# Hedge Fund Standards Board

# Annual Report 2009

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# Foreword

*The past year was a year of transition for the hedge fund industry. After the great financial panic of 2008, which led to an extraordinary level of redemptions and a substantial reduction in the number of hedge funds operating in the market, 2009 saw a return of investor interest and the reemergence of more normal market conditions for hedge funds.*

*In spite of the losses experienced in 2008, many investors, particularly large and sophisticated institutional investors, have concluded that the concept of absolute return is more attractive than ever and that hedge funds offer less volatile and superior risk/return investment opportunities than other forms of investment.*

*It is interesting that many institutional investors have started increasing their allocation to hedge funds in a year of stock market recovery, when it could be expected that simply following the market would be enough to provide very strong returns. Thus, despite the fact that some of the traditional high net worth investors have not yet returned to the hedge fund market, the industry may in fact be transitioning to a more stable and more knowledgeable investor base.*

*However, one of the legacies of the financial crisis has inevitably been a raft of proposals for new regulation of the financial industry including hedge funds. The Hedge Fund Standards Board has been closely involved in this debate, working with regulators and policymakers to ensure that the complementary role the Standards can play in the regulatory process is understood. We have also been working to ensure that new regulation is proportionate and appropriate and that the role of the industry within the financial system is understood. To these ends we participated in more than 50 conferences, seminars and events during 2009 including giving evidence at official hearings of the European and UK Parliaments and making submissions to regulators.*

*Much of the regulatory debate centered round the European Commission proposal for a Directive to regulate Alternative Investment Fund Managers. Prepared under very tight time constraints, without proper consultation and under the misconception that Alternative Investments had somehow caused the financial crisis, the proposal included troublesome provisions to limit access to global markets for European investors, centralize regulatory powers in Brussels, and adopt black line detailed regulations on many important aspects of the industry's business.*

*As debate with market participants evolved, it became clear that many of the Draft Directive's clauses were unworkable or counterproductive and it needed substantial revisions. The voice of investors was extremely important in this debate since their contribution lent credibility to the view that many of the proposals were actually not in the interests of investors. It also became clear that the scope of the proposed Directive was much wider than initially envisaged, since it extended beyond hedge funds and private equity.*

*In the event it became clear that the approval process would be lengthy and would involve extensive amendments. In early 2010, the European Council, the Commission, the European Parliament and the countries holding the Presidency (Spain in the first semester and Belgium in the second one) will all be devoting substantial time and effort to improving and streamlining the text.*

*Besides our work in the regulatory and policy area, the HFSB has also been active in 2009 in promoting and updating the Standards, generating more signatories, attracting more investors to the process and explaining how the industry plays a crucial role in responding to a clear and growing demand from investors for this asset class.*

- *In the short space of time since the HFSB was formed in July 2008, our Standards have become accepted as the norm by fund managers representing more than $US 200 billion of assets under management – equivalent to around two- thirds of the hedge fund assets under management outside the US.*
- *The HFSB has engaged extensively with investors. It has helped to create the Hedge Funds Made Simple Guide, published by the National Association of Pension Funds and has participated in numerous conferences as speakers and panelists to raised awareness of the Hedge Fund Standards.*
- *The HFSB has participated in a range of official consultations with official bodies such as IOSCO, the European Commission, CESR, FSA and the UK Treasury Committee. We have provided feedback on issues such as hedge fund oversight, short selling and the banking crisis. I have personally served as a witness to the Treasury Select Committee inquiry.*

*We are also grateful for the support we have received from the UK Financial Services Authority for the Standards which it has described as a "very constructive addition to the wider regulatory architecture". The FSA has said it will take compliance with the standards into account when making supervisory judgements.*

*Ultimately the hedge fund industry exists to serve the interests of investors and we attach particular importance to developing the role and participation of investors at the HFSB. The Standards were initially developed under the guidance of a group of Fund Managers, who assumed the leadership of the project, in the best interests of the industry and the economy. Today, investors are assuming a more and more important role in the governance of the Standards, since it is their needs that the Standards are intended to meet. This will become more evident in the coming year but in the meantime we are delighted to welcome two new trustees from the investor community to the HFSB board, Tom Dunn of New Holland Capital and David Neal of the Future Fund in Australia.*

*Finally I would like to thank all the trustees who have served on the HFSB board over the past year for their support and commitment. Looking ahead, we believe that our Standards will remain the benchmark for providing a framework of discipline for a diverse, innovative and sophisticated industry, which responds to investors' demands and to the interests of the whole economy.*

***Antonio Borges***
***London, January 19, 2010***

# Mission of the HFSB

The Hedge Fund Standards Board (HFSB) is the guardian of the Standards that were drawn up by international investors and hedge fund managers for the purpose of creating a framework of discipline for the hedge fund industry. The Standards serve the interests of all market participants and of the economy at large.

The HFSB promotes adoption of the Standards by all hedge fund managers, anywhere in the world.

The HFSB is also responsible for updating the Standards in the light of changes in the environment. New standards are adopted and existing ones modified only after extensive consultation with market participants, in particular with signatories.

The HFSB is a standard setting organisation, not a trade association or a public body.

**The Standards**

The Standards set levels of quality in behaviour and working practice that complement the public policy framework, particularly in the areas of complex, diverse or more innovative practice. They can be a more efficient way of achieving regulatory objectives than detailed and rigid rules.

The Standards are principles based and are consistent with existing regulation in multiple jurisdictions but go further than the legally enforced rules. They are intended to benefit hedge fund managers from all jurisdictions.

The Standards are deliberately set at a challenging level so as to encourage high quality behaviour in the interest of securing support and respect from all stakeholders, including investors, regulators and counterparties.

The Standards are based on a “comply or explain” regime, catering for the entire breadth and diversity of the industry. This avoids the need for detailed, lengthy rules and it makes it much easier to accommodate the dynamic nature of the industry without needing to constantly change the Standards. It also ensures global applicability by allowing managers to “explain” where a specific standard is inconsistent with local law and regulation.

The signatory process requires that managers make a public commitment to investors, even though conformity with the Standards is based on self-certification. Failure to conform is a form of misrepresentation and can be sanctioned by regulators. In this sense, the Standards are in effect binding and conformity with them can be verified by investors at any point in time. Investors are thus enabled to impose discipline towards conformity.

**The Purpose**

The HFSB believes that the Standards provide a powerful mechanism for creating a framework of transparency, integrity and good governance that will reassure investors, maintain a high reputation for the industry, facilitate investor due diligence and minimize the need for restrictive regulation.

The HFSB welcomes appropriate regulation of the industry, but, given the diversity of investment strategies, the speed of innovation, the complexity of many platforms and the global scope of the industry, traditional rules and regulations are not expected to meet all the needs of investors and managers. Adoption and enforcement of the Standards depend on the willingness of knowledgeable and competent hedge fund investors to require and monitor conformity with them.

Independent of regulatory developments, the Standards are always likely to be more demanding, more comprehensive and more appropriate than the regime in any one country, because the Standards are defined by those with a strong vested interest in the success of the industry. Over time, it is expected that the Standards will become the generally accepted norm, to which all market participants will be expected to adhere.

**Interaction with regulators**

The HFSB interacts regularly in a collaborative way with regulators and other authorities, so as to ensure that its Standards are in tune with legitimate public policy requirements just as they are with evolving industry practice. In turn, the HFSB process may be seen as complementing the needs of public policy and responding to the realities of high quality performance through hedge fund activity.

Finally, the HFSB also contributes to a better understanding of the industry, through a communication policy that emphasizes clarity and openness, and recognizes the hedge fund sector as an increasingly relevant part of the broader asset management sector.

hedge fund standards board

## Overview of the HFSB Activities

Since its inception in 2008, the HFSB has focussed its efforts on three major areas:

- Raising awareness among hedge fund managers to encourage them to sign up to the Standards (signatory process)
- Raising awareness among investors so that they encourage conformity (investor campaign) to the Standards
- Engaging with regulators and supervisors to help promote high standards in the industry, and advise on regulatory initiatives (regulatory engagement)

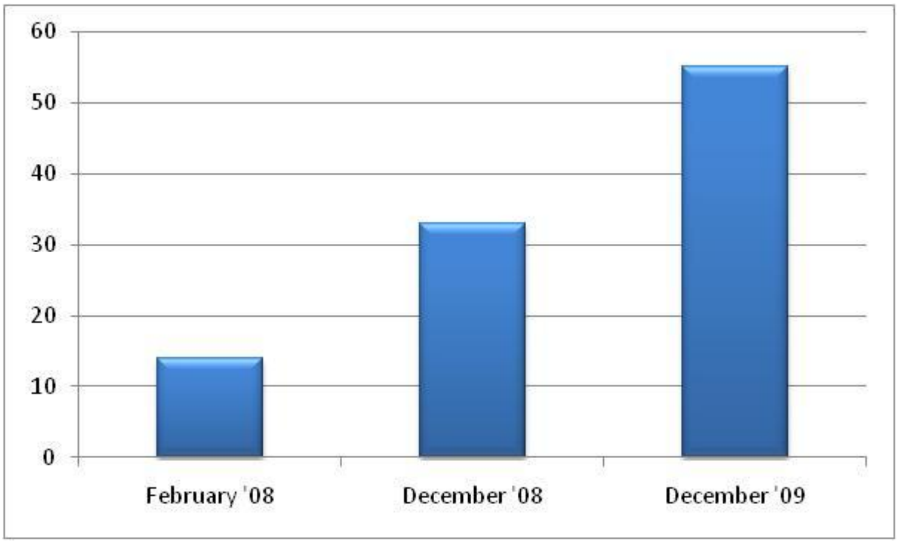
As part of the effort to raise awareness over the past 12 months, the HFSB has actively participated in over 50 conferences, panels and official events in the UK, Europe and abroad as speakers and panellists.

## Signatory Process

Since its inception, 55 managers with over US$200bn in AUM have committed to the Hedge Fund Standards. By comparison, the assets of the global hedge fund industry are estimated at US$1,500bn, and the UK hedge fund industry assets amount to approximately US$300bn.[1]

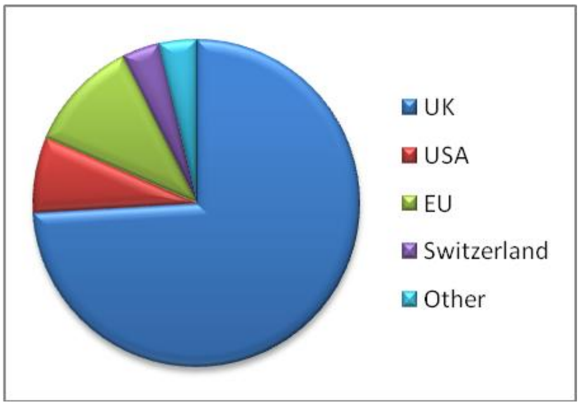
The majority of the HFSB signatories are UK-based, with an increasing percentage of European and US firms committing to the Standards.

### Overview Signatory Progress (# signatories)

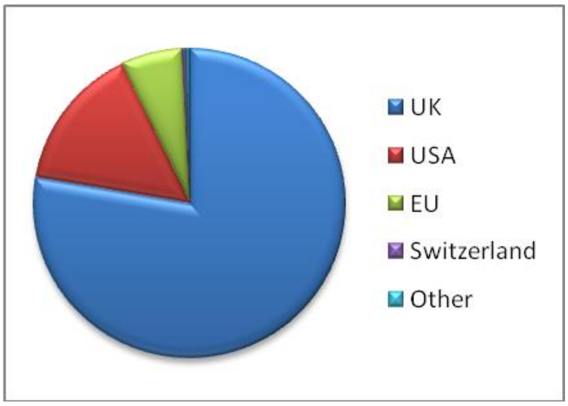



[1] Source: IFSL Research, 04/2009: Hedge Funds 2009

**Number of the HFSB Signatories by Country/Region**




**AUM (USD) by country/region**




Attracting new signatories remains one of the HFSB's key priorities for the next 12 months. In the light of the regulatory initiatives in Europe and the US, the HFSB believes more strongly than ever that it is important for the industry to commit to high standards and take responsibility for its good standing in the market.

## Investor Campaign

Investors have a vital role to play in the HFSB's success. Not only are they the beneficiaries of the Standards, they are also best positioned to promote conformity among hedge fund managers. This is why the HFSB has engaged extensively with investors.

The HFSB has held numerous one-to-one meetings with major investors and has regularly interacted with the industry associations representing investors, such as pension funds and insurance companies. In spring 2009, the HFSB helped produce the *Hedge Fund Made Simple* guide, which was published by the National Association of Pension Funds (NAPF).

To reflect the important role of investors in the HFSB's activities, two new investors have been appointed to the Board of Trustees. In addition, the HFSB intends to establish a dedicated investor chapter under its wing, enabling investors to engage more closely with the HFSB.

The HFSB remains committed to continuing its endeavours to engage investors in driving the conformity process in 2010.

## Regulatory Engagement

The HFSB sets standards for conduct, behaviour and working practice which can complement the public policy framework. In particular, in more complex or innovative areas, standards can be a more efficient way of achieving regulatory objectives than detailed, rigid rules. This is why close interaction with the regulators is important in this process.

Over the last 12 months, the HFSB has participated in numerous official consultations:[2]

- European Commission public consultation on hedge funds
- CESR call for evidence on short selling
- UK Treasury Committee call for evidence on the banking crisis
- IOSCO consultation on Hedge Funds oversight
- IOSCO consultation on regulation of short selling
- FSA consultation on regulation of short selling
- FSA consultation on the regulatory response to the global banking crisis
- CESR consultation on a proposal for a Pan-European short selling disclosure regime
- UK Treasury Committee inquiry into proposals for European macro and micro prudential financial regulation

The HFSB has also proactively engaged with the Czech and Swedish Presidencies of the European Union, European Council member states, the European Parliament and the European Commission to provide guidance and input into the regulatory process related to the Directive for Alternative Investment Fund Managers (AIFM) proposed by the European Commission. The HFSB focused on open and competitive markets, prevention of product regulation and restrictions that would harm investors and limit choice. The HFSB co-operates closely with the Alternative Investment Management Association (AIMA) on regulatory issues.

The HFSB has also proactively engaged in consultations with regulators and policymakers on regulation of short selling (e.g. FSA, CESR, IOSCO) to ensure that such regulation would not unduly restrict this activity and cause market distortions due to asymmetric disclosure requirements for long and short positions. The HFSB has developed substantial expertise and experience in this area.

## Strengthening the Standards

In 2009, the HFSB held public consultations on improvements of the Standards in two areas:

- Handling of Hedge Fund Redemptions
- Administration and Safekeeping

The proposed amendments concerning hedge fund redemptions seek to address the kind of issues that arose in 2008, when the hedge fund industry faced significant investor redemptions coinciding with an overall drop in market values, lack of credit/leverage from prime brokers, and reduced liquidity in certain market segments, such as emerging markets, small cap and convertibles. The proposed amendments are intended to ensure more transparency for investors, higher predictability of fund behaviour and ultimately fair treatment of investors in times of liquidity distress.

[2] All consultation responses and additional materials are available on the HFSB website in the Regulatory Engagement section

The proposed amendments on administration and safekeeping are aimed at enhancing the structural independence in these areas by recommending independent third party administration and safekeeping.

The final results of the consultations and the proposed amendments to the Standards have been published in March 2010.

## Strategy 2010

For 2010, the HFSB will continue its three-pronged approach, focussing on attracting new signatories, gaining more investor support and maintaining regulatory engagement.

Increasing the number of signatories remains the key objective for 2010. The overall upturn in the industry as well as increasing clarity on the future regulatory architecture should help convince those managers who were hesitant to commit to the Standards in 2009.

As part of the investor strategy, the HFSB intends to introduce a dedicated investor chapter that will enable investors to engage closely with the HFSB and provide a platform for more formal interaction.

Within the regulatory engagement activities, the HFSB will continue contributing proactively to the regulatory process, including the AIFM Directive and market wide issues such as short selling regulations.

## Appendix 1: HFSB Board of Trustees

**Antonio Borges**

Chairman, HFSB

Antonio was formerly Vice Chairman and MD of Goldman Sachs in Europe (2000-2008). His responsibilities included investment banking, leadership development and strategy. Before that he was Dean of Insead (1993-2000). He also taught at the University of Lisbon, Portuguese Catholic University and Stanford University. Between 1990-1993 Antonio was Vice Governor of Banco de Portugal, where he took a leading role in the liberalisation of Portugal's financial system. Antonio is also Chairman and Founding Member of the European Corporate Governance Institute as well as a member of the European Corporate Governance Forum set up by the European Commission to examine best practice in Member States with a view to enhancing the convergence of national corporate governance codes and providing advice to the Commission. Antonio graduated from the Technical University in Lisbon and received his MA and PhD in Economics from Stanford University.

**Peter Clarke**

CEO, Man Group plc

Peter joined Man in 1993 following corporate finance roles with Morgan Grenfell and Citicorp and played a leading part in Man’s listing on the London Stock Exchange in 1994 and the completion of its 100% acquisition of AHL. From 2000 until 2007 Peter served as Man’s Finance Director, presiding over the acquisition of RMF and pursuing a strategy of focusing the business on alternative investment management, which included the IPO of the brokerage business, MF Global, in July 2007. He was appointed Chief Executive in March 2007. He is also Chairman of the firm’s Management Committee. Peter is a regular keynote speaker and contributor at industry conferences. He graduated with an M.A. in law from Queens’ College Cambridge.

**Tom Dunn**

Managing Principal

New Holland Capital

Tom launched New Holland Capital, the hedge fund advisory company, in 2006. It focuses exclusively on the absolute return funds of ABP, the $280bn Dutch civil servants pension fund. Before that Tom had worked at ABP since 2002, managing the Hedge Fund Group within ABP Investments US and helping ABP evolve from an emphasis on fund of funds to a wide variety of hedge fund-like alternative investments. Tom co-managed (1995-2000) the fixed income business at Lazard Asset Management. Prior to that Tom was a Sr. Portfolio Manager at Goldman Sachs Asset Management where he directed the quantitative fixed income portfolios. In his 9 years at Goldman Sachs, he also pursued a broad range of investment projects involving global asset allocation, currency trading, commodity futures and synthetic equity products. Tom also spent 3 years in corporate finance at First Boston. He holds two degrees from University of Chicago: an MBA in Finance (1986) and a BA in English Literature (1981).

**Christopher Fawcett**
Senior Partner
Fauchier Partners

Christopher co-founded Fauchier Partners in 1994. Previously, he worked at Euris SA, a French investment holding company with substantial investments in private equity and hedge funds. He gained experience in the securities industry with Morgan Grenfell, Industrial Technology Securities, a venture capital company of which he was co-founder, and at the Duménil Group. He is an appointed member of the Council of the Alternative Investment Management Association (AIMA), a Director of the CFA Society of the UK and a Director of Mirabaud Gestion SA. Christopher has an MA in Law from Oxford University, an MBA with distinction from INSEAD, and is a qualified Chartered Accountant.

**Kathryn Graham**
Director of Liabilities
BTPSM

Kathryn joined BT Pension Scheme Management Limited (BTPSM) in 2004 to help establish a new team mandated to invest up to 5% of the BT Pension Scheme (BTPS) in hedge funds. In 2007, she became Manager Selection across the BTPS before moving in 2008 to set up a new team to look at liability risk. She joined Hermes from Progressive Alternative Investments Limited, where she was a Director and managed portfolios of hedge funds since 1999. Kathryn joined SG Warburg in 1994 and worked on the Global Structured Products team. Subsequent to the acquisition of SG Warburg by Swiss Bank Corporation, she moved to the Fixed Income Derivatives department, where she was an Associate Director and analyst on the hedge fund team. She is a board member of the UNPRI and a board Director of a number of BTPS offshore vehicles. She holds an MA (Hons.) in Economics and Mathematics from the University of Edinburgh.

**Michael Hintze**
CEO, CQS

Michael is CQS's Founder (1999), Chief Executive and Senior Investment Officer. He is also Chairman of the CQS Exec Committee. CQS is a global diversified asset management group focusing on convertibles, credit and asset backed securities and manages a family of hedge funds, loan portfolios and long only products. Prior to that, Michael was MD in the Leveraged Funds Group at CSFB where he developed the strategy and management team for the CSFB Convertible & Quantitative Strategies Fund. Before this

Michael was MD and European Head of Convertibles at CSFB from 1996, responsible for flow and proprietary trading, sales and research. Michael also worked at Goldman Sachs for 12 years in a variety of roles including; Executive Director and Head of UK Trading and Head of European Emerging Markets Trading. Prior to that Michael worked for Salomon Brothers, in New York, as a Fixed Income Trader trading Yankee Bonds after having completed the firm's Graduate Training Program in 1982. Michael speaks fluent Russian. He holds a BSc in Physics and Pure Mathematics and a BEng in Electrical Engineering from the University of Sydney. He also holds an MSc in Acoustics from the University of New South Wales and an MBA from Harvard Business School.

**Anthony Lim**
MD, GIC

Anthony was appointed President (Americas) of GIC, the company that manages Singapore's foreign reserves, in 2009, and is based in the GIC New York Office. From 1998 to 2009, Anthony worked in the GIC's London office and was President (London Office). He is also the adviser to the External Managers Department. Prior to that Anthony was a Senior MD at Bankers Trust Company (1987-1998). He held various management and trading positions in the Global Markets division. Anthony worked in Singapore and London during his time at Bankers Trust. He joined Bankers Trust from the Monetary Authority of Singapore, where he had worked from 1983, and included a stint from 1984 to 1986 in the MAS New York office. His last position at the MAS was as Head of the Foreign Exchange, Gold, and Liquidity Division. Anthony is a graduate of the National University of Singapore.

**Paul Marshall**
Chairman and CIO
Marshall Wace LLP

Marshall Wace LLP, is one of Europe's leading hedge fund groups and manages a number of award-winning funds including the Eureka Fund. Paul is a founding member of the Hedge Fund Standards Board. In January 2009, he appeared before the UK Treasury Select Committee Review on the role of hedge funds in the financial crisis. He is a member of HM Treasury Asset Management Working Group.

**Nicolas Moreau**
Chairman, AXA Investment Managers Ltd
Chief Executive AXA UK Ltd

Nicolas has been the Group Chief Executive at AXA UK Plc since 2006. He also serves as Director, Member of Executive Committee, and Member of

Remuneration Committee at AXA Investment Managers April 2002, Director and Chairman at AXA Investment Managers Paris and Axa Investment Managers S.A. He joined AXA in 1991 as a VP in the Treasury Department and in 1994 became the Head of the Corporate Finance and Treasury Department of AXA Group. Nicolas joined AXA Investment Managers in 1997 and facilitated the creation of a group called Quantitative and Structured Investments. In March 2000, he became COO and MD at AXA Investment. He was an auditor at Arthur Andersen in Paris (1988-1991). In 2001, he became the Vice Chairman of AXA Rosenberg. He is a graduate of the Ecole Polytechnique and the Centre d'Etude Actuariel.

**David Neal**

CIO, Future Fund

The Future Fund Board of Guardians and the Future Fund Management Agency are responsible for investing the assets of the Future Fund, the Building Australia Fund, the Education Investment Fund and the Health and Hospitals Fund. David joined the Future Fund from Watson Wyatt Australia where he was Head of Investment Consulting. At 30 June 2009 the Future Fund Board had AUS-$81.9bn in assets. David started his career with Watson Wyatt in the UK and led the establishment of the firm's investment consulting business in Australia. He is a graduate of Oxford University.

**Russell Read**

Founder and CEO
C Change Investments
Management, LLC

Prior to founding C Change Investments in 2008, Russell served as CIO for the California Public Employees' Retirement System (CalPERS). During his tenure, he made CalPERS a leader in clean technology and environmental investments, while producing superior returns among public pension plans. Russell also served as Chairman of the Investors' Committee for the President's Working Group on Financial Markets. Prior to CalPERS, he served as Deputy CIO for Deutsche (Bank) Asset Management (Americas) and Scudder Investments and Head of Quantitative Investing, Product Design, Risk Management, and Commodities Investing at Oppenheimer Funds. Russell is a founding member of the P8 Group of the world's eighth largest pension systems. He was recognised by *SmartMoney* in 2007 in its Power 30 list of the most influential people in business and finance and by *Institutional Investor* in 2008 as #35 on its list of the 75 most effective chief executives. Russell received his M.B.A. in Finance and International Business from the University of Chicago. He also holds a Masters Degree in Economics and PhD in Political Economy from Stanford University. He is also a Chartered Financial Analyst (CFA) charterholder, a Chartered Life Underwriter (C.L.U.), and a Chartered Financial Consultant (Ch.F.C.).

**George Robinson**
Partner, CFO and
Head of Research
Sloane Robinson

George co-founded Sloane Robinson in December 1993. He is also Head of Research, CFO, and Manager of the SR Phoenicia Fund. Between 1979 and 1985 George worked for John Swire & Sons in Hong Kong, UK, Philippines and Korea. In 1985 he joined WI Carr and established their investment offices in both Seoul and Bangkok, before moving to Hong Kong as regional director of research. George graduated from Oxford University with a degree in Engineering Science.

**Manny Roman**
Co-CEO, GLG

Manny joined GLG Partners LP in 2005 as a co-CEO where he focuses primarily on expanding the business, marketing, risk management, operations, technology and compliance. Prior to joining GLG, Manny worked 18 years at Goldman Sachs International Limited, where he was involved in fixed income, investment banking and capital markets areas. In 1991 he became the co-head of Worldwide Equity Derivatives. In 1996 Manny became MD of Goldman Sachs International Limited and in 1998 he was elected to partnership. In 2001 he was appointed co-head of Worldwide Global Securities Services and in 2003 he also became co-head of the European Equities Division. Manny received an M.B.A. in Finance and Econometrics from the University of Chicago in 1987 and a bachelor's degree from the University of Paris in 1985.

**Simon Ruddick**
MD & Co-Founder
Albourne Partners

Albourne Partners is the world's largest hedge fund advisory firm, which he co-founded in March 1994. Albourne's 150+ clients have over $200 billion invested in hedge funds. Albourne was awarded the Queen's Award for Enterprise in 2006 and again in 2009. Village.albourne.com, the not-for-profit website, has over 65,000 residents and has led to Simon Ruddick twice appearing in the Institutional Investor's Top 40 Online Entrepreneurs. Albourne has also hosted Hedgestock, featuring a performance by The Who, in 2006 to raise money for Teenage Cancer Trust. As well as appearing on Bloomberg TV, Ruddick’s appearances on CNBC have included hosting its Squawk Box programme.

**Paul Dunning** has left the Board in 2009

## Appendix 2: Overview of the HFSB Accounts

| | Year to 31 Jan 2010 | Period from 7 Jan 2008 to 31 Jan 2009 |
|---|---|---|
| | £ | £ |
| **TURNOVER** | **898,167** | 602,509 |
| **Administrative expenses** | **829,487** | 602,365 |
| **OPERATING PROFIT** | **68,680** | 144 |
| **Interest receivable** | **33** | 1,364 |
| **PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION** | **68,713** | 1,508 |
| **Tax on profit on ordinary activities** | **14,516** | 599 |
| **PROFIT FOR FINANCIAL YEAR** | **54,197** | 909 |

The company has no recognised gains or losses other than the profits shown in the profit and loss account for the period ended 31 January 2010.

All activities derive from the continuing operations.