ASSET MANAGERS' COMMITTEE RELEASES
COMPREHENSIVE REPORT ON BEST PRACTICES
Report Sets New Standards for Hedge Fund Industry

Today, the Asset Managers' Committee (AMC), formed by the President's Working Group on Financial Markets in September 2007, released "Best Practices for the Hedge Fund Industry," a comprehensive report that sets new standards to reduce systemic risk and foster investor protection. The AMC report:

- Calls on hedge funds to adopt comprehensive best practices in all aspects of their business, including the critical areas of disclosure, valuation of assets, risk management, business operations, compliance and conflicts of interest.
- Recommends innovative and far-reaching practices that exceed existing industry-wide standards.
- Increases accountability for hedge fund managers: This is the first time that an industry best practices report is being released with a separate Investor report that will promote accountability and help ensure these best practices are adopted.

The first task of the AMC was to develop best practices for the hedge fund industry. The AMC includes representatives from a diverse group of hedge fund managers representing many different strategies. All authors of today's report, firms with over $140 billion in assets under management, will implement this report.

"The hedge fund industry has a critical responsibility to adopt strong business practices that reflect both its growth and the important role it plays in global financial markets," said Eric Mindich, Chair of the AMC and CEO of Eton Park Capital Management.

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 reducing systemic risk.

KEY FEATURES OF THE REPORT

I. **Calls on Hedge Funds to take a Comprehensive Approach to Strengthening Business Practices:** Today's report asks hedge funds to accept that they play an important role in the financial marketplace and therefore must take a comprehensive approach to best practices in all phases of their business. This report emphasizes controls and enhanced procedures in five critical areas:
   - **Disclosure**: Strong disclosure practices that provide investors with the information they need to determine whether to invest in a fund, to monitor an investment, and to make a decision to redeem their investment.
   - **Valuation**: Robust valuation procedures that call for a segregation of responsibilities, thorough written policies, oversight and other measures for the valuation of assets, including a specific emphasis on hard-to-value assets.
   - **Risk management**: Comprehensive risk management that emphasizes measuring, monitoring and managing risk, including stress testing of portfolios for market and liquidity risk management.
   - **Trading and business operations**: Sound and controlled operations and infrastructure, supported by adequate resources and checks and balances in operations and systems to enable a manager to achieve best industry practice in all of the other areas.
   - **Compliance, conflicts, and business practices:** Specific practices, such as a written code of ethics and compliance manual, to address conflicts of interest and promote the highest standards of professionalism and a culture of compliance.

II. **Recommends Innovative and Far-Reaching Protections That Exceed Current Industry Practices.** These include:

   - **Disclosing Hard-to-Value Assets:** Some of the challenges financial institutions have faced in the past several months relate to the valuation of hard-to-value financial products, such as complex derivatives. There will soon be new accounting standards in place that require financial institutions to categorize assets in three levels based on how difficult they are to value. This report calls on hedge funds both to implement these new standards and then go beyond them by disclosing, on a quarterly basis, the portion of their assets and profit (or loss) attributable to assets in each of the three levels.

   - **Comprehensive Investor Disclosure Based on Public Company Model:** Each year, public companies provide investors with an annual summary of their performance; qualitative and quantitative quarterly reports; and timely updates of significant events. This report, for the first time, draws from the key principles of the public company disclosure regime and calls for hedge funds to:

    - Provide investors with a comprehensive summary of their performance, including a qualitative discussion of hedge fund performance and annual and quarterly reports;
    - Make timely disclosures of material events; and
    - Produce independently audited, GAAP-compliant financial statements so investors get accurate, independently verified financial information.

- **Segregating Duties to Minimize Conflicts of Interest**: Having a system of checks and balances where key functions are segregated to minimize conflicts of interests is critical to all complex financial institutions. As such, we developed new practices to:

    - **Address conflicts:** Because it is impossible to anticipate every potential conflict of interest relevant to the hedge fund industry, the report recommends managers establish a Conflicts Committee to review potential conflicts and address them as they arise.
    - **Segregate functions:** This report recommends segregating functions between portfolio managers and non-trading personnel who are responsible for implementing the valuation process.

- **Assessing Counterparty Risk**: Recognizing the extent to which hedge funds deal with many counterparties, the report recommends managers assess the creditworthiness of counterparties and understand the complex legal relationships they may have with these counterparties.

III. **Increases Accountability for Hedge Fund Managers:** This report is released together with a separate report authored by some of the leading institutional investors, including pension funds, foundations, and labor organizations. 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 Investor report, which is designed to help investors considering hedge fund investments, recommends that investors use the AMC best practices as a guide to conduct due diligence reviews of hedge funds. As a result, taken together, these reports will provide a new kind of accountability, help ensure better managed hedge funds and better educated investors and help ensure these best practices are adopted.

The full Report can be found at www.amaicmte.org.

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THE ASSET MANAGERS' COMMITTEE

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