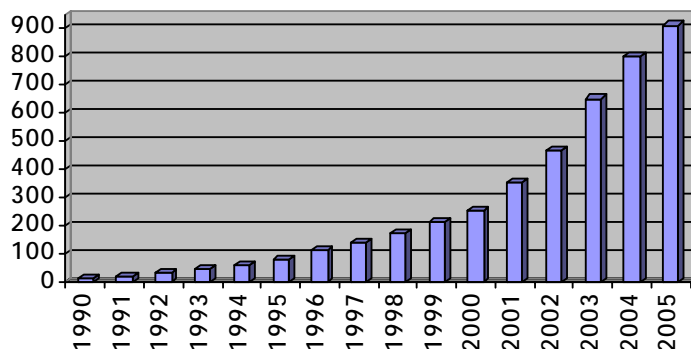




CHAIRMAN'S REPORT
By Christopher Fawcett, Chairman, AIMA
Annual General Meeting, Thursday 13th October 2005

We issue a warm welcome to all those attending the AGM, kindly hosted by Deutsche Bank once again. Our gratitude is extended to each member company for their continued support of the Association. During this - our 15th anniversary - year, we have seen corporate membership increase by 14% (net) to-date.

AIMA Membership Growth



The services and value offered by AIMA continues to meet the same high standards set in previous years. Feedback from members, investors and regulators continues to be positive.

At the time of writing (and the figure changes daily), AIMA has 911 corporate members, for whom we service over

3,200 individuals. Additionally, we provide complimentary access to most of our "products" to over 650 institutional investors and 70 regulatory and fiscal authorities.

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 mainly funded from the annual membership fees we receive from member companies. 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: Cargill Investor Services (since 1994), Citigroup Alternative Investments (since 1995), Ernst & Young (since 2003), Fortis Fund Services (since 2000), Man Investments (1995/6, since 2002) and Simmons & Simmons (since 2002).

On behalf of all members, I would like to acknowledge the great input and service that **AIMA's Council** members provide. Their leadership has been and continues to be invaluable in ensuring that AIMA maintains its exceptionally high reputation. Above all, **AIMA's staff** continues to meet the many challenges presented to them with outstanding dedication. They have coped exceptionally well with the demands of AIMA's very rapid growth, and the increasingly complex and technical nature of our industry, and they deserve our grateful thanks. They are:

Florence Lombard, Executive Director
Emma Mugridge, Director

Mary Richardson, Associate Director - Regulatory & Legal
Kirk Taylor, Data & Systems Manager
John Stephens, Membership Services Manager
Ali Wilson, Executive PA

A special thank you and farewell goes to Christophe Commergnat who had been helping on a consultancy basis and who has joined a member company in Paris.

Additional thanks are extended to Simmons & Simmons for kindly seconding Matthew Jones, Professional Support Lawyer, to AIMA for six months this year. This has been an extremely valuable initiative for the benefit of our members, AIMA and Simmons & Simmons. We are keen to secure similar assistance in the future. Please send all enquiries to Mary Richardson (mrichardson@aima.org).

Finally, we extend our thanks to the team at Deloitte & Touche in the UK our auditors for the last 10 years. Our requirements in this area have changed and we are proposing (during this AGM) to appoint Rees Pollock to be our new auditors. We continue to outsource the accounting function to MacIntyre Hudson who have provided excellent services to the association since August 2002.

FULFILLING OUR OBJECTIVES

There is so much that is undertaken by AIMA and, to keep your attention, we include below some of the highlights.

We have seen another very busy year for the AIMA Council, Committees, special working groups and staff of AIMA. Yet again, a relative few have given a great amount of time to the Association and, de facto, the industry. They deserve all of our thanks: without them, a lot of AIMA's input would appear far more slowly or not at all.

EDUCATION

Institutional Investors

AIMA continues to send 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.

The website

www.aima.org has been in existence since 1996. It now receives over 250,000 extended visits every year (representing a visit to at least three pages on the site). During the coming months, we will complement the existing level of information with an industry glossary, courtesy of the Marketing & PR Committee.

AIMA Journal

The AIMA Journal is still going strong and we hope that all saw the special 15th anniversary issue, published in September. We were fortunate to receive high quality input from esteemed investor and industry authors and convey our thanks for all of the kind messages extended by advertisers to whom we are grateful as their support enables us to publish the Journal. From the winter issue, the Journal becomes a quarterly title. It is sent to all AIMA members, institutional investors, regulators and media, with a minimum circulation of 4,000, and an approximate readership of 12,000. All articles are authored by members and are placed on www.aima.org for downloading.

Industry seminars/meetings

Member meetings have been held in France, Ireland, Italy, Luxembourg, Switzerland, the Netherlands and the UK as well as in the Chapters (Australia, Canada, Hong Kong, Japan, Singapore and South Africa). These include meetings at which only AIMA/industry business is discussed, wider events with invited speakers and video conferences of industry leaders for the South African community.

Investor seminars

In addition to remaining in regular contact with investors around the world, the Chapters - particularly - have been successful in generating local investor interest, such as AIMA Singapore and AIMA Japan who hold regular, educational investor briefings.

Research

We were delighted to release the 'Asset Pricing and Fund Valuation Practices in the Hedge Fund Industry' research in April this year. Launch events were held in Bermuda, Hong Kong, Ireland, Luxembourg, the Netherlands, South Africa, Switzerland and the UK. *This research was generously sponsored by PricewaterhouseCoopers, BISYS, Citco, Fauchier Partners and FRM.*

Chartered Alternative Investment Analyst

As a co-founder we continue to encourage the industry to support the programme. CAIA complements other qualifications, such as CFA. AIMA members are entitled to an exclusive discount and all details can be found at www.aima.org. 3,000 delegates from 46 countries have now registered with the programme and the SEC has recently announced that it will be integrating the course into their existing internal training programme.

Press

AIMA's office deals with hundreds of specialist media around the world and sends them the AIMA Journal, regular press releases and summaries of AIMA research and other projects. AIMA receives enquiries from journalists every day. Much of the time, it can issue an immediate response, while at other times it contacts members who are specialists in specific fields to provide further information. We are most grateful to our PR agency, Walek & Associates in New York, which has provided its services to AIMA at no charge.

REGULATION and TAX

Tax Committee

This Committee, led by Neil Oliver of Ernst & Young 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 (and updates) for members
- Ongoing representations to the Hong Kong fiscal authorities on offshore fund profit tax exemptions
- Instigation of discussions with the UK Treasury and Revenue on various issues

SEC liaison

Since the registration rule affecting US and non-US managers was introduced last December, we have sought to argue the case of non-US managers already subject to regulation in their own jurisdictions. We feel strongly that managers should not be subjected to separate and/or duplicate regulatory requirements and that cooperation among regulators would assist in this respect.

Together with the Sound Practices Committee, a working group has been preparing a "matrix" for members, showing how the SEC's requirements of registered managers will affect / interact with, e.g., FSA requirements. We intend to pursue with the SEC the cause of 'dual registrants', although it is clear that there will be no relaxation or 'safe harbour' provisions offered before February, 2006 (when the rule requires managers to register).

Regulator liaison

Autorité des Marchés Financiers (AMF in France) - the AMF joined a members' meeting in Paris in January, following issue of their near-final regulations, enabling the establishment and promotion of single strategy hedge funds and tripartite contractual arrangements governing responsibilities between prime brokers and custodians. Target funds that can be invested in by French funds must comply with specified criteria (as set out in guidance provided by AIMA member, Simmons & Simmons in Paris, in February).

Ministry of Finance, BaFin, Federal Council (Germany) - Council Member Achim Pütz, also Chairman of the Bundesverband Alternative Investments e.v. (BAI), continues discussions with the regulatory authorities on behalf of members on investment and tax law and regulations.

Financial Services Board (South Africa) - AIMA South Africa continues to discuss various aspects of the proposed regulations; members have worked on a task team and major issues have been resolved. 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. It appears likely that fund managers will be regulated, as a separate sub-class under existing classification. The Chapter is working with market experts on systemic risk issues and with the FSB to amend regulation on maximum investments into specific asset classes (Regulation 28) - a specific class for hedge funds with a 10% target has been proposed.

Spanish regulator (CNMV) - draft regulations were published in July ,to allow domestic single manager hedge funds - for institutional investors - and funds of funds - for retail investors. Approval of final regulations, following lengthy consultation with industry, and an implementing decree are now awaited. A summary in English of the draft regulations was made available to AIMA members, by the law firm of Cuatrecasas and is available via our website.

Hong Kong regulator (SFC) and Revenue authority (FSTB) - the Chapter has been very involved, lobbying both authorities on review and revision of the authorisation regime and as to profits tax exemption for offshore funds; discussions to date have been effective but they continue as to definition / interpretation of key terms such as 'resident', 'non-resident' and 'central management and control'.

The new authorisation regime will relax the experience required to run funds but not change the \$50,000 minimum for single manager funds (keeping it at \$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 themed visits to managers and a survey of prime brokers and other counterparties and was invited to speak during a half day devoted to hedge funds at the FSA's Asset Management conference in September; we have also attended industry meetings on MiFID.

The largest ever working group of AIMA members is preparing a response to one of the two discussion papers issued by the FSA in June:

- DP05/3 - "Wider-range Retail Investment Products - Consumer protection in a rapidly changing world" - reviews the issue of marketing hedge funds and other products to private, retail investors, in the light of the UK's importance as a domicile for managers, increasing pension fund allocations to hedge funds and changes in regulatory regimes elsewhere in Europe; and

- DP05/4 - "Hedge funds: A discussion of risk and regulatory engagement" - considers the FSA's perceptions of risk and their surveys of managers and prime brokers as part of an assessment of hedge funds' role in the financial system and impact on market stability. It seeks comment on steps taken / action proposed - including the establishment of a dedicated FSA "hedge fund centre of expertise" and suggestions as to a "code of conduct" and to improve valuation.

Responses to both papers are due by 28 October.

European Commission - proposals for non-harmonised funds across Europe - AIMA attended a meeting with the Commissions' asset management section in Brussels in February and then provided information and data to the section, particularly on funds of hedge funds and in advance of the Commission's 'Green Paper' issued in July.

The Green Paper (comment is due by 15 November) reviews the legislative framework for UCITS funds and finds no compelling case for EU legislation on hedge funds, although the Commission believes some issues deserve further attention (due to retail opportunities opening

up, exposure of the investment banking sector and impact on financial instruments markets). An industry working group on alternative investment strategies is suggested.

IOSCO - AIMA was invited to attend an *in camera* meeting of Standing Committee 5, the Investment Management committee, in September. This committee is looking at issues concerning hedge funds and, particularly, at valuation and pricing of hedge fund assets. It has requested constructive input, via the FSA in the UK, for consideration as to whether IOSCO should take any initiative on valuation.

3rd International Regulatory Forum - AIMA held this very successful private event in London in September (in a week when FSA and IOSCO decided to hold meetings there also); 29 national and international regulatory authorities attended and discussed perceptions of risk, 'retailisation', issues concerning prime brokerage / custodians and equal treatment of investors. A short summary will appear in the Journal.

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

Offshore Alternative Fund Directors' Guide - this important product, released in May, was the work of a special working group. It has proved to be a great success and thousands of copies have been distributed globally. *Thanks go to Simmons & Simmons and Custom House Administration & Corporate Services for their generous sponsorship.*

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 with a Dublin administrator. Administrators, lawyers and funds of funds managers are involved in this project.

OTHER INITIATIVES

AIMA Canada Chapter

Following an election during the summer, Jim McGovern was re-elected as Chairman (thus, Council member) for his second two year term. He is supported by an experienced, able and elected Executive. The Canadian community has responded very well to its own challenges throughout the year, having been actively communicating with the media as well as members of the Canadian senate.

AIMA Singapore Chapter

The Chapter released a guide to hedge funds for the local investor community, which has been distributed throughout the region. **Our thanks go to HSBC for its sponsorship of this book.**

AIMA South Africa Chapter

Following an election this month, Ian Hamilton has been elected to Chairman (thus, Council member). The Chapter has also elected its Executive and is looking forward to continuing its vital work with the regulator to develop an on-shore hedge fund regime.

AIMA Hong Kong Chapter

The Chapter continues to grow and develop its activities. The main focus has been on regulatory and fiscal discussions and reviews, as mentioned above. AIMA has opened a part-time office in Hong Kong to support the Hong Kong and Singapore Chapters.

ALFI/AIMA Conference

For the third year running, AIMA has supported ALFI, the Luxembourg trade association's conference on hedge funds, with involvement from local members.

Industry presentations

AIMA Council Members and senior staff have represented the Association and industry at many events throughout Europe, Asia, Australia, North America and South Africa. They have spoken at commercial events and - perhaps more importantly - at private events for investors, governments and regulators.

New staff and office

We are very pleased that the Secretariat is now in its new offices in Mayfair, London. This location is ideal to service members both working in and visiting London. It has enabled the association to increase its staffing level. The AIMA team asks me to remind you that it extends a warm welcome to all those in the area.

Commercial events

As most will know, AIMA does not run commercial events - focusing our attention, instead, on the direct and non-commercial needs of our members. During this year, the Council - with the support of the Conference Committee - has made the decision for AIMA to pull back from involvement with commercial event organisers. The increasing number of events and the demands that the organisers place on AIMA's Secretariat has detracted too much attention from our primary focus. We continue to list certain events on our website for which members can claim registration discounts.

FORTHCOMING PROJECTS

We have been approached by a number of members who see a great and pressing need for AIMA to increase substantially its **media liaison** and external communications. After review, we realise that a full-time member of staff will be required to co-ordinate these activities around the world. We will also need to appoint a specialist financial **PR agency**. Additionally, the rapidly growing interest from regulatory and fiscal bodies requires us to appoint a new, full-time **regulatory senior staff member**. This represents a substantial increase in our budgets and funding is being sought from the larger members to get the PR initiative off the ground. Additionally, the AIMA Council is reviewing all budgets and membership fees for 2006.

We will be holding a **cocktail party** to celebrate our 15th anniversary for members in Europe and the US on 1st December 2005, in London. A dinner has already been held in Hong Kong in September for the Asian members.

Following the great success of our third **international regulatory forum** in September, we are now following up with key regulators around the world, to determine their future requirements. We plan to hold a pan-Asian regulatory forum in 2006 and continue our in-depth and frequent communications with regulators the world over.

The **Research Committee** is gearing up to take a meaningful and qualitative review of institutional investor needs, to ensure that we deliver research on the right topics and in the right way (leaflets, seminars, etc.).

AIMA is your specialist trade association. Your continued support is vital to ensure that we respond to the needs of the industry and present a unified, powerful and recognised voice on behalf of all our members. Without your support, the many projects listed here would not be possible. Our industry continues to grow: in terms of assets, numbers of funds and numbers of companies offering services and particularly in regard to the amount of regulatory attention that we are receiving. Working together, AIMA and its members will continue to enhance industry practices and provide valuable information and education to all interested parties.

You are always welcome to share your thoughts with me and any of the Council members or staff on any issue.

www.aima.org

Enhancing understanding, sound practices and industry growth