

**Performance Update** all data in %

<b>Fund of Hedge Funds Indices</b>	<b>August</b>	<b>July</b>	<b>YTD</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
EDHEC Fund of hedge funds Index	1.24	1.51	7.54	-19.73	10.07	11.25	6.80
HFR1 FoHF Composite Index	1.13	1.55	8.03	-21.37	10.25	10.39	7.49
CISDM Fund of hedge funds Index		1.38	5.68	-17.04	8.68	9.11	6.47
InvestHedge Composite	1.00	1.37	6.18	-16.63	8.90	9.12	6.99
Eurekahedge Fund of hedge funds Index	1.07	1.45	6.72	-19.50	10.36	10.48	7.97
HFN Fund of hedge funds Aggregated Average	1.28	1.33	6.90	-20.01	9.27	9.60	6.81
Barclay / Global HedgeSource Fund of hedge funds Index	1.15	1.48	6.99	-22.18	8.86	9.38	6.91
<b>Average FoHF Indices</b>	<b>1.15</b>	<b>1.44</b>	<b>7.06</b>	<b>-19.49</b>	<b>9.48</b>	<b>9.90</b>	<b>7.06</b>

<b>Investable Hedge Funds Indices</b>	<b>August</b>	<b>July</b>	<b>YTD</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
CS/Tremont Investable HF Index	0.67	1.59	5.30	-26.31	7.42	9.65	3.61
HFRX Global Hedge Fund Index	1.25	1.59	8.59	-23.25	4.23	9.26	2.72
RBC Hedge 250 Index	1.65	2.09	14.70	-21.21	8.22	10.62	-
<b>Average Investable HF Indices</b>	<b>1.19</b>	<b>1.76</b>	<b>9.53</b>	<b>-23.59</b>	<b>5.12</b>	<b>8.95</b>	<b>2.98</b>

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

**Average FoHF Indices** Last Month **1.15**

**Average Investable HF Indices** Last Month **1.19**

**Industry News**
**Funds of hedge funds industry shrinks by USD 95bn in first half**

The fund of hedge funds industry shrank a further 13.5% in the first half of 2009, with the previous freefall broken by relatively strong positive performance of 5.12% to the end of July, according to a survey of the InvestHedge Billion Dollar Club. The largest funds of hedge funds - those with more than USD 1bn in assets under management - now control a combined amount of USD613bn in assets, according to the six-monthly 2009 asset flow survey carried out by InvestHedge.

**Withdrawals hit banks' funds of hedge funds**

Investment banks that manage funds of hedge funds were among the hardest hit as investors withdrew an estimated USD 200bn from these pools between September 2008 and June 2009, data from The Hedge Fund Journal and Newedge Prime Brokerage show. The USD 200bn figure represents a 30 percent drop in assets for the fund of funds sector.

**Advisors/People News**
**UBP Asset Management snags due diligence vet**

Fund of hedge funds manager UBP Asset Management has hired Matt Auriemma to serve as co-head of structural risk analysis. Auriemma was previously head of operational due diligence for Barclays Wealth. Prior to joining Barclays in

2005, Auriemma was head of operational due diligence for Julius Baer Investment Management. Before joining Julius Baer, he ran operations for two US-based hedge fund managers and was instrumental in establishing a US presence for Citco Fund Services.

### **Aris Capital makes move to managed accounts**

Aris Capital Management, the New York-based USD 300m fund of hedge funds manager, is altering its investment mandate to invest in managed accounts or managed account-like structures for its flagship portfolio, while still maintaining its focus on investing in niche managers. The offering, called the Aris Multi-Strategy Offshore Fund, which launched in 2004, has approximately 30 underlying managers.

### **Madoff-scarred UBP to cut staff by 10%**

Swiss private bank Union Bancaire Privée, which lost 1bn Swiss francs (USD 943.4mn) in the Bernard Madoff Ponzi scheme, is slashing its staff after assets under management fell by nearly one-fifth. UBP will cut 10% of its workforce. The move follows a 19% drop in assets under management during the first half of the year; UBP's hedge fund assets were even harder-hit, plummeting 43%.

### **HSBC fund of hedge funds sees USD 4bn in withdrawals**

HSBC Alternative Investments has become, in absolute terms, the single largest casualty of the redemptions crisis in the hedge fund industry, The Financial Times reported. The private bank saw clients withdraw more than USD 4bn, or 52%, from its portfolios in the first half of the year. The fund of funds business run by HSBC's Geneva-based private bank is now estimated to have about USD 22.27bn in assets under management. At its peak in September 2008, the division had an estimated USD 46.28bn.

### **Crosby aborts its Apollo mission**

Troubled fund firm Crosby's joint venture Apollo Multi Asset Management has struggled to attract assets and Crosby announced it is pulling out as a partner in the loss-making boutique. Apollo, a fund of hedge funds venture with fund manager Tom McGrath, produced some respectable

performance from its Balanced fund but attracted just GBP 31.2mn in assets.

### **Pictet markets fund of hedge funds to Asian, Australian institutional investors**

Pictet Asset Management has assembled a three-person team based out of Geneva to promote its funds of hedge funds, a marketing effort that has now been extended to Asian and Australian institutional investors. The move is an expansion for the firm, which in Asia is known as a traditional, long-only provider.

### **Credit Suisse seeks deal for Mesirow hedge fund unit**

Credit Suisse is eyeing a Chicago-based firm's fund of hedge funds business as it seeks to boost its alternative investments business. The Swiss bank is in talks with Mesirow Financial about its USD 11bn investment business, Mesirow Advanced Strategies, according to published reports. According to The Wall Street Journal, the talks are in flux and a deal is not imminent.

### **Eddington Capital Management to appoint new chairman**

Eddington Capital Management, the high return target fund of hedge funds specialist, announced that Andrew Popper is to become the company's new Chairman. Mr. Popper will succeed Tim Ingram, who has served as Chairman of the Board since 2003, when he steps down later this year.

### **Swedbank Robur reduces fund of hedge fund fees**

Scandinavian fund of hedge fund manager, Swedbank Robur announced that it is lowering fees by 0.2% to 0.4% on its 5 funds, effective October 1st. Swedbank Robur offers fund of funds under the product name Access. This product category is specifically developed for customers who do not have the time to change their fund portfolio from one day to the other.

## Product News

### **GAM preps first distressed fund of hedge funds**

GAM is preparing to roll out a distressed-focused fund of hedge funds on Sept. 1. It is the firm's first to focus on

distressed managers. The GAM Multi-Dislocation Strategy will invest across the whole gamut of asset classes-high-yield, distressed, mortgages, commercial, real estate, and credit.

### **Swiss fund of hedge funds 47 Degrees North taps inefficient frontiers**

Investors, still reeling from the credit crisis, have been beating a retreat from illiquid hedge fund strategies. But 47 Degrees North Capital Management, a fund of hedge funds firm based in Pfäffikon, Switzerland, is doubling down on the opposite bet: that intrepid investors with a long-term view will continue to crave new sources of alpha. In June, the firm launched its second emerging-manager fund, called the Innovation Fund, which will target bespoke hedge fund strategies ranging from freight and shipping to insurance-linked securities.

### **Partners Capital launches ‘Hyper-Active’ multi-manager fund**

Boston- and London-based Partners Capital has launched a new vehicle that is a cross between a fund of hedge funds and a multi-manager equity platform. The fund, which currently has USD 230mn assets under management, will invest in 15-20 specialist equity managers. According to the firm, the Eagle Fund is agnostic in choosing between traditional long only managers and long-short hedged equity funds, but has a clear bias toward highly active managers who move net exposure up and down according to market conditions.

### **Bank of China plans fund of hedge funds launch**

Bank of China is planning to launch a fund to invest in hedge funds, the latest sign of keen Chinese interest in the alternative investment industry. The new fund of hedge funds will be launched next year and will be offered via Bank of China Suisse, the Geneva-based private banking operation. However, the fund is yet to gain Swiss regulatory approval.

### **Gottex cuts fees on listed product**

Switzerland-based Gottex Fund Management has cut fees for investors in its listed product, after securing its survival last month, in one of the first signs that the funds of hedge funds sector is cutting back the amount it charges clients for investing their money. The prominent manager said today in the half-yearly review for its Market Neutral Trust that it had reduced the management fee from 1% to 0.75%.

### **Third tranche of fund of hedge funds Nomura Culross Alpha anticipated for LSE listing**

A third tranche of Nomura Culross Alpha Notes is anticipated for London Stock Exchange listing at the end of September only five months after the initial launch of this sterling-denominated fund of hedge funds portfolio. The Nomura Culross Alpha Notes are primarily designed for direct investment by UK resident professional investors as well as discretionary and advisory portfolio managers and, increasingly qualified private investors.

### **Hermes Alters fund of hedge funds fee structure**

Hermes Fund Managers has voluntarily modified its fee structure for its funds of hedge funds, Financial News reports. The firm is considering a new share class for its USD 1bn Hermes BPK and USD 340mn restructuring funds of hedge funds. This will allow investors to pay their performance fees for each year's performance in equal installments over three years to Hermes, rather than paying it in one year. If investors redeem during this period, they will be refunded any performance fee they had paid for periods when their fund did not perform.

## Academic/Research

### **Applying a global optimization algorithm to fund of hedge funds portfolio optimization**

B. Minsky, M. Obradovic, Q. Tang and R. Thapar

Portfolio optimisation for a fund of hedge funds has to address the asymmetric, non-Gaussian nature of the underlying returns distributions. Furthermore, the objective functions and constraints are not necessarily convex or even

smooth. Therefore traditional portfolio optimisation methods such as mean-variance optimisation are not appropriate for such problems and global search optimisation algorithms could serve better to address such problems. Also, in implementing such an approach the goal is to incorporate information as to the future expected outcomes to determine the optimised portfolio rather than optimise a portfolio on historic performance. In this paper,

they consider the suitability of global search optimisation algorithms applied to fund of hedge funds portfolios, and using one of these algorithms to construct an optimal portfolio of investable hedge fund indices given forecast views of the future and their confidence in such views.

### Managed accounts and tracking error risk

Olympia Capital Management

Olympia's findings suggest that managed account investors should be ready to accept some excess volatility when they target the performance of a fund using managed accounts.

On average, this excess volatility is approximately 20% of the volatility of the parent fund, with an upper bound of 50% for the Relative Value funds. Investors should also be prepared to receive lower average returns than the benchmark fund: the average performances of managed account are reduced by 15% as compared to their parent funds. The results also show that the tracking error risk is significantly more pronounced for Relative Value managers than for the other strategies.

## About Primores

### About Primores

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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