FINEX GLOBAL
CREATING INNOVATIVE RISK SOLUTIONS FOR HEDGE FUNDS
We are one of the largest insurance brokers in the world

We have over 180 years of history and experience in insurance; we currently operate in over 400 offices in nearly 120 countries, with a global team of approximately 17,000 Associates serving clients in some 190 countries

USD 32.2 billion of global premiums placed through worldwide markets
HEDGE FUNDS

As a leading global risk adviser, a significant part of our business is dedicated to addressing the ‘core’ risk management needs of multinational Hedge Fund organisations.

The hedge fund industry is a high risk/high reward arena and when funds fail there is an impact to the general economy. Over the past decade assets have experienced a rise of 237%, however, the growth of future assets is largely dependent on the recovery of the global financial markets. The recent sub-prime problems and the ensuing credit crunch have impacted on performance of many hedge funds and led to a number of hedge fund blow ups. Assets under management within the global hedge fund industry still remain considerably below their 2007 peak, of USD2,150 billion, at USD1,902 billion.

With such a highly concentrated market, 70% of global assets held within the U.S., 21% in Europe and the remaining in emerging Asian markets, the competition to win new investors is rife. Financial instability has also led to the expansion of new regulatory requirements, external auditing and the increased exposure of hedge funds within the media spotlight, leaving the market vulnerable to the risk of litigation from investors and the reputational risk that follows. Unstable asset values mean investors are becoming increasingly sceptical when it comes to investing in hedge funds. 2011 saw a net outflow of USD80 billion, a trend which is not predicted to ease as institutional investors increase the allocation of funds into alternative investments, and concentrate their investment into firms with effective risk management processes in place; assuring heightened transparency. With the limited number of large investors the need for expert risk solutions has never been greater.

FINEX Global strives to not only address the ‘core’ risk management needs of our clients, but to develop a detailed understanding of their businesses to create new innovative solutions.

IN THE U.K. ALONE WE SERVE OVER 900 FINANCIAL SERVICES FIRMS, ACROSS 162 COUNTRIES HIGHLIGHTING OUR EXPERTISE ACROSS THE GLOBAL MARKET.

WE SERVE OVER 2,000 FINANCIAL SERVICES WORLDWIDE.

WITHIN THE LAST YEAR WE HAVE MANAGED, ON BEHALF OF OUR CLIENTS, OVER GBP634 MILLION IN PREMIUMS.
1. Ownership or custody of physical commodities

2. Mistaken or rogue trades

3. Inadequate Directors & Officers coverage

4. Increased insurance costs and reduced coverage due to change in AUM
**VALUE**

1. Reduce and avoid potentially large financial losses and liabilities associated with the storage and transportation of physical commodities

2. Coverage for mistaken or rogue trade exposures will help you reduce and avoid:
   - Direct losses
   - Legal defence costs
   - Regulatory, remedial and corrective actions

**SOLUTION**

1. Review your insurance to see if you have all the proper coverages in place to protect you from the loss, damage, or liabilities connected with the possession and transportation of physical commodities
   - It may be necessary to purchase additional insurance to cover these risks

2. If you are actively engaged in trading assets, you may be exposed to the risk of mistaken or rogue trades. It is critical that you obtain insurance for both rogue trading and trading errors

3. Establish a consistent approach to sharing renewal information with underwriters which highlights the positive risk attributes of your company while avoiding any errors, omissions or misrepresentations that might negate coverage

4. Review your current insurance limits and increase them if necessary to help protect the rapidly increasing assets under management
   - Negotiate with your insurers to prepare for the expected increase
   - Ensure that the coverage is amended to the new assets. A carefully drafted automatic acquisition clause will alleviate the uncertainties of adding new assets to the group

3. Highlighting the positive risk attributes and avoiding errors will help you:
   - Reduce and avoid losses from nullified coverage due to omissions, errors or misrepresentation to your insurance company
   - Increase claims paid by ensuring you are properly covered in the event of a claim

4. Aligning your insurance with your assets under management helps:
   - Reduce and avoid losses
   - Avoid potential unexpected insurance cost increases or denial of coverage
RISK

5. Inappropriate cover for claims alleging a breach of a contract term

6. Non-compliance with country-specific laws
VALUE

5. — Protect the business from legal risk of contractual disputes which may be excluded by your policy

6. — By reviewing your insurance in light of country-specific needs and requirements you can:
- Avoid potential uninsured losses due to non-compliance with country-specific laws
- Reduce and avoid losses to your foreign operations and employees

SOLUTION

5. — Develop a broadly-drafted policy to ensure a narrowly-drafted contractual liability exclusion, and which would apply only in specific circumstances of guarantees and warranties for performance
   - Assess your contractual terms from an insurance perspective and make comments or adapt your insurance policy accordingly

6. — Review your current insurance and countries of operation to determine what risks and insurance steps can and need to be taken, such as indemnification from the parent company or the use of non-admitted policies
Directors and Officers Insurance
Crime Insurance
Employment Practices Liability Insurance
Pension Trust Liability Insurance
Cyber Liability Insurance

Willis also have a wide range of other specialist teams’ dedicated to providing additional insurance solutions to help minimise clients’ risk of exposure even further.

These include:
Property Insurance
Group Life Insurance
Shareholder Protection
Public Liability Insurance
Private Medical Insurance
Employees Liability Insurance

Many combinations of these, and other coverages, can be built into complex insurance packages of specialist protection.

HOW FINEX GLOBAL ADD VALUE IN THESE AREAS
FINEX Global is a division of Willis that acts as a knowledge base for Willis worldwide, with teams of

42% OF GLOBAL HEDGE FUND MANAGED IN NEW YORK
experts in Executive and Professional Risks providing specialist advice and services to our clients and associates. In the U.K. alone we serve over 900 financial services firms, across 162 countries highlighting our expertise across the global market.

As in all areas of risk management, buying insurance is only part of the puzzle. What is really needed is strong exposure identification, policy wordings tailored to clients needs, and communication about exposures within a client’s organisation. FINEX Global has one of the most experienced teams in the market. We have established long-term relationships with key insurers, ensuring we are able to deliver the right solution to match any organisation’s requirements.

Within the FINEX Global team we have a legally qualified claims advocate with a major investment banking background to lead complex and client critical claim negotiations.

Our team also work closely with other core service teams to ensure that every client receives a high level of service. These teams include our **Contracts Advisory Team** and **Risk and Analytics Practice**, all of which will enable clients to understand their risks better and ensure that their policy wordings meet their specific requirements.

**CONTRACT ADVISORY TEAM**
The FINEX Global Contract Advisory Team (CAT) exists to ensure our clients’ policy wordings are of an exceptionally high standard. They aim to ensure 100% contract certainty at inception; wordings are in accordance with the clients instructions, the broadest cover possible is negotiated, the documents are presented as clearly as possible and are fit for purpose.

To ensure they deliver the best possible service, the team are fully engaged in the entire risk management process. In conjunction with the rest of our Willis service team, a designated CAT expert will be appointed to work with our clients’ organisation, keeping them informed of the latest developments on their wordings as well as the impact of wider regulatory developments.

**RISK AND ANALYTICS PRACTICE**
The Risk and Analytics (R&A) Practice sits within FINEX Global and is an advisory services hub that connects diverse and deep industry knowledge and expertise from across the global Willis network. The R&A team comprises of internationally-experienced consultants and researchers in the fields of risk management, regulation, insurance, alternative risk financing and financial services.

The R&A team delivers risk analytics and consulting services for international financial institutions, professional services firms and major corporate clients. Services and solutions range from operational risk/regulatory consultancy for financial services organisations – to – enterprise risk framework gap analysis for professional firms – to – risk and insurance research and information analytics.
EXPERT CLAIMS TEAM
Effective claims handling comes down to preparation and communication and that’s why one in four members of FINEX Global are dedicated to claims handling. Unlike some major global brokers Willis does not outsource any part of the claims service to a third party, meaning our in-depth knowledge of the claims process combined with close relationships with insurers’ claims teams, adjusters, accountants and other experts ensures we maintain control over a claim from inception and provides our clients with a more responsive service.

FINMAR360° – A NEW WAY OF WORKING
In line with our innovative culture, we are challenging the way in which brokers engage with the insurance market to provide a transformational improvement for our clients. Since late 2010 we have been on an initiative called FINMAR360°, with a view of making significant changes to the way we work with the insurance market in order to deliver enhanced and improved service levels, products, economies of scale and competitive terms.

FINMAR360° merges personal knowledge of the insurance market with sophisticated analytics to drive change to the approach to market structuring, selection and placement and to ensure clients are matched with the most appropriate insurers, continually improving client service.

The FINMAR Market Services (FMS) has recently been established as an independent business unit within Willis, working to collate, analyse and report each insurer’s performance benchmarked against their competitors. The knowledge gained from the data captured by the FMS will facilitate a far more sophisticated strategy to developing bespoke client solutions is a more analytical approach.
PROFESSIONAL INDEMNITY INSURANCE

Given that we now operate within a service-based economy, the number of entities that provide professional services has risen dramatically and, because of the spreading compensation culture, exposures are greater than ever. Professional Indemnity (PI) Insurance can help protect our clients and their business from damaging financial and reputational claims brought against them by dissatisfied clients, due to an issue with the work they have undertaken for them. Even the most respectable companies can find themselves in dispute with a client over an error.

A typical Professional Indemnity policy will provide indemnity to the insured against loss arising from the failure to exercise reasonable skill and care in the performance of their professional services. The policy will offer cover for compensation you may need to pay to correct a mistake or cover any legal costs due to negligence.

OUR SPECIALIST KNOWLEDGE

Our PI Practice has specialist knowledge of all leading professions with considerable aggregate experience of global risks and insurance exposures. We develop thinking and solutions that permit clients to manage their risk efficiently and effectively.

WILLIS CLAIMS CAPABILITIES CASE STUDY

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<td>Our client had sold an investment product to thousands of retail customers which subsequently failed. The regulator investigated the sales process and determined that the product had been mis-sold and was not suitable for the clients risk profile. In addition the regulator contended that the insured had years earlier identified and failed to resolve risk factors in the product. On initial review, it appeared that insurers had grounds to refuse to pay the claim. We reviewed the details of the claim with the client and advised them nonetheless to submit the claim to their insurers under the PI section of the policy.</td>
<td>The insurers appointed a firm of lawyers to review the claim and they concluded that as the client was already aware of this matter prior to placement, the policy should not respond. We then spent several weeks discussing the merits of this claim with the insurers and their lawyers, taking each point they raised in turn, breaking it down and responding to each of the arguments on its own merits.</td>
<td>After significant discussion with the insurers and their lawyers we managed to obtain insurers agreement to settle the full policy limit. The insurers advised us that this agreement was a combination of the work we had undertaken to dissect the information into a format they could easily understand and argue each point separately against the policy wording and Willis’ commercial weight. Needless to say the client was pleased with the outcome.</td>
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DIRECTORS AND OFFICERS LIABILITY INSURANCE

Directors and Officers insurance cover provides protection for directors and officers in the event that they are the subject of a claim or investigation arising from the performance of their duties at their company. In today’s difficult environment, claims can arise from a variety of sources. D&O insurance provides personal asset protection to the Directors or Officers should the employer's indemnification fail for any reason. A D&O insurance also provides balance sheet protection for the company, where the company has indemnified its directors or where it is itself the subject of a securities claim.

OUR SPECIALIST SERVICE

We provide a range of comprehensive services and a team of experts to help you:
» measure your executive exposures
» identify the optimum D&O program for your company
» ensure that you have the best cover available in the global market

With decades of experience, thought leadership and market leverage, we continually monitor trends in the marketplace and stay current with changing legal, legislative and regulatory activity, providing you with the latest in:
» Risk identification
» Insurance coverage analysis
» Strategic claims management

FINEX Global is committed to continued innovation when it comes to our clients risk management issues. DARCSTAR™, a new product launched in 2011, is a revolutionary approach to Directors & Officers insurance, designed to simplify the protection available in the event of a claim. It delivers broad and reliable cover in an easy to understand policy.
CRIME INSURANCE

Commercial Crime cover is one of the best means of protecting a company against any losses experienced as a result of crime. It is designed to protect the direct financial loss suffered by a company arising from any employee fraud or a dishonest act of a third party. Employee fraud can go undetected for years and when finally discovered can be extremely damaging. The average business loses approximately 5% of its annual revenue to fraud and acts of employee dishonesty; and commercial crime is on the rise. Purchasing crime coverage should form apart of a comprehensive risk management strategy to offset the financial burden from such loss.

WILLIS CLAIMS CAPABILITIES CASE STUDY

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<td>A large investment fund collapsed due to internal fraud totalling several hundred million dollars. The broker dealer was named in the action and one of its employees was accused of being complicit in the fraud. Insurers denied the claim on various grounds including the application of the dishonesty exclusion and breach of the notification condition. This situation continued for several years and during this time, the client utilised two major broking firms, neither of which was Willis.</td>
<td>Ultimately, Willis was appointed to the account and we discovered that both sides had become entrenched in their respective positions. After the two previous brokers failed to achieve a settlement, a claim payment was made following the appointment of Willis. Following extensive negotiation with key insurers Willis managed to persuade them to change their position.</td>
<td>Once this breakthrough had been obtained, our claims team also utilised the global Willis leverage on the remaining insurers and obtained a settlement totalling tens of millions of dollars which was pleasing to the client.</td>
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USD1,902 Bn
GLOBAL HEDGE FUND ASSETS TOTAL IN 2011
EMPLOYMENT PRACTICE LIABILITY INSURANCE

Employment Practices Liability (EPL) is needed as soon as employees are hired. With new laws and directives around employee rights, and employees more informed of their rights, EPL insurance should be high on any organisation’s agenda in order to adequately manage their risks.

The purpose of Employment Practices Liability (EPL) insurance is to provide broad liability protection for all employment practice violations. The coverage it provides goes beyond that of standard Directors & Officers insurance, in that it provides protection for the company and all of its employees (including directors, officers and temporary or season workers).

EPL cover includes:
» Regulatory investigations
» Defence costs
» Legal representation costs at an official investigation

OUR SPECIALIST SERVICE

Our clients have access to an online risk management platform, which offers comprehensive risk management, including sexual harassment training, a dedicated telephone hotline, wage and hour tutorials, and model policies and procedures.
PENSION TRUST LIABILITY INSURANCE

Companies with pension funds or the pension funds themselves should purchase Pension Trustees Liability insurance cover for the benefit of their pension fund trustees and for balance sheet protection against the organisation and trust itself.

Pension Trustees Liability insurance provides cover where a claim is brought alleging a wrongful act in areas such as breaches of trust, breaches of duty, breaches of statutory provision, negligence, errors and omissions, mis-statements, and misleading statements, and maladministration or any other wrongful act committed or allegedly committed in relation to a Pension Scheme.

CYBER LIABILITY

Today, using computers and logging on to public and private networks has become second nature in both our personal and business lives. We are all constantly producing and saving data, surfing the net, uploading content and sending and receiving email traffic. It is difficult to recall how we were ever able to manage without such technologies and the benefits they bring. However, in creating this new digital world we have also created a by-product – Cyber risks. Just about every business in the world today is faced with Cyber risks, some of the core Cyber exposures include:

» Privacy Breach
» Network Downtime
» Multimedia Risks

OUR SPECIALIST KNOWLEDGE

In response to the development of Cyber risks FINEX Global, in conjunction with key Cyber markets, has developed a market leading Cyber insurance solution with its own exclusive wording that goes beyond the off the shelf products typically offered. We offer a consultative approach whereby we fully analyse your cyber exposures before proposing the most appropriate solution.
Some of the largest breaches that have occurred have cost companies upwards of GBP 100m. Costs as a result of a data breach include forensic costs, PR expertise in order to try and reduce the reputational impact to a company, crisis management costs, regulatory fines and penalties plus Payment Card Industry (PCI) fines, where credit card information is involved, and liabilities. Companies may incur liability claims for damages from banks if financial data has been taken from the individuals themselves for the benefit of the companies, costs they have incurred as a result of the breach such as time off work, and from any other third parties that may have suffered a financial loss from the breach.

**CYBER INCIDENTS / CLAIMS SCENARIOS**

The table below looks at some of the most common types of Cyber incidents/privacy events which companies could face as a result:

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<th>INDUSTRY</th>
<th>SCENARIO</th>
<th>TYPE OF COST INCURRED</th>
<th>COVER</th>
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<td>Financial Services</td>
<td>An employee of a financial services company left a laptop in a public place containing the PII of its clients.</td>
<td>Costs included the hire of a PR firm, notification to all of the customers affected, setup of an ID theft/credit alert service call centre and credit monitoring services.</td>
<td>Privacy/Network Security Liability/Privacy event mitigation costs.</td>
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FREQUENTLY ASKED QUESTIONS

How do PI and D&O policies differentiate from one another?
Professional Indemnity Insurance is designed to cover the legal liability of professionals when compensating other parties (generally their clients) for a loss they have suffered as a result of an employee’s breach of professional duty. PI also covers the professionals’ legal liability for all the legal expenses incurred throughout the claim. Additionally, D&O insurance is required to cover against claims made solely against directors and officers as a result of a ‘wrongful act’ performed in relation to their role as a director or officer. D&O also covers the costs for any authorised hearing, investigation or inquiry brought upon by an official body into the affairs of the company.

What does ‘Retroactive Cover’ mean in a Professional Indemnity policy?
Retroactive cover can be purchased as part of a policy to cover work that has been completed prior to the purchase of the policy (subject to known claims).

Is Crime Insurance required in addition to PI and D&O cover?
Yes. Crime Insurance is an additional line of cover required to protect companies against employee and third party infidelity such as dishonesty and fraudulent acts. A crime policy will also protect against the loss of premises, electronic fraud/crime, and the theft of pension plan assets.

Can I claim for the costs incurred when investigating and identifying a loss as a result of employee or third party dishonesty?
There are a number of extensions that can enhance your coverage significantly. Costs of investigating a loss can be covered depending on the specific policy wording agreed.

How does DARCstar differentiate from a conventional D&O policy?
DARCstar stands for ‘Directors All Risks Cover’. It is a new revolutionary approach to directors and officer’s liability insurance, which states from the premise that all liability risks faced by directors are covered. It aims to provide broad and relevant cover in concise and easily understood terms in just eight pages. Unlike conventional D&O insurance which is based on a twin insuring clause approach: Side A indemnifying directors for loss in the event the company has not paid and Side B reimbursing the company if it has already paid the loss to the directors, DARCstar contains only one insuring clause.

Who is insured under a Fiduciary policy?
There are many insured’s under a Fiduciary policy. These usually include; the company-sponsored employee benefit plans, the company itself, those at the company alleged to be plan fiduciaries and those working in plan administration. Those who are not insured include outside and institutional fiduciaries such as bank trustees, and those working at a third-party administrator.
What exactly does a Fiduciary policy cover in terms of expenses?
A Fiduciary policy will generally pay the costs associated with the defence, investigation, negotiation and settlement (by way of a court determination or otherwise) of a covered claim made against the plan, the company and/or its in-house fiduciaries or those working in plan administration. This may include certain accounting and actuarial expenses in addition to legal costs. Because ERISA provides for some cost shifting, you and your carrier may also be liable for the legal costs of the plaintiffs (especially if they win).

Does Cyber Liability cover against extortion demand costs?
Yes. Cyber Liability will cover the insured against the extortion demand costs, as well as the cost to investigate threatened cyber attacks and indemnification for the loss of revenue as a result of business interruption.