnish FoHF Abacus Sees Major Asset Inflow
The Finnish fund of hedge funds Abacus is currently experiencing a large inflow of new assets from institutional investors. Abacus is managed by the management company RAM Partners. The fund's AUM has increased from EUR 145mn under management in April to 260mn under management in August. This makes Abacus the second largest fund of hedge funds managed in Finland.

Crédit Agricole Structured Asset Management Acquiers Ursa Capital
Crédit Agricole Structured Asset Management (CASAM) has acquired 100% of Ursa Capital LLC (Ursa), the holding company of two U.S.-based SEC registered investment advisers specialized in alternative managed accounts, Starview Capital Management LLC and Lyra Capital LLC. This

acquisition enables CASAM to accelerate the development of its product offerings by integration of the Ursa group's portfolio of 44 alternative managed accounts and its licensing relationship with the Dow Jones Hedge Fund Indexes. The acquisition also carries a database containing more than 4000 hedge funds and fund of hedge funds.

Product News

Man's New Fund of Funds Product
Man Investments has launched a new capital guaranteed fund of funds product called Man MGS Access. The new fund will invest in actively managed portfolios selected by Man Global Strategies. The product is offered in a US dollar bond class with annual returns targeted at 13–16% and the Euro bond class set at 11–14%. The target annualized volatility for both classes is 8–10%.

Cowen's Bostwick Bails, to Launch Fund of Funds
Thomas Bostwick, a director at Cowen and Company, the investment banking arm of securities firm Cowen Group, has left the firm and plans to launch a fund of hedge funds. His new firm, Bostwick Capital, is expected to launch the USD 500mn fund on October 1. The fund will invest in up to 15 long/short equity hedge funds.

UBP Deactivates Dinvest Technology Fund
Geneva-based UBP has taken its Dinvest – Technologies fund of hedge funds off the market, and will merge its assets into the firm's Dinvest Long/Short US fund. Launched in July 2003, the technology fund currently has USD 27mn under management.

Cadogan to Offer New Product
Cadogan Management LLC is launching a fund of funds that targets low volatility. The portfolio is to include both established and new managers and possibly investments that involve illiquid securities as well as more common hedge fund strategies.

FIM Advisers Launches Leveraged Version of Long Running Low Volatility FoF
FIM Advisers LLP launched a new fund called FIM Long-Invest Plus, a leveraged version of its successful low volatility fund of funds, Long-Invest. FIM Long-Invest Plus will be leveraged at a ratio of 2:1, with the leverage being provided by Lehman Brothers.

FRM Kick Starts Credit Fund of Hedge Fund
Financial Risk Management, the London-based fund of hedge funds mammoth, has launched a fund of funds focused on credit strategies. The fund of funds launched this summer with USD 50mn, a combination of firm capital and money from seed investors. It invests in 14 hedge funds running various credit-related strategies including long/short credit, distressed and relative value arbitrage.

Academic/Research

Optimal Portfolio Allocation Using Funds of Hedge Funds **Gueyie**
This paper compares different methods of optimization for a portfolio allocation that includes funds of funds. Optimization consists of minimizing risk measured by one of the following proxies: normal Value at Risk (VaR), adjusted VaR (adjusted using the Cornish-Fisher expansion), weighted historical simulation VaR, and semi-deviation. Results indicate that compared to the other proxies of VaR, normal VaR tends to underestimate portfolio risk. Moreover funds of funds improve the risk-return profile of the portfolio. This last result is interesting since funds of hedge funds exhibit less of the individual hedge funds' biases reported in the literature.

How Hedge Funds Beat the Market **French, Ko**

This paper investigates the determinants of hedge fund portfolio performance - whether hedge funds exhibit security selection skill and market-timing skill. They examine a sample of 157 long-short equity hedge funds over the 10-year period from January, 1996 through December, 2005. To account for nonlinearities they employ the Treynor and Mazuy (1966) quadratic model. To account for illiquidity they incorporate the Scholes and Williams (1977) nonsynchronous data model. Before and after adjusting for illiquidity, they find strong evidence of security selection skill and limited evidence of market-timing skill.

Volatility Exposure of CTA Programs **Malek, Dobrovolsky**

While it is generally believed that CTAs have a long volatility exposure, in their testing they see evidence that it is not quite true. Trend-following CTAs benefit from orderly directional trends and suffer losses in random directionless ranges. These characteristics of price behavior are not directly related to volatility levels or volatility changes. In this article they study the dependence of CTA performance on underlying market volatility, both quantitatively and conceptually. It is a complex issue, depending in each particular case on the time scale of both the volatility and the trading system. Moreover, if one is to compare CTA performance to volatility, one immediately confronts the issue of choosing an appropriate market to compare. Since diverse markets have uncorrelated volatility profiles, one cannot expect performance of a trading system in one market to be related to the volatility of another one. Therefore, since CTAs trade diversified portfolios of systems and markets, any effects of volatility dependence or exposure exhibited by each individual system-market combination are smoothed out and the correlation of their performance to the volatility of any market is very low.

Can Hedge-Fund Returns Be Replicated? **Hasanhodzic, Lo**

Hedge funds are often cited as attractive investments because of their diversification benefits and distinctive risk profiles - in contrast to traditional investments such as stocks and bonds, hedge-fund returns have more complex risk exposures that yield complementary sources of risk premia. This raises the possibility of creating passive replicating portfolios or clones using liquid exchange-traded instruments that provide similar risk exposures at lower cost and with greater transparency. Using monthly returns data for 1,610 hedge funds in the TASS database from 1986 to 2005, they estimate linear factor models for individual hedge funds using six common factors, and measure the proportion of the funds' expected returns and volatility that are attributable to such factors. For certain hedge-fund style categories, they find that a significant fraction of both can be captured by common factors corresponding to liquid exchange-traded instruments. While the performance of linear clones is often inferior to their hedge-fund counterparts, they perform well enough to warrant serious consideration as passive, transparent, scalable, and lower-cost alternatives to hedge funds.

Gap Filling, Hedge Funds, and Financial Innovation **Thomas, Partnoy**

In this paper, they examine changes in financial instruments and institutions by contrasting the successes and failures of institutional shareholder activism during the 1990s with more recent developments in hedge fund activism and the use of financial innovation. They find that although institutional investor activism was the watch word of the 1990's, overall traditional institutional activism has been of marginal importance at targeted firms. In contrast, there is evidence of real monitoring in the more aggressive recent activism of hedge fund managers, in part because financial innovation has generated a host of new opportunities that did not exist a decade ago. To illustrate these points, they compare institutional activism and hedge fund activism with respect to voting, litigation, and change of control contests. They also categorize the costs and benefits of four major types of strategies activist hedge funds recently have pursued: information asymmetry and convergence trades; capital structure motivated trades; merger and risk arbitrage; and, most controversially, governance and strategy. They conclude with a discussion of the policy implications of our work, pointing out some of the regulatory challenges created by this new wave of investor activism.