



Alternative Investment Management Association

Distribution: all AIMA member contacts, globally

Friday, 10 October 2008

Dear Sir/Madam,

Market Turmoil: AIMA's position, activities and strategy

Markets are in an unprecedented crisis. The speed and nature of the changes to the world's financial marketplace have created immense difficulties. News of fund and business closures together with predictions of a substantial downturn in hedge fund industry assets brings additional and substantial pressures.

We wish to bring you up-to-date with our thinking, activity and strategy.

Position

At a time when opinions vary widely about the causes of the crisis, its possible duration and the eventual shape of the hedge fund industry after the crisis is over, we thought it would be helpful to set out our public position on several current topics:-

1. It is first and foremost a banking crisis. Above all else, markets need stabilisation and confidence-building measures. We support any/all measures that deliver these objectives.
2. We do not support knee-jerk measures that are capable of exacerbating the problem or damaging markets by interfering with their core purpose.
3. The hedge fund sector is an integral and innovative part of the investment management industry and plays a major part in its overall success. We are pleased that this contribution is explicitly and unreservedly recognised by supranational agencies, governments and regulators alike.
4. We call on policy makers and regulators to recognise that recently-introduced measures such as restrictions on short-selling are causing long-term damage to market mechanisms and should be relaxed at the first possible opportunity when markets have returned to normality.
5. We support any and all measures that identify and prevent market abuse, wherever it exists.
6. Market abusers should be identified and prosecuted quickly in the interests of other market participants.
7. We will resist unsubstantiated accusations of market abuse leveled at the hedge fund industry; where accusations still stand we call for evidence of market abuse to be presented in the interests of regulatory and market transparency.
8. We call on policy makers and regulators to understand the dangers of continuing to combine statements about market abuse with statements about short selling because of the disrepute this brings to a wholly legitimate and widely-used market practice.

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9. If there is to be a wholesale change to the regulatory regime we call for there to be a full process of consultation to ensure that all legitimate interests are represented. We call for policy makers and regulators to recognise the role of consultation in formulating sound regulatory practice.
10. On behalf of the hedge fund industry we would welcome the opportunity to participate in any legislative or regulatory hearings into the causes of the current crisis and how to avoid a repetition in the future.

Approach

AIMA has strong relationships with policy makers and regulatory authorities in the key hedge fund countries around the world. Many of these are long-standing and have, in the past, worked well for the industry. However, the political groundswell that surrounds the current market crisis married with the fact that, for instance, the hedge fund industry's total assets are smaller than the single, largest global asset manager's¹ means that the substantial efforts being made around the world by AIMA, its volunteers and other leading organisations such as the Managed Funds Association in the USA are enjoying varying degrees of success.

We document for you the highlights of AIMA's efforts over the last three weeks:

Global

- Press release issued in advance of short-selling bans: '**Hedge Fund Industry Calls for Measured Approach in Dealing with Financial Market Volatility**' (18 September) - *sent to 640 journalists (broadcast, global, regional, national including dailies and specialist titles)*
- Press release issued in advance of short-selling ban announcements: '**Hedge Fund Industry Supports Achieving Stability in Markets**' (19 September) - *sent to all journalists*

EMEA

- Provision of short-position data on UK financial stocks to the **European Commission**
- Meeting with the **Financial Services Authority** and subsequent follow-up to call for the short-selling ban to be lifted
- Multiple interviews with media including appearances on **BBC television and radio**
- Press release on benefits of short-selling and request for maintenance of existing rules by **AIMA South Africa**

Americas

- Co-ordinated efforts with the **Managed Funds Association** across political, regulatory and communications activities and particularly in relation to short-selling issues
- Attended meetings hosted by the Managed Funds Association with senior officials at the **US Department of Treasury** and the **US Commodity Futures Trading Commission**, Washington D.C.
- Multiple interviews with media including appearance on **Canada's Business News Network**
- Letter from **AIMA Canada** to Ontario Securities Commission highlighting the consequences of the Temporary Order prohibiting short selling of financial securities

¹ Source: *AIMA's Roadmap to Hedge Funds* - Alexander Ineichen, UBS and Kurt Silberstein, CaIPERS - an AIMA Investor Steering Committee project (due for release on 5 November 2008) - HF assets \$2.5trn and largest global asset manager \$2.9trn (2007)

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Asia-Pacific

- AIMA's 2nd Pan-Asian Regulatory Forum, Singapore (13 October) - *Chatham House Rules gathering of most senior regulatory authorities and AIMA members from across the region*
- Meeting with Hong Kong Securities and Futures Commission
- Surveys of national members on short-selling restrictions by AIMA Australia and AIMA Singapore
- AIMA Australia publishes white paper (including survey results) outlining key impact of short-selling ban and setting out recommendations for modification. Presented to Australian Securities & Investment Commission (ASIC) as precursor to current talks with regulator on the removal of the ban
- Press release from AIMA Singapore acknowledging and welcoming Hong Kong, Japan and Singapore regulatory authorities for maintaining or minimally modifying short-selling rules
- Press release from AIMA Hong Kong commending the Securities & Futures Commission for upholding its existing short-selling rules

Communications

AIMA's viewpoint and opinion has appeared in over 150 news items in the last three weeks. Enquiries from the media during 18-25 September to AIMA's Head Office, for instance, include: Financial Times, AFP, Thomson Reuters, Bloomberg, La Tribune, multiple BBC media, Sky News, Channel 4 (UK), FTfm, The Guardian (UK), Sunday Telegraph (UK), Financial News, The Independent (UK), Dutch Radio 1, Dow Jones, The Times, Fund Fire, Investment Adviser, Daily Express (UK), Mail on Sunday (UK) and ITV News.

The world over and particularly in those locations where a short-selling ban has been or is in place, there is increased hedge fund coverage in the popular media. This is a notable departure from the industry's traditional audience. The way in which we communicate must rapidly evolve in order to explain what the industry does, including short selling, and why it is an important part of the financial system and - vitally - why it has not been the reason for the problems and should still be part of the solution. We are giving this our full attention.

Status

We are of the view that, among the financial media, there is an acceptance of the importance and positive nature of the hedge fund industry's role. In our communications with them, they fully accept our position and they would like to hear more - directly from hedge fund managers.

The political sentiment, however, is significantly negative. The positive media impact is not sufficient to overcome these negative opinions. We are witnessing an unprecedented outpouring of sensationalist comments from organisations including, for instance, the Church of England and leaders of the investment banking community (which has benefited substantially from the industry's growth, of course).

The regulatory community's views are varied, self-evidently. We continue to press for the immediate withdrawal of the short-selling ban, where relevant, and reiterate our offer to all parties to engage in constructive dialogue to resolve concerns over, for instance, naked shorting. We continue to drive forward the message that the industry offers an invaluable service to the markets and that it offers the dynamic, risk-managed performance required increasingly by institutional and other investors.

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The future and AIMA's strategy

The future

There is no doubt that there will be a total review of global, regional and national regulations as a result of this crisis. And this will undoubtedly impact the hedge fund industry - particularly in those locations, such as the USA, where regulatory oversight of the manager has not been compulsory in all instances.

If we - the industry - do not work with the authorities and offer solutions to, for instance, those elements of liquidity risk management and counterparty risk management that have failed in the last year - there will be increased regulation.

There is growing sentiment, even among our more optimistic members, that we can expect a notable downturn in hedge fund AUM together with a contraction in the number of hedge funds and thus of managers.

However, we are firmly of the view that the hedge fund industry has a vital role in the financial system and that it will continue to exist even in a revised state. AIMA's strategy to best serve this difficult and transitional period is in action and on-going development. It requires the input and support of the hedge fund manager community, particularly. It is targeting policy makers and regulatory authorities, particularly, in key hedge fund countries.

AIMA's strategy

AIMA's is the voice of the industry for the policymakers and regulatory authorities. Our comments, data and solutions are offered and sought regularly. Our members' views have been listened to by these same organisations. The sudden change of approach - the lack of consultation and the almost immediate rule changes, for instance - has been most surprising and challenging. We must adapt. And we must work together.

We have taken the immediate steps to refocus our efforts. Traditionally, AIMA's activities have revolved around Policy, Regulation & Tax, Education and Sound Practices. The latter two 'pillars' have been incredibly important and the output to date has served the industry well in increasing understanding and comfort levels. However, in a contracting marketplace, which will surely impact our funding (to a level as yet undetermined) we must regroup and redirect resources to meet today's and tomorrow's needs.

In addition to existing policy personnel, we are seeking an agency to work with us on UK government affairs, which will complement those agencies already addressing European and US issues. We are seeking a (global) Director of Communications & Research to work with existing staff and agencies, to complement our political and regulatory activities and to build upon existing achievements.

Working together

Unity of message is key if we are to meet our objectives. We strongly encourage all those member firms with a willingness to support constructively these efforts - whether behind the scenes or face-to-face with the key stakeholders - to get in touch as soon as possible.

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In the meantime, we continue to impress upon all concerned our stated, public position and that the industry is fully committed to working with the authorities in a constructive manner.

In these straitened times and from all of the staff at AIMA offices, we extend our very best wishes to you and your colleagues for safe passage in the weeks and months ahead.

Yours sincerely

Florence Lombard
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