

AIMA's Review of the Year 2011

END-OF-YEAR MESSAGE FROM ANDREW BAKER



Andrew Baker

*Chief Executive
Officer, AIMA*

2011 has been a tough year for many in the industry, but I'm glad to say that AIMA is in good shape. Membership is at an all-time high, having surpassed the pre-crisis level of membership. The renewal rate this year was also the highest for years.

Our members continue to be closely involved in the work of the association, contributing to very important output such as responses to regulatory consultations and industry guides. We have over 30 committees and working groups spanning an enormous variety of different subjects and areas, representing considerable expertise on behalf of the entire industry.

We have increased the size of our team to respond to the massive regulatory, political and communications challenges facing the industry. Although most major legislation affecting the industry has been agreed by lawmakers, in many jurisdictions we are now into the implementation or "detail" phases of new regulation being introduced, and thus the need for focused industry engagement remains great.

For example, our AIFMD Level 2 working group features around 100 members, and is dealing with numerous detailed issues. The agencies implementing the Dodd-Frank Act in the United States are engaged in an enormous amount of detailed rule-making, which has required a huge number of responses from the industry. In all we have submitted over 70 responses to regulatory consultations in 2011, the most AIMA has ever produced in a single year. The global scope of our work is underlined by the fact that we have submitted more responses to U.S. agencies than to E.U. officials while our offices across Asia-Pacific have been extremely busy responding to local regulatory initiatives. We do not foresee any let-up in 2012.

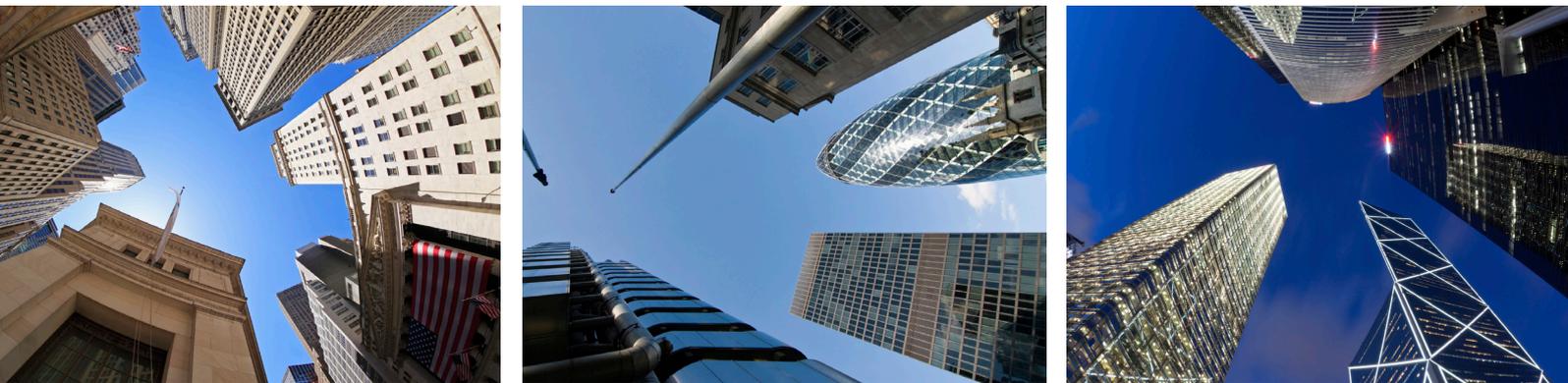
All this is happening at a time of massive market turmoil, creating additional challenges for the industry, in business terms and ongoing political and regulatory actions. This has led our Government and Regulatory Affairs and Communications teams to channel considerable resources into advocacy initiatives on behalf of the industry as part of their ongoing campaign of engagement with policymakers and the media respectively.

As we have increased the scope and intensity of our activities globally, so we are liaising even more closely with our members. One of the things we have been hearing from our members is that they would welcome more AIMA events, and so I'm pleased to say that during 2012 we will be increasing significantly the number of briefings, networking events and seminars we organise for our members globally. Our members also have told us how highly they value our industry guides, and with that very much in mind we are planning to revise and augment our DDQ series and our Guides to Sound Practices during 2012.

Finally, AIMA's Council has undertaken some important reforms which are designed to give our members an even greater voice in the governance of the association. These include increasing the number of elected board directors, more balanced geographic representation on the board, and term limits for those serving, all intended to make our members' voice and goals clearly reflected in our governance model and industry initiatives, and the membership's AIMA representatives more accountable.

We look forward to continuing our work on behalf of the global hedge fund industry in 2012.

Andrew Baker



HIGHLIGHTS OF 2011

Government and Regulatory Affairs

Alternative Investment Fund Managers Directive: On Level 2, the European Securities and Markets Authority (ESMA) took up many of our initial suggestions on flexibility, proportionality and the use of existing legislation wherever appropriate. The final ESMA advice improved significantly in a great number of areas, including third countries, depositaries, capital requirements and reporting.

Dodd-Frank Act registration exemptions: Following a number of submissions and meetings with Securities and Exchange Commission (SEC) staff, important exemptions to registration for non-US managers were obtained.

Dodd-Frank Act reporting requirements: AIMA provided extensive evidence to the SEC in support of the raising of the form PF reporting threshold, which moved from \$1 billion to \$1.5 billion in assets under management.

OTC derivatives engagement (US): The SEC and Commodity Futures Trading Commission (CFTC) were receptive to ideas on international coordination of the OTC clearing framework, an issue AIMA took an early lead on. The SEC/CFTC responded positively to our arguments on definitions of major swap participants and swap dealers. The SEC/CFTC also were responsive to our arguments on disaggregation/independent account controllers.

OTC derivatives (Hong Kong): We supported discussions about the design of the Hong Kong OTC derivatives clearing regime.

European Market Infrastructure Regulation (EMIR): The European Parliament (EP) took up the cause of clients by championing risk committee seats for clients. Segregation received a more serious hearing in both the Council and the EP, and is now described in greater detail, including individual segregation. Meanwhile we cooperated with a number of associations in flagging the crucial third country issues, encouraging dialogue between EU and US authorities to ensure that the EU regime remains open and that EU clients can clear with third country central counterparties.

Short selling regulation (EU): While the ban on naked credit default swaps (CDS) was a setback, the scope of CDS contracts that are allowed to hedge widened from the original EP proposal, while an opt-out clause was granted to EU member states who do not wish to impose bans.

Short selling regulation (HK): The issue of criminal liability was revised by the Hong Kong Securities and Futures Commission (SFC) following input from AIMA.

Shadow banking: We worked closely with the International Organization of Securities Commissions (IOSCO) and the Financial Stability Board (FSB) to ensure that it is recognised that hedge fund firms are asset managers rather than shadow banks.

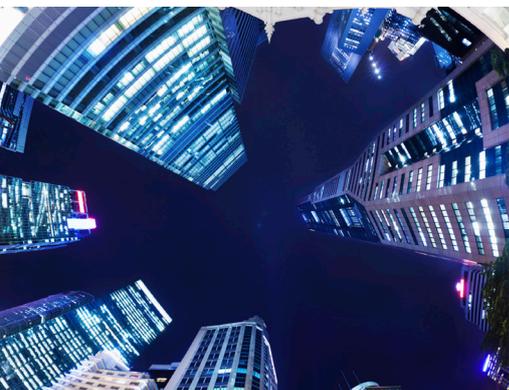
Switzerland: There was constructive engagement on the review of the Collective Investment Schemes Act (CISA). We believe the Swiss authorities are now going to reduce the scope of the original proposal.

Remuneration (EU): A good result was obtained in making the application of the rules originally designed for the banking industry more appropriate for asset managers.

Foreign Account Tax Compliance Act (FATCA): AIMA's tax committee made several submissions to the US Treasury (UST) regarding implementation issues and the impact of FATCA. We also had a meeting and follow-up with UST and a further submission on specific issues. IRS guidance issued July 2011 introduced phased implementation. We also launched an evolving Q&A on our website.

Financial Transactions Tax (FTT): The AIMA tax committee held meetings and ongoing dialogue with HM Treasury on the impact of the FTT proposed by the European Commission. We responded to a House of Lords' call for evidence and are preparing a





research and position paper on the potential impacts of the FTT. We also liaised with the finance ministries of a number of other EU member states to discuss the potential impact of and behavioural response to the FTT.

Hedge fund manager training: Six separate training modules were successfully held.

Member involvement: We now have more than 40 committees and working groups globally, comprising well over 500 individual member contacts. As always, we are enormously grateful for their time and support.

Communications

Thought leadership articles: AIMA authored more than 15 columns for major newspapers and industry publications in 2011 including the *Financial Times*, *City AM*, *InvestHedge* and *HFMWeek*.

Global media engagement: We maintained an ambitious programme of engagement with influential journalists and key publications around the world.

Off-the-record media briefings: We continued our programme of regular off-the-record media briefings by industry figures for members of the press, which has resulted in better-informed reporting of the industry.

Focus on US: Solid progress was made in the US, where we liaised more closely with our press colleagues in both New York and Washington DC, an effort supported by our PR advisers in the US, Walek & Associates.

Non-English speaking EU initiative: We engaged more closely with the media from the non-English speaking EU, including the important markets of Germany, France, Italy, Spain, the Netherlands and Switzerland. We also translated into French and German our global industry newsletter (see below).

Global industry newsletter for policymakers: Since the financial crisis, AIMA has sought to highlight the social and economic benefits of hedge funds to policymakers, regulators and the media. As part of this initiative, we produced a Global Hedge Fund Industry Newsletter.

Industry value survey: We commissioned a major and comprehensive survey of AIMA members, conducted by KPMG. The results will be presented next year alongside Imperial College London research into the value provided by the global hedge fund industry to markets, the broader economy and to financial stability.

AIMA's Guide to Media Relations: We published an updated *AIMA Guide to Media Relations* to assist those who wish to improve their firm's engagement with the press, or indeed that of the industry as a whole. The new Guide includes new material on corporate communications, crisis management, broadcast media, new/social media and confidential information.

AIMA brochure: We produced a new global brochure which gives a general introduction to AIMA and the services we provide to our members.

Global website review: We undertook a review of our global website (www.aima.org) and made a series of recommendations for improving it. The new version of the global website will be launched in Q1 2012. AIMA Hong Kong also launched a new micro-site (www.aima.hk).

Hong Kong Head of PR, Membership and Events: AIMA Hong Kong hired Lily Lin, a former journalist, as its first Head of PR, Membership and Events.

Industry co-ordination: Through the work of the AIMA Communications Group we continued to liaise closely with our PR colleagues at AIMA member firms and PR agencies with industry clients. The group's work in 2011 included contributions to the new *AIMA Guide to Media Relations* (above) and a seminar on social media for manager members.





Events

Member events: Over 60 events were organised for our members globally.

AIMA Annual Conference: The 2011 AIMA Annual Conference was held in London in September 2011, and drew more than 350 attendees, representing 250 member firms from more than 20 countries.

AIMA Policy & Regulatory Forum: AIMA's Policy & Regulatory Forum 2011 was held in Brussels and boasted speakers from the European Commission, the US Department of the Treasury, the Federal Reserve Bank of New York, the Financial Stability Board, the European Parliament, AMF, BaFIN, CIMA, CONSOB, the FSA and Hong Kong's SFC.

Conference fee discounts: AIMA secured discounts for members at over 30 major industry conferences globally during 2011.

Speaking engagements: AIMA principals conducted more than 60 speaking engagements at events around the world.

Education and Sound Practices

AIMA's Investor Steering Committee guide: AIMA launched a new paper by our Investor Steering Committee, *A Guide to Institutional Investors' Views and Preferences Regarding Hedge Fund Operational Infrastructures*, which details the preferences of institutional investors about operational matters.

Smaller Managers' Group: AIMA established the Smaller Managers' Group, to provide a forum for smaller managers to consider and share information on those challenges and opportunities which are common to management firms in the early stages of life. The move drew praise from the media, with *EuroHedge* magazine describing it as "a very welcome and important step".

Updated DDQ for CTAs/Managed Futures Managers: AIMA published revised illustrative Due Diligence Questionnaires (DDQs) for both Prime Brokers and Commodity Trading Advisors and Managed Futures Managers. In addition, we also published a guide to selecting a prime broker.

AIMA Australia IAC: AIMA Australia formed a standing Investor Advisory Committee (IAC), comprised of senior investment executives from large superannuation and endowment funds.

Membership

Member peak: We have over 1,300 corporate members in over 40 countries – the most in our history.

High renewal rate: The membership renewal rate in 2011 was 89%.

New members: We added almost 200 new members in 2011. Our membership in the US grew 18%. In Hong Kong, it also increased by about 18% while the number of members in Canada is now at the level it reached before the onset of the financial crisis.

Manager uptake: Hedge fund managers comprised 76% of new member applications.

Brazil initiative: We launched an initiative to engage with the Brazilian hedge fund industry, including the appointment of a local representative, Michelle Noyes of BRZ Investimentos.

Sponsoring members: Deutsche Bank joined AIMA's group of sponsoring members, which also includes CME Group, Credit Suisse Prime Fund Services, Ernst & Young, Fauchier Partners, FundLab, Man Investments and Simmons & Simmons. We are extremely grateful to all our sponsoring members for the support they have provided in 2011.



AIMA has more than 1,300 corporate members in over 40 countries and is represented in all of the major financial centres globally

Long track record

AIMA was founded in 1990 and has grown into the only truly global hedge fund industry association.

Representing the industry

We represent the world's hedge fund industry to regulators, policymakers, investors, the press and other stakeholders.

Speaking for the whole industry

AIMA's members come from all parts of the global industry – including managers, service providers, allocator managers (including FoHFs), advisers and investors.

Regulatory updates

AIMA members receive comprehensive regulatory updates.

Education and Sound Practices

AIMA members are given access to our full range of sound practices material, covering hedge fund management, valuation and asset pricing, administration, governance, business continuity, due diligence questionnaires for managers and service providers, offshore alternative fund directors and fund of hedge funds managers.

AIMA Knowledge Centre

Our members get access to our online library of industry knowledge and expertise. Additionally, they receive our weekly newsletter, covering all the latest key industry

and regulatory developments, and our flagship quarterly publication, the *AIMA Journal*.

Global forum

Our members are able to share ideas and influence outcomes by either joining one of our many committees and regulatory working groups or by taking part in one of our many events around the world, including our global Policy & Regulatory Forum and the AIMA Annual Conference.

A positive start

Due to the amount of information available from AIMA and assistance we can provide through sound practices guidance, membership of AIMA is often one of the first steps taken by new firms in the industry, wherever they are based.

Member events

Our Annual Conference, open to all AIMA members, attracts leading speakers from the industry and among policymakers, and hundreds of delegates, from around the world. We also hold regular events for our members globally, which provide helpful intelligence to delegates and networking opportunities.

Loyal members

AIMA membership renewal rates are regularly above 85%.

Global members

Discounts on membership fees are available to firms with offices in multiple locations.

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