INVESTORS' COMMITTEE RELEASES
COMPREHENSIVE REPORT ON BEST PRACTICES
Report Sets New Standards for Fiduciaries and Investors in Hedge Funds

Today, the Investors' Committee (IC), formed by the President's Working Group on Financial Markets in September 2007, released "Principles and Practices for Hedge Fund Investors," a report that sets new standards to address the decision to invest in hedge funds, and the management and oversight of hedge fund investments. The IC report:

- Includes both a Fiduciary's Guide and an Investor's Guide. The Fiduciary's Guide provides recommendations to individuals charged with evaluating the appropriateness of hedge funds as a component of an investment portfolio. The Investor's Guide provides recommendations to those charged with executing and administering a hedge fund program once a fiduciary has decided to add hedge funds to the investment portfolio.

- Recommends best practices that offer a guide for responsible investment in hedge funds.

- Increases accountability for hedge fund investors and managers: This is the first time that an industry best practices report is being released with a separate Asset Managers' report that is geared to promote the adoption of healthy practices for both the management of and investment in hedge funds.

The first task of the IC was to develop best practices for hedge fund investors and those with fiduciary responsibilities for investment portfolios. The IC includes representatives from a broad array of investors and investor advocates. The committee members include public and private pension funds, endowments, foundations, hedge funds, labor organizations and hedge fund consultants. All authors of today's report strongly endorse the widespread adoption of these best practices for fiduciaries and investors who are considering or are already invested in hedge funds.

"Not only are we trying to provide the very best practices recommendations, our goal is to have those practices be accepted by both investors and hedge fund managers and perhaps most importantly, to have those recommendations become common practice throughout the industry," said Russell Read, Chair of the IC and CIO of the California Public Employees' Retirement System.

CONTEXT FOR THIS REPORT: This report comes at a critical time in the hedge fund industry. Over the past three decades, the hedge fund industry has grown to 8,000 funds with close to $2 trillion in assets and has become an important participant in the financial markets. As hedge funds have expanded in scope by investing and trading in markets and products all over the world and as sophisticated institutional investors have committed more of their portfolios to hedge funds, there is a need for more robust business practices.

This report is also being released at a time when financial markets are facing considerable stress. It is clear that a substantial debate is underway among policymakers on how to address these challenges. The current stress on our financial infrastructure underscores the need for hedge funds, along with other market participants, to evaluate and implement strong practices to better manage their businesses and reduce systemic risk. No set of best practices can provide solutions to all of the complex issues facing the financial industry. However, we believe that regardless of the outcome of the broader policy debate, the robust practices set forth in this report will be critical to, and consistent with, the goal of responsible investing in hedge funds.

KEY FEATURES OF THE REPORT

I. **Provides a Fiduciary's Guide defining a set of practice standards and guidelines for fiduciaries considering or already investing in hedge funds on behalf of qualified individuals and institutions.** Today's report asks hedge fund fiduciaries to accept that they play an important role and therefore must take a comprehensive approach to investing in hedge funds. This section of the report emphasizes the following areas:
   - **Hedge fund investment and allocation**: The report lists the questions that should be addressed to determine if a hedge fund program is appropriate for their investment portfolio.
   - **Hedge fund investment policy**: Fiduciaries should develop explicit policies that define the key features and objectives of the hedge fund investment program.
   - **Due diligence process**: The report provides a framework for understanding and assessing the appropriateness of hedge fund investments.
   - **Conclusion:** Prior to embarking on a hedge fund program fiduciaries should be satisfied that incorporating hedge funds into a portfolio would improve its risk and reward profile, and increase the probability of meeting the applicable investment objectives.

II. **Recommends best practices for investors in hedge funds.** These include:

   - **Due diligence process:** Proper due diligence needs to be tailored to the circumstances and objectives of each investor and to the particular risk and reward character of each hedge fund investment.

   - **Comprehensive Investor Risk Management:** This overview proposes best practices for establishing the investor's own risk management framework and best practices for evaluating the risk management framework employed by a hedge fund manager.

- **Legal and Regulatory**: This section provides best practices on investment structure, assessing the domicile of hedge fund investments, understanding the terms, establishing fiduciary duties of the hedge fund manager, assessing the regulators, and understanding the rights of other investors.

- **Valuation**: A full understanding of valuation can be the key to deciding whether to make an investment and for assessing properly the returns from that investment over time.

- **Fees and expenses**: Each investor should develop a comprehensive philosophy regarding the payment of fees and expenses for all investment management services contracted, relative to the returns sought and risk taken by an investment strategy.

- **Reporting**: Reporting is a key concern for investors particularly with regard to the type of transparency needed to assess risk exposures properly. Investors should seek sufficient reporting to allow them to make informed investment decisions.

- **Taxation**: This section recognizes the extent to which hedge fund disclosures explain all tax considerations that may impact a hedge fund's returns.

- **Conclusion**: Hedge funds are a legal construct and represent a wide range of strategies. They are not an asset class in the traditional sense. More than many other investment vehicles, hedge funds require in-depth and continuous oversight by their investors.

III. **Increases Accountability for Hedge Fund Investors and Managers Alike:** This report is released together with a separate report authored by some of the leading hedge fund managers, representing many different strategies. These reports underscore that both the investor and the hedge fund manager are accountable and must implement appropriate practices to maintain strong controls and infrastructure. This is the first time investors and managers have come together to achieve this goal. The Asset Managers' report is designed to help set forth best practices that will be critical and consistent with the goal of reducing systemic risk. As a result, taken together, these reports are intended to provide a new kind of accountability to promote better managed hedge funds and better educated investors, and to help ensure these best practices can become widely adopted.