



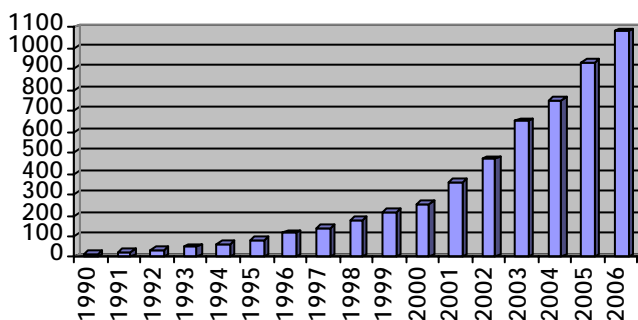
Alternative Investment
Management Association

CHAIRMAN'S REPORT

By Christopher Fawcett, Chairman, AIMA
Annual General Meeting, Wednesday 11th October 2006

All are welcomed to AIMA's AGM. Sincere thanks are offered to Simmons & Simmons for kindly agreeing to host the meeting. We shall enjoy their further hospitality once the meeting has closed and I hope that you will stay with us.

AIMA Membership Growth



We offer our thanks to our member companies for their continued support. At the time of writing, AIMA membership has increased by another 12% net since end of 2005: we now have over 1080 members, which shows extraordinary growth. AIMA is servicing over 3800 individuals within the membership and hundreds more from the regulatory, fiscal, institutional investor and media communities.

This report will provide you with a brief snapshot of the many activities undertaken by AIMA around the world on your behalf. You are welcome to address specific questions to Florence, Emma, Mary or Matthew at your leisure.

OVERVIEW

The three "pillars" of AIMA are *education, regulation and sound practices*.

The objectives of AIMA are:

- to increase investor education and transparency and to promote due diligence and related sound practices, and
- to work closely with regulators and interested parties in order to promote the responsible use of alternative investments.

Our activities are primarily funded through annual membership fees. These are generously supplemented by our **Sponsoring Members**, to whom we also extend our gratitude for their continued support. The Sponsoring Members of AIMA are: Citigroup Alternative Investments (since 1995), Ernst & Young (since 2003), Fortis Bank (since 2000), Man Investments (since 2002) and Simmons & Simmons (since 2002).

First of all, I would like to acknowledge the substantial time and commitment given by **AIMA's Council** members. Their leadership, energy and insight continue to ensure that AIMA's strategy and its implementation meet the needs of the industry. Additionally, **AIMA's staff** continues to rise to the many challenges presented to them with dedication, professionalism and good humour. The Association's rapid growth has brought its own pressures; yet few of us may notice - the staff deserve our grateful thanks. They are:

- ✓ Florence Lombard, Executive Director
- ✓ Emma Mugridge, Director
- ✓ Mary Richardson, Director - Regulatory Department
- ✓ Kirk Taylor, Data & Systems Manager

- ✓ John Stephens, Membership Services Manager
- ✓ Ali Wilson, Executive PA

Also, our four new additions this year:

- ✓ Matthew Jones, Manager - Regulatory Department
- ✓ Gordon McAra, Head of Communications
- ✓ Vicky Aitchison, Senior Secretary
- ✓ Lucy Coates, Administrator

We are very pleased to advise that Russell Morgan of Ernst & Young will be joining us on tax secondment from October for six months. We are grateful for his assistance to manage the substantial increase in work in this area.

Thanks to the substantial support offered by a number of leading hedge fund practitioners in London, we were able to initiate our new communications initiative with the appointment of Hume Brophy Communications as media consultant. The AIMA team's complement was enhanced when Gordon joined in May.

Finally, we are pleased to have welcomed Rees Pollock our auditors. We continue to outsource the accounting function to MacIntyre Hudson, who provide excellent services to us.

MEETING OUR OBJECTIVES

This has been another exceptionally busy year for the Association - its Council, its staff, its committees and working groups. To all those who give so much, we thank you.

EDUCATION

Institutional Investors

AIMA sends the Journal, due diligence questionnaires and all research to all institutional investors on its confidential database at no charge. In addition, all investor contacts have personal login details to the AIMA website.

We are now in the process of creating a Committee solely of institutional investors whose aim will be to offer structured input into our activities as well assisting in the generation of new ideas.

AIMA South Africa continues to invest resources in building relationships with the institutional investor community. It has created a new position on its Executive to maintain relationships with investors and the regulator (of investors). Additionally, it is a strong supporter of the annual Institute of Retirement Funds conference which attracts many trustees.

The website

www.aima.org is one of the oldest hedge fund-related websites, having been in existence since 1996. It has received over 350,000 extended visits in the last 12 months: an increase of nearly 30%. During the coming months, the Communications Committee will continue to review our on-line resources and facilities.

An important addition has been the creation of an on-line survey and polling facility. Many of our manager members will have used this a couple of months ago, when we conducted a survey relating to the SEC hedge fund rule. You will see our poll on the home page of our site and we encourage you to participate whenever you visit.

AIMA Canada has redesigned and relaunched its website. It includes information on its many member and other events. Please visit aima-canada.org.

AIMA Japan continues to translate summaries of key articles from the AIMA Journal for its Japanese website, built for the local institutional investor community. Please visit aima-japan.org.

AIMA South Africa redesigned and relaunched its website earlier this year. Additionally, it has been using video conferencing to reach out to the global community. Industry leaders are specially selected to speak to the South African community on a wide range of issues. Institutional investors are also invited to these events. Please visit aima-sa.org.

AIMA Journal

The AIMA Journal is 14 years old and continues to attract the leading practitioners to share their experience and know-how to a wide, global readership.

We would not be able to publish the AIMA Journal without the unstinting support of our advertisers, almost all of whom are our

members. We are very grateful for your support.

The Journal is published quarterly and sent to all AIMA members, institutional investors, regulators and media, with a minimum circulation of 4,500, and a conservative estimate readership of 14,000. All articles are authored by members and are placed on www.aima.org for downloading.

Research

In the coming months, the Research Committee plans to release its Guide to Structured Products. This will add to the information in existence, offering insight into more detailed areas.

The Committee is developing a template which it hopes to have considered for adoption by data providers, which will identify the reasons for fund closures. This is done partly to address the misperception that 'hedge fund closure' = 'fraud'.

The winner of the 2006 AIMA Canada Annual Research Award is Dr Stephen Foerster of the Ivey Business School, University of Western Ontario. The Award was generously sponsored by Sprott Asset Management and Maple Financial.

AIMA Singapore has also launched an Annual Research Award in association with INSEAD. The winner's paper and details are expected shortly.

AIMA Australia was involved in the launch of the AXISS Australian Hedge Fund Industry study in New York and Sydney earlier this year.

Additionally, AIMA Australia and the University of New South Wales were pleased to release a Study of Superannuation Fund Attitudes to Hedge Fund Investing.

Asset Pricing and Fund Valuation in the Hedge Fund Industry

AIMA's study was released in April 2005. In early 2007, we will be releasing a greatly expanded document on this topic. It will serve to assist all interested parties on what constitutes good and bad practice in this area, as related to our original 20 Recommendations. We hope to see these Recommendations adopted by the industry and investor communities.

This is an immense undertaking and we are grateful to Olwyn Alexander of PricewaterhouseCoopers and Kieran Conroy of Citco for their chairmanship and to all members of the committee for their substantial writing efforts. We are particularly grateful to Dr David Woodhouse of Fauchier Partners who is editing the study.

Chartered Alternative Investment Analyst

4,000 candidates have gone through the programme in its first three years. It has been a real success and, as a co-founder, we continue to encourage the industry to support the programme. The CAIA complements other qualifications, such as the CFA. AIMA members are entitled to an exclusive discount and all details can be found at www.aima.org.

Communications

As highlighted, AIMA has substantially increased its resources dedicated to media relationships and other external communications.

Initially, this function is focused on Europe and will roll out to other parts of the world once established.

To date, we have issued 18 releases or statements in the past 4 months, met over 23 journalists from three continents, spoken to over 60 journalists, arranged 10 articles on hedge funds and issued a robust rebuttal to the European Central Bank's comments on hedge funds.

Additionally, Florence was interviewed on Bloomberg TV France while AIMA's Chairman, Deputy Chairman, Florence, Emma and Matthew have all undertaken media training to communicate more effectively on your behalf.

The Communications Committee is the engine room behind Gordon. It has split into a number of sub-committees this year:

- ✓ AIMA Members will have received the Guide to Media Relations recently completed by the Committee. This offers helpful and practical information on how to build media relationships. We hope that it will also encourage more in the industry to work with AIMA on this topic.
- ✓ An extensive Glossary of terms will shortly be made available to all members and any visitor to our website.

- ✓ Members of the Committee have been generating articles on a wide range of topics - institutionalisation, risk management, etc - for AIMA to use and distribute as its own in publications throughout Europe.
- ✓ As mentioned, this Committee is responsible for the creation of the on-line surveys and polls.
- ✓ A series of fact sheets is being generated that will particularly focus on key data: size of industry/AUM, number of funds, etc. It will also provide overviews on the stakeholders in the industry.
- ✓ Finally, the Committee continues its review of our website.

We are grateful to Mark Chambers of Man Investments for his Chairmanship of this Committee together with the sterling efforts and enthusiasm shared by our members.

Additionally, we have aimed to reduce the volume of emails we send to you with the release of the AIMA Focus in September. We hope that this will serve you more effectively and welcome any feedback on its content/frequency.

REGULATION and TAX

Tax Committee

This Committee, led by Neil Oliver of Ernst & Young again this year, raises and addresses all issues, changes and activity in the tax environments affecting and concerning members across all domiciles. Some examples of work or consultations undertaken (or ongoing) during this year by working groups or members in specific locations are:-

- **Guidance on the EU Savings Tax Directive** - an update for members
- Successful representations to the **Hong Kong** fiscal authorities on offshore fund profit tax exemptions
- Discussions with the **UK Treasury and Revenue** on various issues

SEC liaison

Since the registration rule affecting US and non-US managers was introduced in December 2004, we have argued the case of management companies already subject to regulation in jurisdictions other than the US. We feel strongly that managers should not be subjected to separate and/or duplicative regulatory requirements and

that cooperation among regulators would assist in this respect.

Together with the Sound Practices Committee, a working group prepared a "matrix" for members, showing how the SEC's requirements of registered managers affects / interacts with, e.g., FSA requirements. We will continue to pursue with the SEC the cause of 'dual registrants', now that the SEC's 'Hedge Fund Rule' (which came into effect in February 2006) has been 'vacated and remanded' by the 23 June decision of the US Court of Appeals in the *Goldstein* case. A delegation comprising Chairman Christopher Fawcett, US Council Member Neil Brown and Mary visited Washington in September. Meetings were held with various Staff and Commissioners of the SEC plus Congressmen and Senators on this issue and as to possible further legislative and regulatory developments.

Regulator liaison

Autorité des Marchés Financiers (AMF in France) - the AMF again joined a members' meeting in Paris in January to discuss on-going developments of the French regulations.

Financial Services Board (South Africa) - AIMA South Africa continued discussions with the FSB on aspects of the proposed regulations; members have worked on a task team and some major issues were resolved but some issues, such as regularity of pricing and dealing, systemic risk and the ability to remain unregulated, if a manager so chooses, remain to be determined. The Chapter produced a paper on systemic risk issues for the FSB.

Regulation specific to the registration of Investment Managers has been dealt with in another working group and excellent progression has been made that should culminate in the introduction of a specific hedge fund investment manager category by the end of 2006.

Spanish regulator (CNMV) - draft regulations were published in July 2005. Following consultation and contributions from AIMA members, final regulations for domestic single manager hedge funds (for institutional investors) and funds of funds (for retail investors) were published in November 2005 and supplemented in May 2006. Summaries in English were circulated to members.

Hong Kong regulator (SFC) and Revenue authority (FSTB) - the Chapter has been very involved, lobbying very successfully for profits tax exemption for offshore funds (the equivalent of the Investment Management Exemption in the UK) and concerning review of the authorisation regime.

The new authorisation regime relaxes the experience required to run funds but does not change the \$50,000 minimum for single manager funds (the minimum of \$10,000 for a fund of funds remains). Risk management and due diligence requirements have been tightened.

Financial Services Authority (FSA) in the UK - AIMA has met FSA teams involved in various aspects covered in their two consultation papers of June 2005 and spoke at the FSA's Asset Management conference in September 2005 (and 2006); we have also been involved with preparations for MiFID.

A very large working group of AIMA members prepared a response to **DP05/4** - "Hedge funds: A discussion of risk and regulatory engagement" - concerning the FSA's perception of risk and their survey of hedge funds as counterparties. The FSA then established a dedicated FSA "hedge fund supervision team" (trailed as a "centre of expertise") and, in Feedback in March 2006, put forward their chief concerns on valuation and pricing and on 'side letters'. Working groups of AIMA members have since worked on these subjects. A Guidance Note on side letters was issued to all members in September.

The FSA's **DP05/3** - "Wider-range Retail Investment Products - Consumer protection in a rapidly changing world" - reviewed the marketing of hedge funds and other products to private, retail investors. AIMA members produced a response to that paper and, in Feedback in March 2006, the FSA announced that it will consult on its proposals to allow onshore retail funds of hedge funds and other unregulated funds. AIMA is participating in the FSA's working group on such 'wider range products'.

European Commission - proposals for non-harmonised funds across Europe - a Green Paper issued by the EC's asset management team in July 2005 reviewed the legislative framework for UCITS funds; it found no

compelling case for EU legislation on hedge funds but the Commission called for an Expert Group on alternative investment strategies to be set up.

AIMA nominations formed a substantial part of the Expert Group on hedge funds, which reported in July 2006. AIMA has since submitted its response to that Report. AIMA will be meeting with the European Commission and the Parliament in the near future.

IOSCO - members of AIMA's working group on valuation and pricing are part of IOSCO's working group; they are planning to publish principles in this area.

International Regulatory Fora - following a very successful event in London in September 2005, a first pan-Asian meeting is being held in Hong Kong next week. A 4th international forum will be held in Europe in 2007. These events enable regulators to discuss issues of particular concern to them and to forge strong communications with their peers and industry in a small and private meeting.

Regulation & Taxation Resource

Overviews of the regulations in almost 30 countries can be found in the Members' area of www.aima.org [you will need to log in]. All contributions of updating material will be appreciated by Mary Richardson (mrichardson@aima.org).

SOUND PRACTICES

Business Continuity Management for Hedge Fund Managers Guide - was published earlier this year and sent to all members. Special thanks to Catherine Doherty from Investit, Mark Paton from JPSA for their contribution to this work.

AIMA Due Diligence Questionnaires - have undergone extensive review and will be re-released shortly.

Guide to Sound Practices for European Hedge Fund Managers - has also undergone a major review and should be released in November.

Standardised Fund Applications - a group is working towards standardising fund subscription documentation. It is focusing on structures recommended to managers in Europe, London and the US and on "the

highest common denominator” - starting with a form usable for a Cayman-domiciled hedge fund, managed in the UK and with a Dublin administrator. Administrators, lawyers and funds of funds managers are involved in this project.

OTHER INITIATIVES

We were pleased to announce the incorporation of the AIMA Hong Kong branch. We are now seeking a senior appointment for this office.

Additionally, Zoey Zou Dan joined us in Singapore where she will support the local Chapter as well as assisting CAIA throughout Asia.

The AIMA Japan Chapter has now become a legal entity in its own right. Corporate members of AIMA Japan will remain members of AIMA globally.

AIMA Cayman launched earlier this year. It is supported by both the regulator and government and already boasts over 40 members.

Industry conferences

AIMA's attendance at industry conferences has decreased considerably. This is due to them generally being a less suitable use of staff time than in previous years.

The AIMA Chapters are able to endorse events in their countries. AIMA globally has withdrawn from all but the Global Absolute Return Congress. AIMA invested heavily in the development of this event, which is written by and for investors. It forms part of our educational programme.

Industry meetings

On the other hand, AIMA has increased the number of member meetings and dinners held overall.

Events have been held in Australia, Canada, Cayman, Hong Kong, France, Ireland, Japan, Luxembourg, Singapore, South Africa, Switzerland, The Netherlands and UK. Many of these events have featured specially invited speakers, to whom we are

grateful. We are also grateful for the generosity of Albourne, Australian Stock Exchange, AXISS, Bloomberg, CAIA Association, Citigroup Alternative Investments, Chicago Mercantile Exchange, Clifford Chance, Deacons, Fortis, Goldman Sachs, Hong Kong Venture Capital Association, Horizon Cash Management, HSBC Alternative Fund Services, KPMG, London Stock Exchange, Man Investments, Montreal Exchange, Ogiers, RMF, Simmons & Simmons, Singapore Exchange and UBS Australia who sponsored AIMA events in the last 12 months.

In London the CFO/COO Committee held its first Forum for its peers. This was a very successful event. It is hoped to hold one of these each year.

Charitable events

The charity adopted by AIMA Australia raised over \$300,000 in 2005 and is expected to have beaten that record in 2006, just as this report goes to press. The Chapter, the members and the local industry have been huge supporters. All proceeds go to Cure Our Kids.

AIMA Canada's Events Committee was instrumental in organizing its golf tournament. The Chapter gave \$10,000 to a children's charity.

OUR THANKS

AIMA is your specialist trade association. Without your continued support, we would be unable to present the unified voice which is now listened to and responded to around the world. Similarly, without that support, the volume of informative and practical services and products made available to you would not be possible.

As our industry grows and as the investor and regulatory communities seek more from it, it has never been more important for us to work together.

AIMA thrives on innovation and participation. Please feel free to share any thoughts or comments with me, the new AIMA Council or any of the AIMA team.