Plenary 3

Hedge Funds – New Regulatory Challenges

Mr. Robert Aitken

Head of Man Group Compliance

12 April 2007
IOSCO 2007 Annual Conference – Mumbai, India

Hedge Funds – New Regulatory Challenges
Robert Aitken – Head of Man Group Compliance

12 April 2007
IMPORTANT INFORMATION

This document is not an invitation to make an investment in any product to which Man Investments Limited (or any other member of Man Group plc’s group of companies) provides investment advisory or any other services, nor does it constitute an offer for the sale or purchase of bonds (or any other instruments) issued by any entity.

Information contained herein is provided from the Man database except where otherwise stated. Potential investors should note that alternative investments can involve significant risks and the value of an investment may go down as well as up. There is no guarantee of trading performance and past or projected performance is not necessarily a guide to future results.

This material is communicated by Man Investments Limited, which is authorised and regulated by the Financial Services Authority.

This material is only to be communicated to investment professionals, market counterparties or intermediate customers and must not be relied upon by any other person.

www.maninvestments.com
AGENDA

1. IOSCO VALUATION PRINCIPLES FROM AN INVESTOR PERSPECTIVE
2. HARD TO VALUE INSTRUMENTS IN CONTEXT
3. OTHER VALUATION AGENT ISSUES
   • CAPACITY
   • STAFFING ISSUES
   • USE OF ESTIMATES
   • TRANSPARENCY
Background to Man Group plc

• Traces origins back to 1783
• Listed on the London Stock Exchange and a constituent of the FTSE 100 index
• Financial services company with two core functions
  – Alternative asset management (Man Investments)
  – Brokerage (Man Financial)
• More than 3,000 employees operating in 15 countries
• Market capitalisation approximately USD 20 billion with funds under management at approximately $60 billion
THE IOSCO NINE PRINCIPLES FROM AN INVESTOR PERSPECTIVE

- SUPPORTIVE OF THE PRINCIPLES IN PARTICULAR
  
  - The need for pricing policies that should be reviewed
  - The need for independence of pricing where possible
  - The need for a policy regarding overrides
  - The need for ongoing due diligence – on site visits, regular feedback meetings
HARD TO VALUE INSTRUMENTS IN CONTEXT

• According to the AIMA Survey 2005 around 16% of Portfolio Holdings and 11% of Hedge Fund Strategies are Hard to Value.

• Latest AIMA estimates are that around 23% of Hedge Fund assets are hard to value – principally Distressed Securities, Relative Value Arbitrage and Convertible Arbitrage.
OTHER VALUATION AGENT ISSUES

• CAPACITY

  – Systems and Resources
    ➢ Disaster Recovery
    ➢ System security
    ➢ Controls around systems development

  – Increasing Volumes
    ➢ Leading to de minimis levels rising

  – Set up Lead Time
OTHER ISSUES

• STAFFING ISSUES

  – High Staff Turnover
    - Loss of pricing and processing knowledge
    - Resource availability

  – Key Man Risk
    - Risk to quality and timelines due to absence
    - Scalability

  – Ability to Attract Quality Staff

Thus: (1) the need for a detailed and scaleable succession plan
      (2) the need for a pro-active plan to reduce staff turnover
      (3) the need for on going training
OTHER ISSUES

• USE OF ESTIMATES
  – Need for Timely Valuations
  – Growing use of Estimates
  – Need for a Policy around such usage
  – Monitoring of Estimates against final (tolerance checks)
OTHER ISSUES

- TRANSPARENCY
  - Need for Adequate Disclosure regarding the pricing policies
  - Need for Adequate Disclosure regarding who is responsible for pricings
  - Disclosure regarding the Manager’s involvement in pricing