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HENNESSEE GROUP LLC

2004 Hennessee Hedge Fund Survey of Foundations and Endowments

Registration of Hedge Funds Graphic Analysis

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I. Purpose and Scope



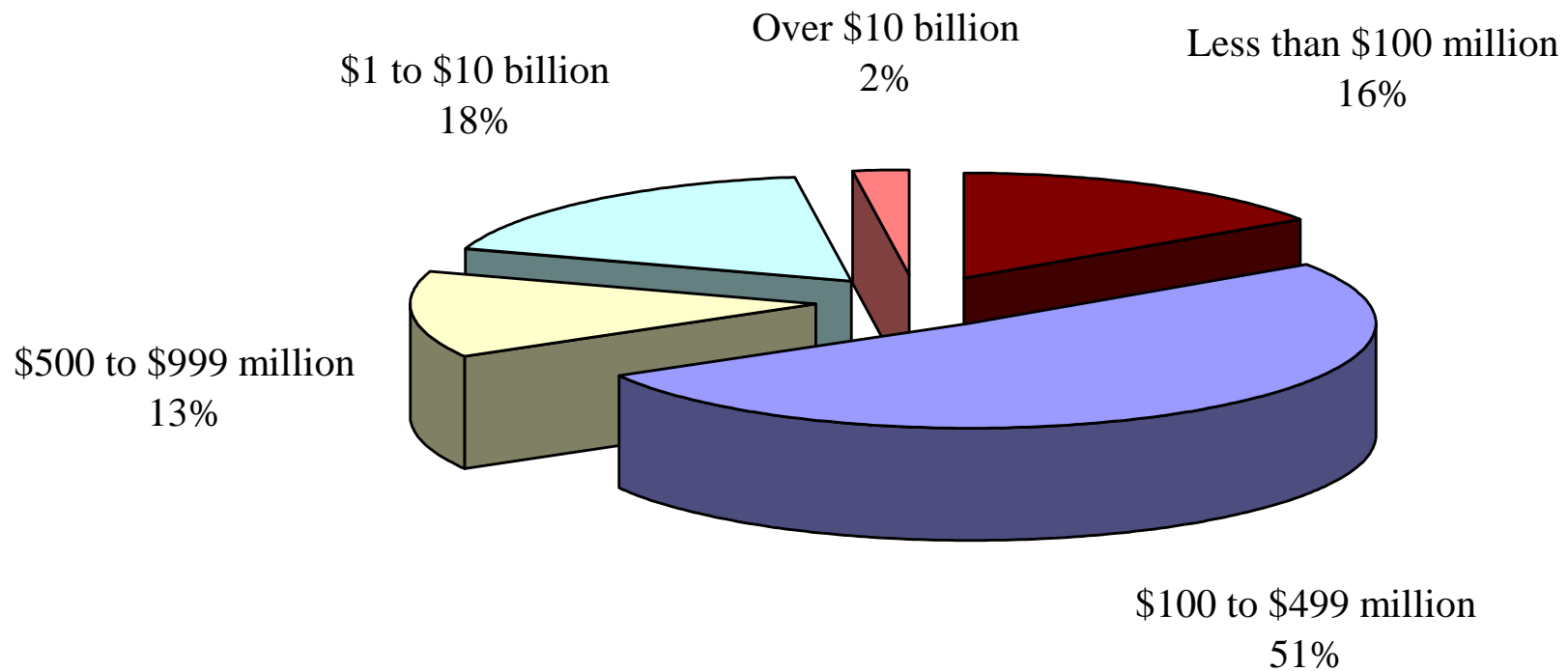
Purpose and Scope

- **Hennessee Group LLC conducted this survey specifically for Foundations and Endowments to clarify their involvement in the hedge fund industry, which is difficult to ascertain given the increased popularity among Foundation and Endowments to invest in hedge funds through commingled products (i.e., fund of hedge funds.)**
- **The purpose is to clarify Foundations and Endowment's view on the SEC's proposed rule requiring hedge fund management companies to register as Registered Investment Advisers.**
- **A random sample of 620 Foundations and Endowments were contacted during the 60 day comment period following the July 14, 2004 rule proposal.**
- **Once 46 responses were received (insuring statistical accuracy), the Survey was closed and calculated.**
- **The respondents consisted of 63% Endowments and 37% Foundations.**
- **The Survey represents \$44 billion in total investable assets.**
- **The average current allocation to hedge funds is 17%.**
- **The Foundations and Endowments surveyed have an average of 7 years experience investing in hedge funds.**



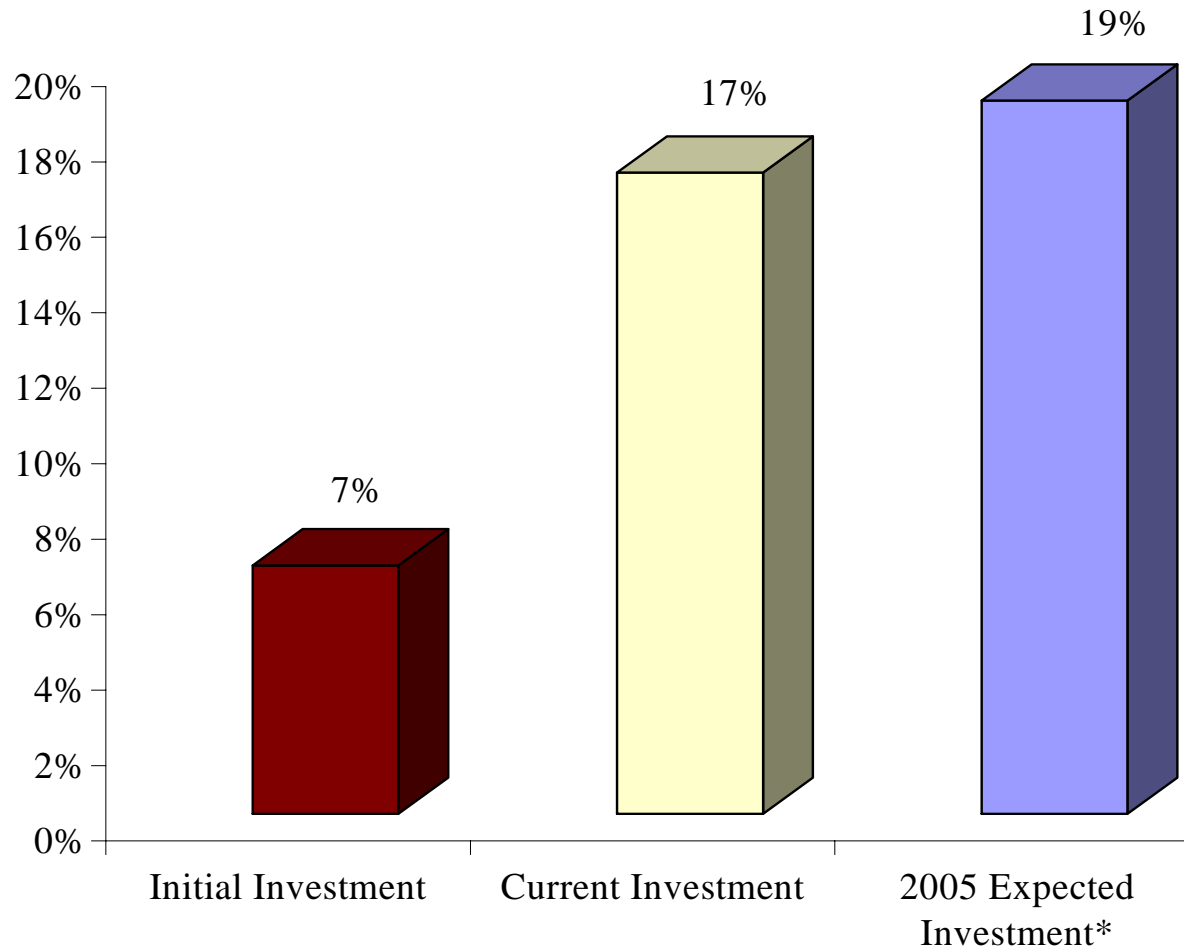
II. Foundation and Endowment Profile

Participants Total Investable Assets



67% of the participating Foundations/Endowments have less than \$500 million in total investable assets

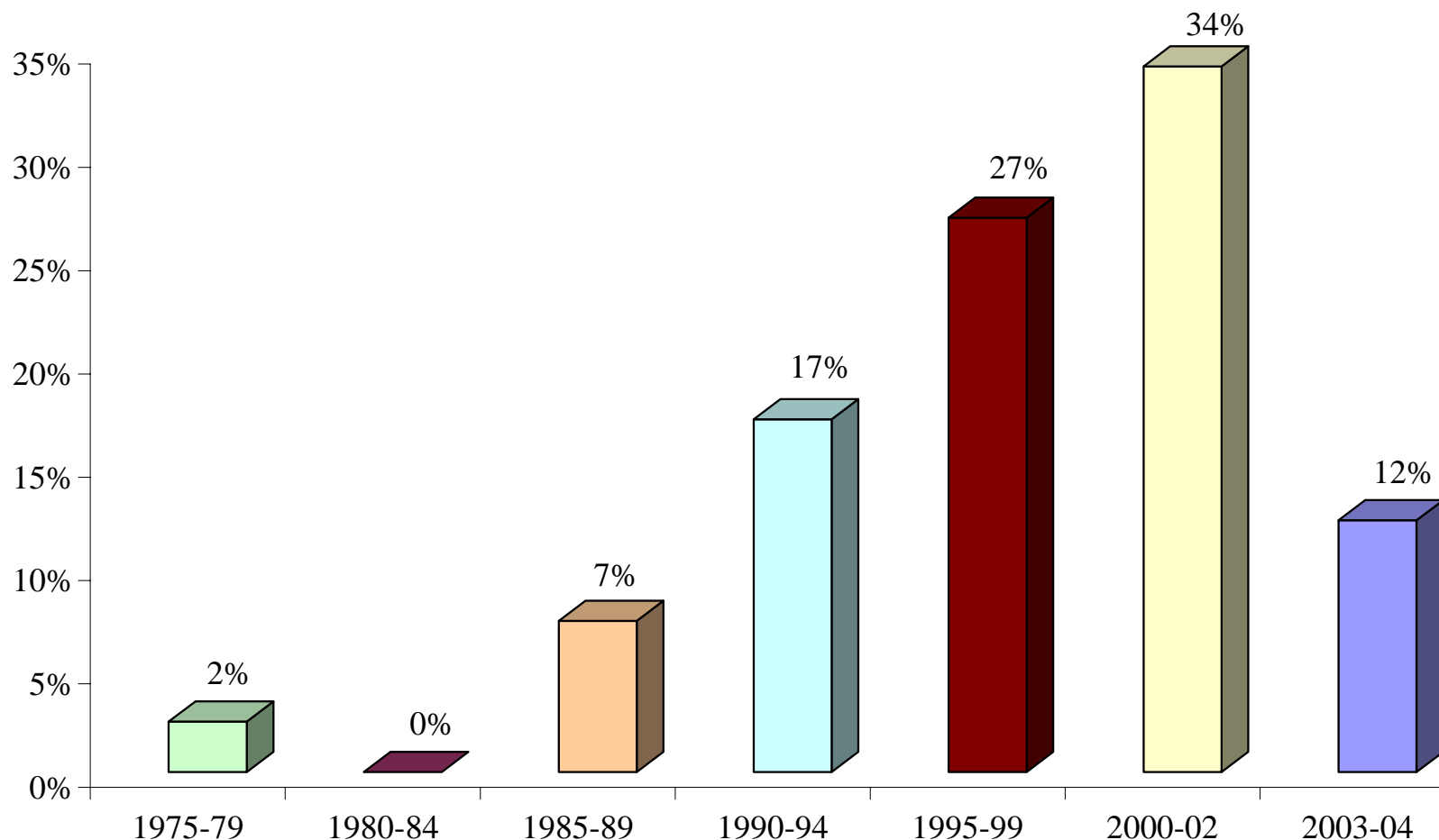
Percentage of Total Investable Assets Allocated to Hedge Funds



Currently, participants have an average of 17% of total investable assets allocated to hedge funds

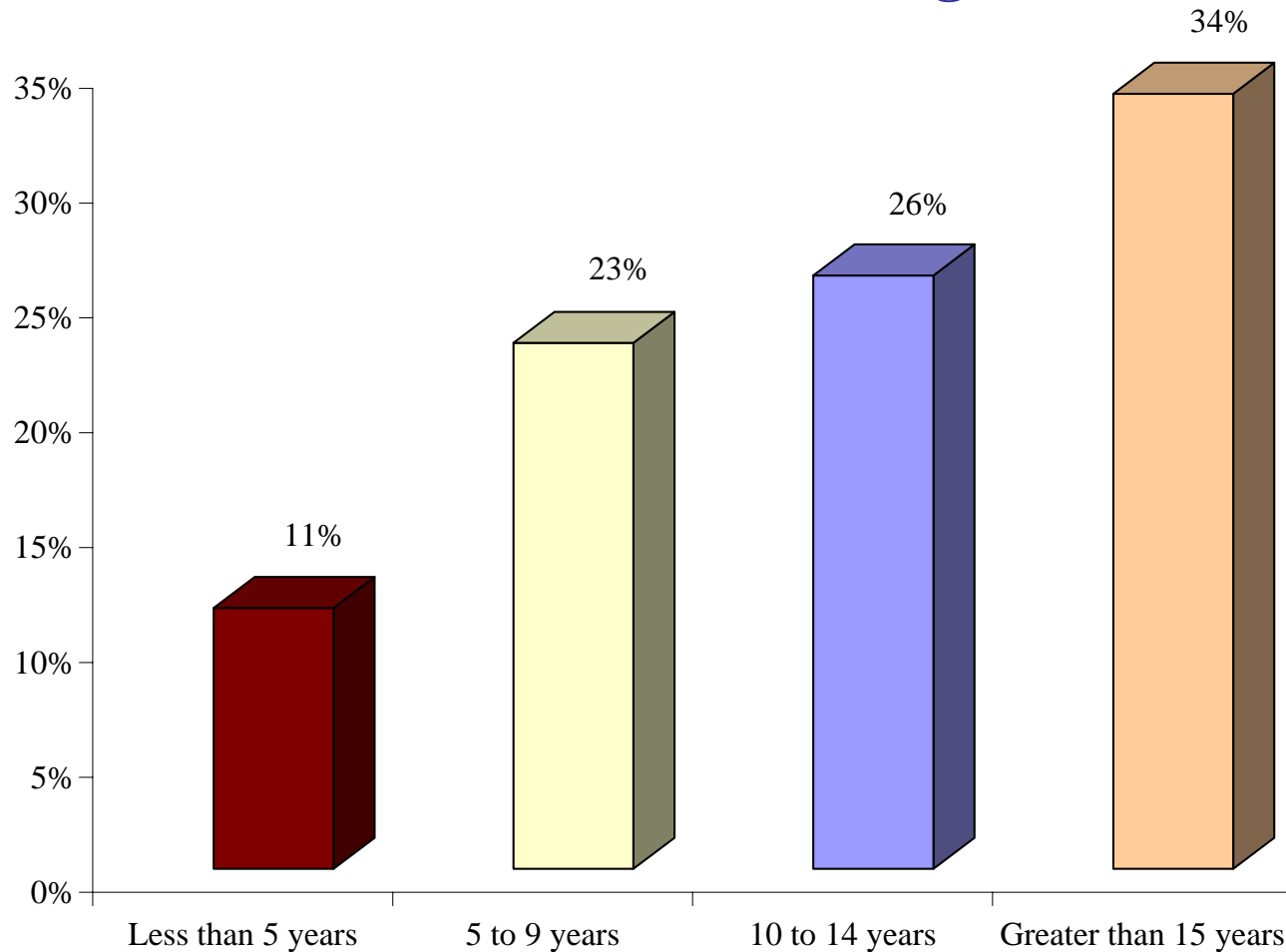
* Based on expected allocation in 2005

Year of Initial Investment In Hedge Funds



46% of Foundations/Endowments began investing in hedge funds after 2000

Number of Years Investing in Hedge Funds vs. Current Allocation to Hedge Funds

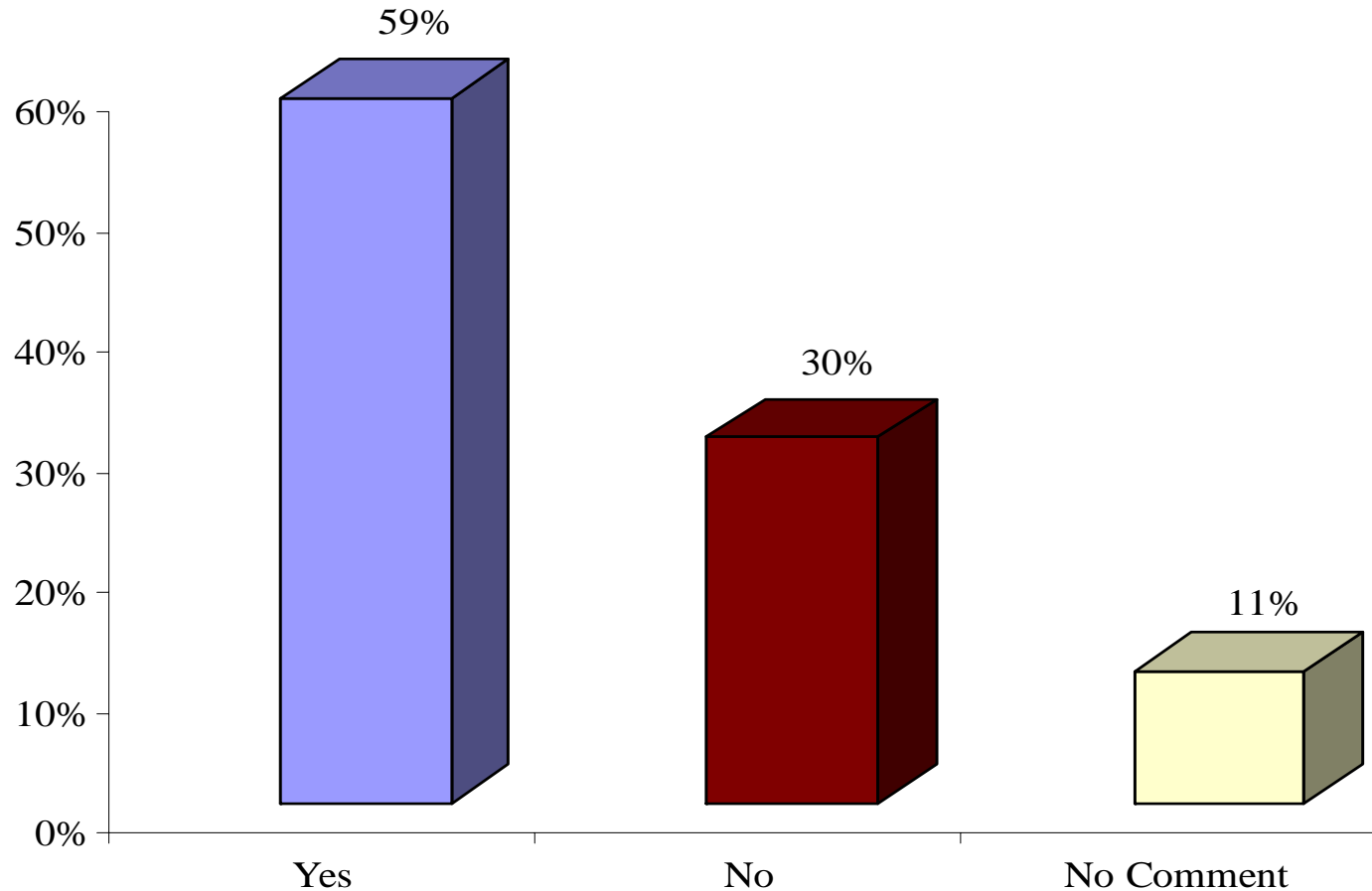


As years of experience investing in hedge funds increases, so does the percent allocation to hedge funds



III. Foundation and Endowment Response to SEC Registration Proposal

Participant's Opinion of Mandatory Hedge Fund Registration

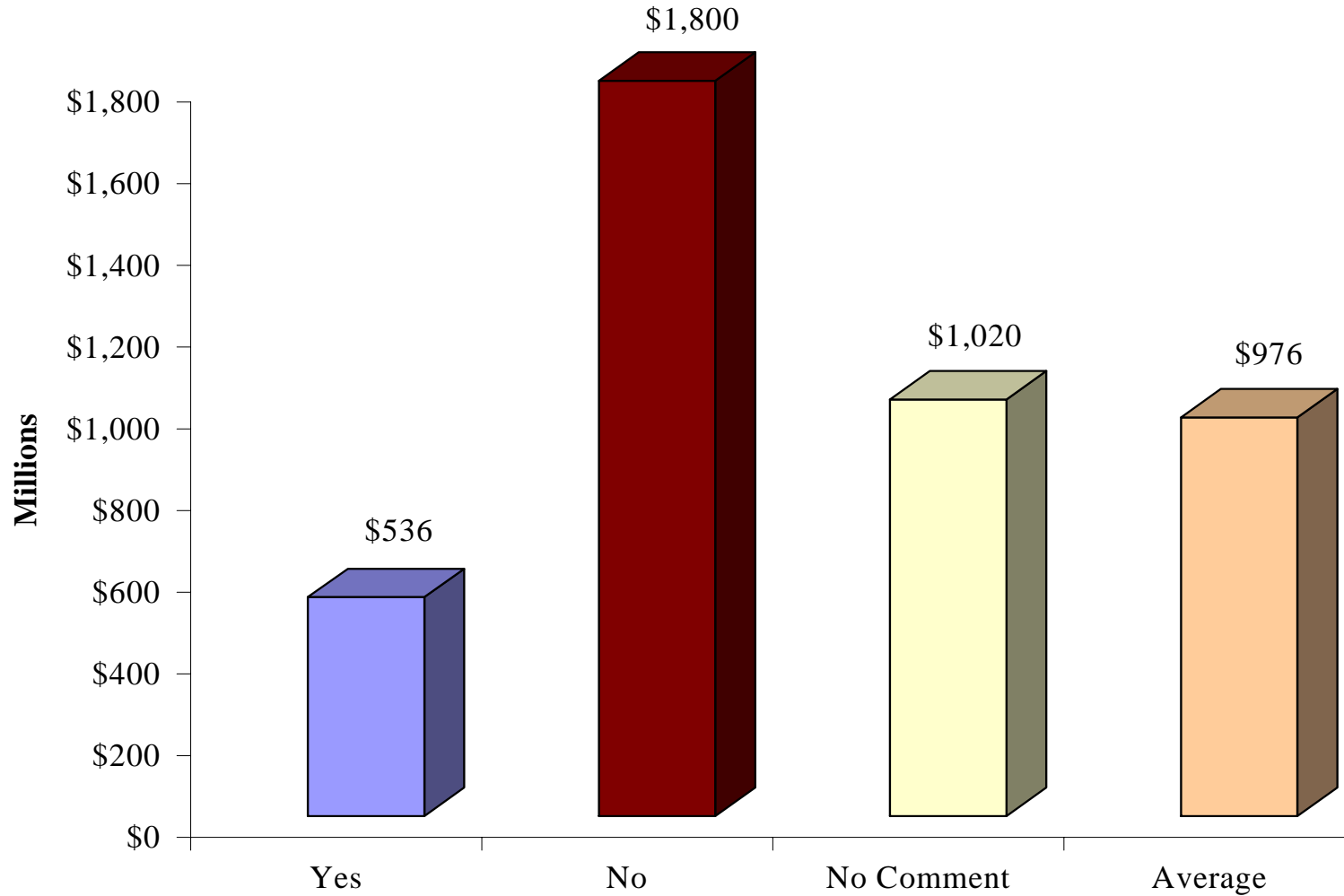


59% of Foundation/Endowments are in favor of the SEC's proposal requiring hedge fund management companies to register as a Registered Investment Adviser

Yes = In favor of registration No = Against registration

Survey of Foundations/Endowment's response to the SEC rule proposal requiring hedge fund management companies to register as RIAs.

Total Investable Assets

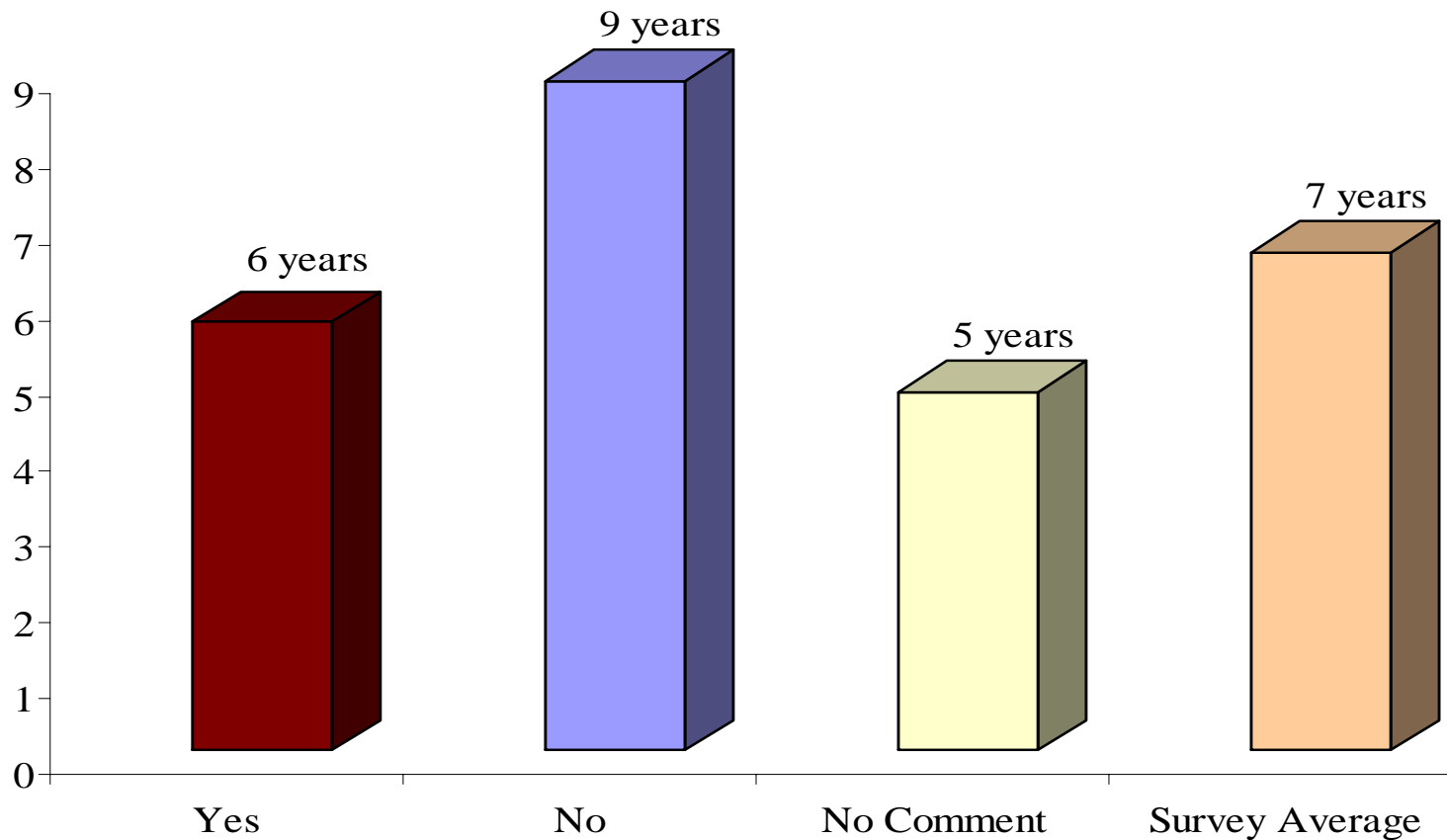


The average Foundation/Endowment has almost \$1 billion (\$976 million) in total investable assets

Yes = In favor of registration No = Against registration

Survey of Foundations/Endowment's response to the SEC rule proposal requiring hedge fund management companies to register as RIAs.

Average Number of Years Investing in Hedge Funds

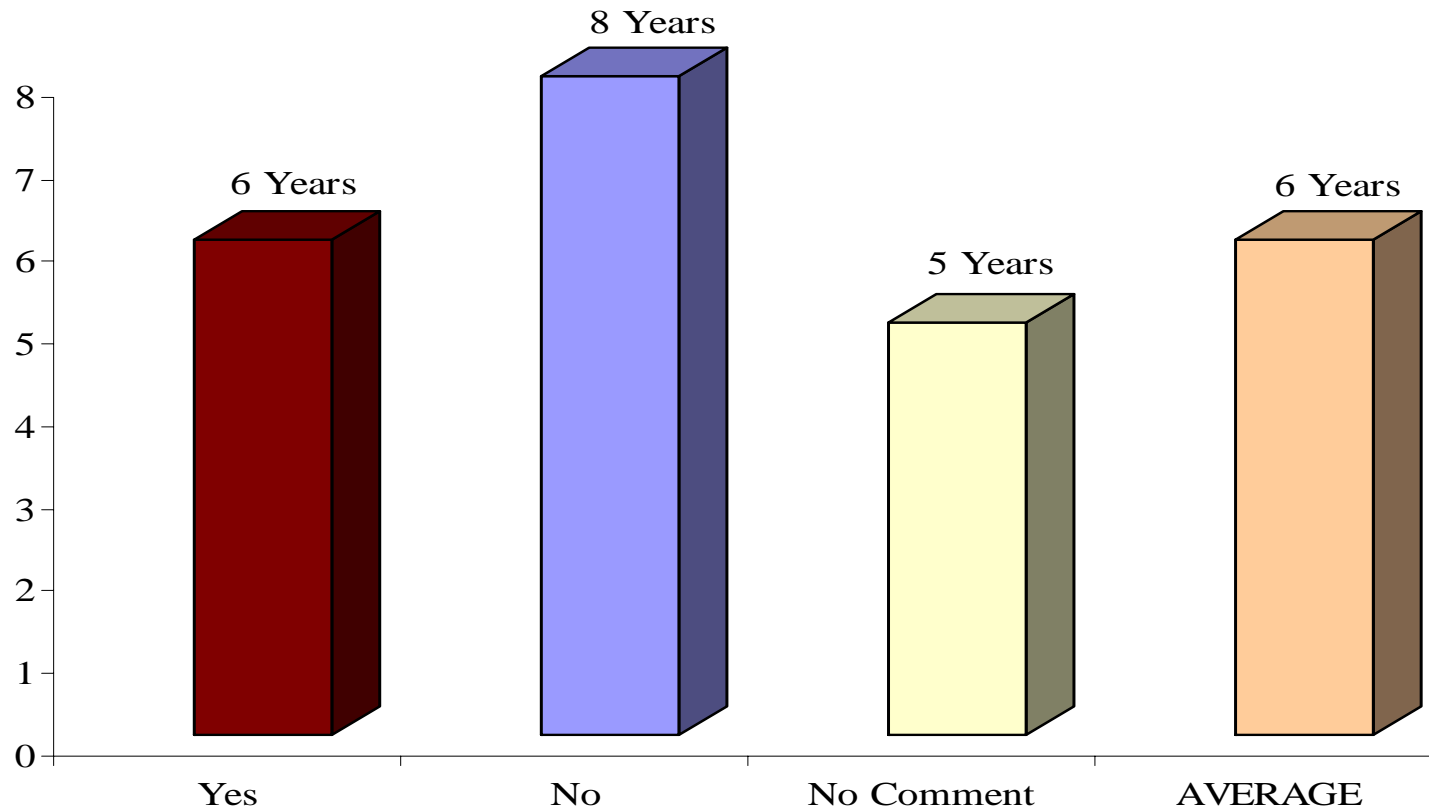


On average, Foundation/Endowments have been investing in hedge funds for 7 years

Yes = In favor of registration No = Against registration

Survey of Foundations/Endowment's response to the SEC rule proposal requiring hedge fund management companies to register as RIAs.

Number of Years Experience CIO/Treasurer Have Investing in Hedge Funds

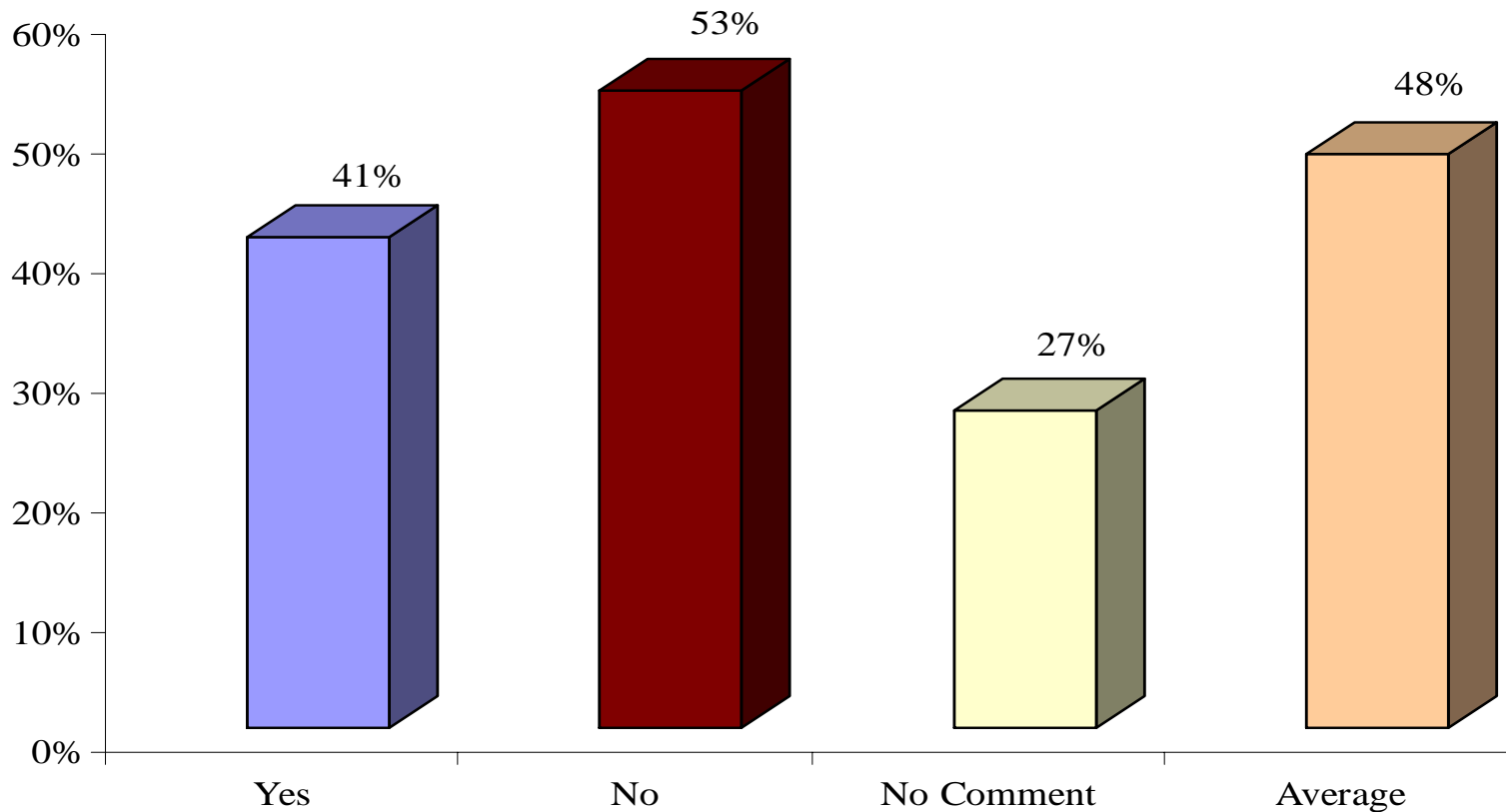


On average, Foundation/Endowment's CIO/Treasurer have six years experience investing in hedge funds

Yes = In favor of registration No = Against registration

Survey of Foundations/Endowment's response to the SEC rule proposal requiring hedge fund management companies to register as RIAs.

Percent of Investment Committee Members with Experience Investing in Hedge Funds

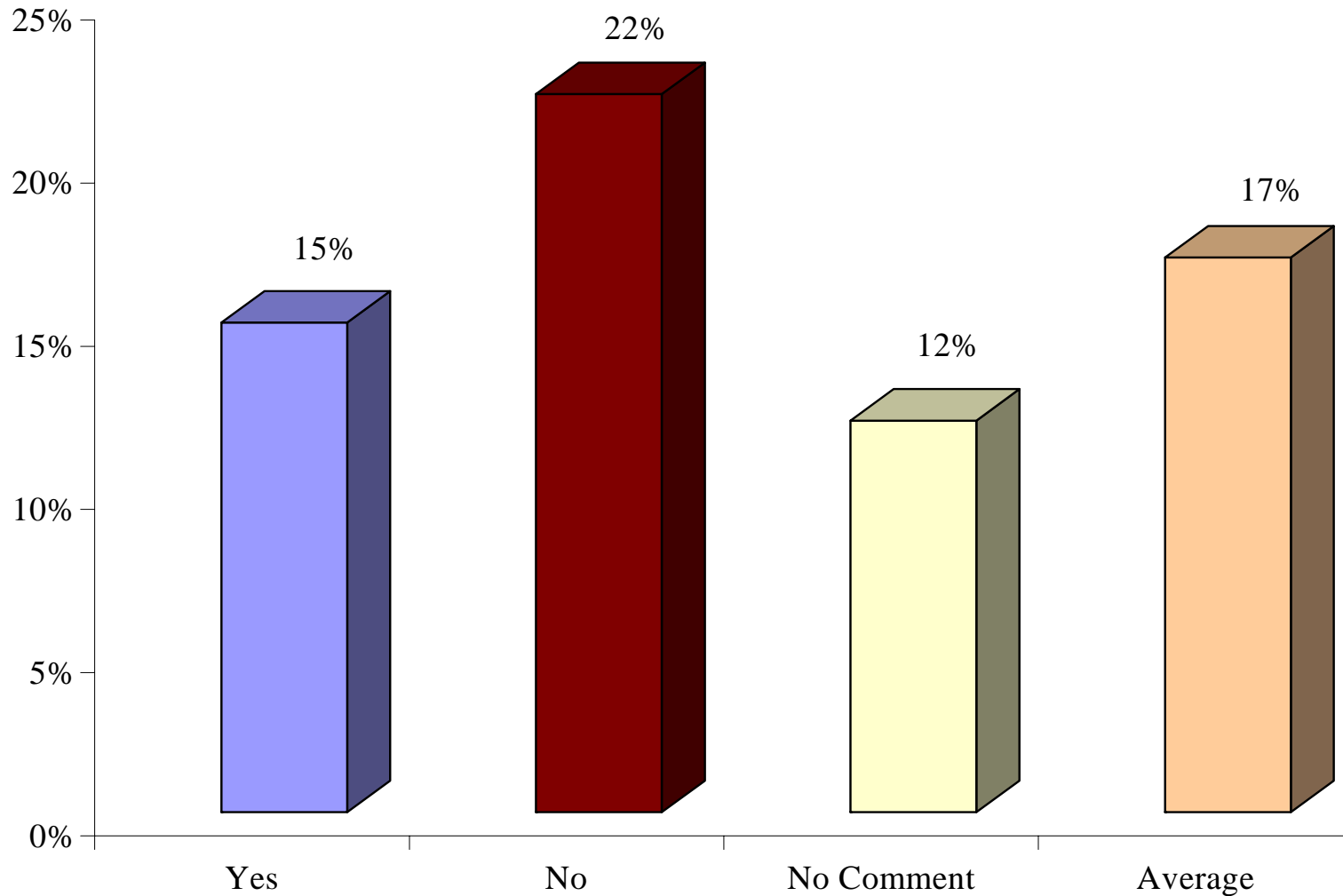


On average, 48% of Foundation/Endowment's investment committee members have experience investing in hedge funds

Yes = In favor of registration No = Against registration

Survey of Foundations/Endowment's response to the SEC rule proposal requiring hedge fund management companies to register as RIAs.

Average Percent Allocation to Hedge Funds

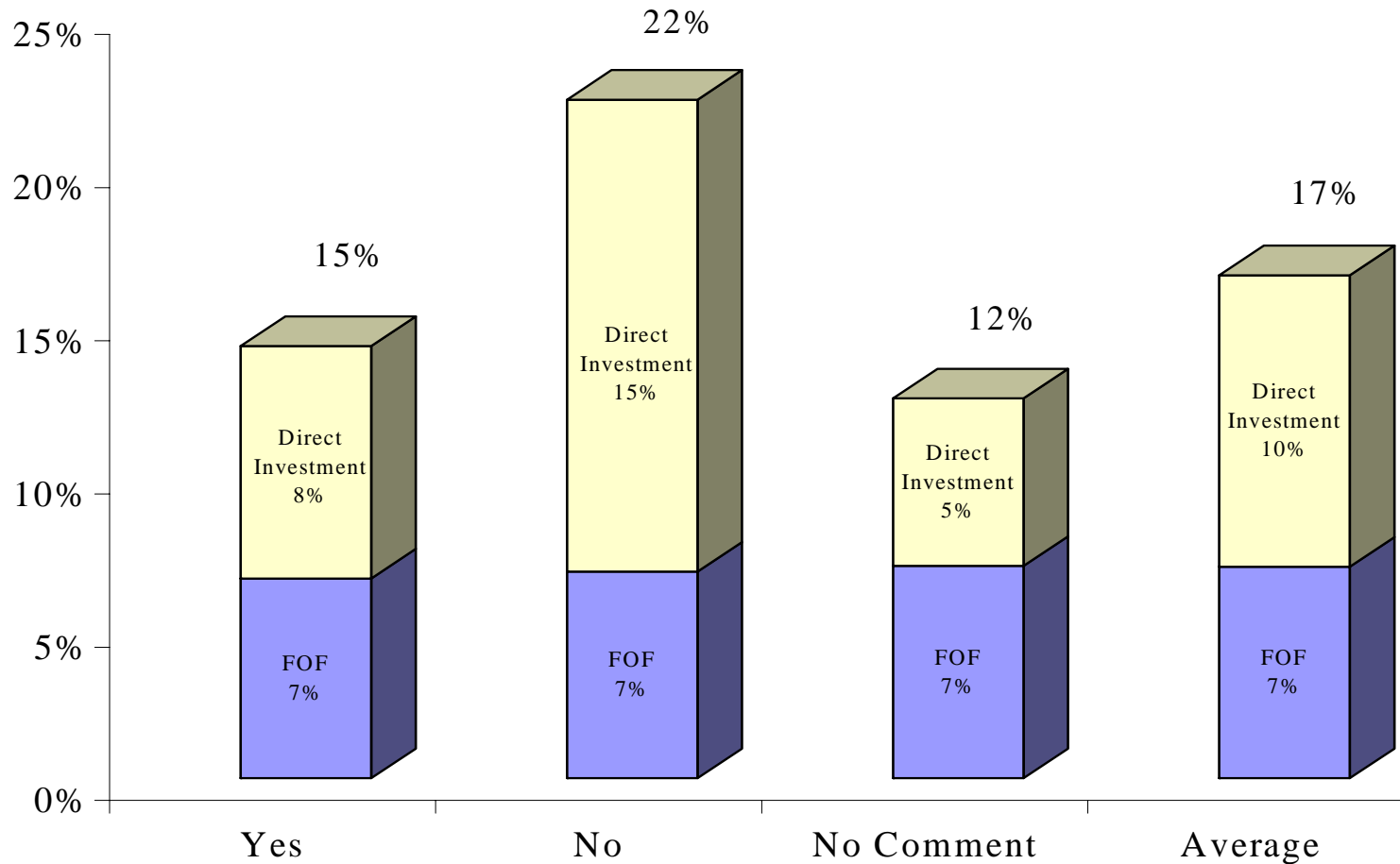


On average, Foundation/Endowments have 17% of total investable assets allocated to hedge funds

Yes = In favor of registration No = Against registration

Survey of Foundations/Endowment's response to the SEC rule proposal requiring hedge fund management companies to register as RIAs.

Breakdown of Hedge Fund Allocation (Direct Investment vs. Fund of Funds)



Of the 17% average allocation to hedge funds, 10% is directly invested while 7% is invested via a fund of hedge funds product

Yes = In favor of registration No = Against registration



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Hedge Fund Disclosure

- **Hedge funds can be speculative and may involve a high degree of risk.**
- **Hedge funds may use leverage.**
- **Hedge funds may have performance that is volatile.**
- **An investor could lose all or a substantial amount of their investment.**
- **The fund manager has total trading authority over the fund. The use of a single advisor applying generally similar trading programs could result in a lack of diversification and, consequentially, higher risk.**
- **There is no secondary market for the investor's interest in the fund and none is expected to develop.**
- **There may be restrictions on redeeming interests in the fund.**
- **The fund's fees and expenses may offset the fund's trading profits.**
- **Some hedge funds can execute a substantial portion of the trades executed for the fund on a foreign exchange.**



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**2004 Hennessee Hedge Fund Survey of
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**Registration of Hedge Funds
Participant's Commentary**

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Describe Yourself	Do you believe hedge fund managers should be required to register?	Participant's Commentary	Total size of investment pool
Foundation	Yes	Hedge funds are volatile. Managers are over confident and need checks and balances.	\$4,900,000
Foundation	Yes		\$220,000,000
Endowment	Yes	Accountability.	\$25,000,000
Foundation	Yes	I am not familiar with the downside implications of registration, other than the potential over reliance that investors may have on the registration as part of their due diligence.	\$135,000,000
Endowment	Yes		\$140,000,000
Endowment	Yes	There appears to be more due diligence and information needed of a manager in becoming an RIA; therefore, it would be of benefit for potential investors to have this information available to aid in their decision to invest with a specific manager.	\$205,000,000
Endowment	Yes	More disclosure is better for investors	\$42,000,000
Foundation	Yes		\$125,000,000
Endowment	Yes	Participation in registration process would create an all inclusive listing of hedge funds if there is need for data gathering to support future deliberations on regulation on other purposes.	\$190,000,000
Foundation	Yes	Registration will allow for increased due diligence opportunities for both regulators and institutional investors.	\$482,000,000
Endowment	Yes	About 1/2 of the larger hedge funds already are registered. Given today's environment, any additional disclosure & transparency is better. The investors would benefit from increased disclosure, and the funds could market their funds and performance which could be an advantage to the better funds. It probably could help catch fraudulent activity, but might detect it sooner rather than later.	\$400,000,000
Endowment	Yes	Cost of doing institutional business. Will require that firms keep better records and maintain controls, but should not put them at competitive disadvantage.	\$650,000,000
Endowment	Yes	Foundations & Endowments are fiduciaries which place additional responsibility on hedge fund managers seeking these funds. To the degree the SEC is able to review these registrations it will add value. Registration just to say they are doing something obviously would be a waste, so my yes response is somewhat qualified.	\$200,000,000
Endowment	Yes		\$550,000,000
Endowment	Yes		\$580,000,000
Endowment	Yes	Would make them feel some accountability, but unless SEC can ride herd registrations is not viable.	\$325,000,000
Foundation	Yes		\$250,000,000
Foundation	Yes		\$320,000,000
Foundation	Yes	Not a dealbreaker but increases transparency	\$1,500,000,000
Foundation	Yes		\$3,700,000,000
Endowment	Yes	Should have some reporting requirements would help with fiduciary responsibilities and due diligence	\$1,700,000,000
Foundation	Yes	I believe that registration provides a minimum level of standards that all must adhere to and lends creditability to the field	\$125,000,000
Endowment	Yes		\$1,340,834,000
Foundation	Yes	More disclosures with result in more discipline over hedge fund managers thereby protecting investors.	\$255,000,000
Endowment	Yes	Funds passing a minimum size should be subject to certain requirements	Not disclosed
Foundation	Yes	Registration is not onerous and will deter managers with regulatory record problems	\$150,000,000
Foundation	Yes	one less stop of due diligence	\$330,000,000



Describe Yourself	Do you believe hedge fund managers should be required to register?	Participant's Commentary	Total size of investment pool
Endowment	No Comment	Our advice is provided by an external investment advisor firm, which would be in a better position to answer this question.	\$40,000,000
Endowment	No Comment		\$310,000,000
Endowment	No Comment		\$4,000,000,000
Endowment	No Comment	Don't have strong opinion	\$700,000,000
Foundation	No Comment	No opinion	\$50,000,000
Endowment	No	Increased cost does not add to performance, investors should perform own due diligence	\$750,000,000
Endowment	No		\$325,000,000
Endowment	No	I am unclear as to the value registering would provide to investors. If I am not mistaken mutual funds were run by RIA's, and we have certainly had issues in the mutual fund arena. I believe requiring registration will simply increase costs and take time away from managing the hedge fund.	\$375,000,000
Foundation	No	Waste of time and money with no clear benefit	\$75,000,000
Foundation	No		\$400,000,000
Endowment	No	Required registration could limit a hedge fund's ability to use certain strategies to maximize returns. If an investor prefers to employ a registered hedge fund, it remains an option, but should not be a requirement as most hedge fund investors are educated and conduct thorough due diligence.	\$415,000,000
Endowment	No	Forcing hedge funds to register is only a band-aid to a larger issue in the investment management area as a whole. Registration causes larger fees and time for the hedge funds, which can then negatively impact investors.	\$12,600,000,000
Foundation	No		\$200,000,000
Endowment	No	Regulation may create an illusion of safety for unwary investors, while increasing compliance costs	\$4,000,000,000
Endowment	No		\$33,000,000
Endowment	No	As long as they are limited in their ability to market to "sophisticated" investors, they should be managed/regulated by a "caveat emptor" fashion.	\$3,700,000,000
Endowment	No	SEC doesn't have enough value added potential, we are skilled at ferreting out good and honest managers; a false sense of security will result for the industry; bureaucracy	\$1,100,000,000
Endowment	No	Added cost, not deterrent to fraud	\$440,000,000
Endowment	No		\$500,000,000
Total Sum of Survey Participant's Investment Pool			\$43,957,734,000
Average Size of Investment Pool			\$976,838,533