

LONDON STOCK EXCHANGE LAUNCHES SPECIALIST MARKET FOR PRIVATE EQUITY AND HEDGE FUNDS

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To Our Clients and Friends:

The London Stock Exchange (the “LSE”) announced on July 12 its plans to launch a new, lightly-regulated market for private equity, property and hedge funds as it battles Euronext Amsterdam for the lucrative business of hosting listed alternative funds.

The Specialist Fund Market, expected to open to listings from November 2007, will be available to both UK and international funds, and will complement the UK Financial Services Authority’s (the “FSA”) proposed unitary regime for investment entities listing on the main market of the LSE (the “Main Market”). The Specialist Fund Market is intended as a market for entities that target institutional, professional and highly knowledgeable investors, such as single strategy funds, feeder funds, specialist sector funds, limited partnership structures, specialist geographical funds and funds with specialist governance structures. Issuers that wish to market funds to a wider audience, including retail investors, will continue to have access to the Main Market, which offers the potential for inclusion in index tracker funds, and to LSE’s junior Alternative Investment Market or AIM.

LSE’s promotion of the Specialist Fund Market is a further development in London’s regulatory framework for listed funds and comes after the FSA decided to abolish its nine-month-old light-touch regime for non-UK funds listing on the official list maintained by the UK Listing Authority (the “Official List”) – a regime that has been publicly criticised by some investment trusts and traditional fund managers.

INVESTMENT FUNDS LISTING IN LONDON

Before this initiative, investment funds seeking a listing in London had three options:

- (i) to apply for a primary listing on the Official List and to trading on the Main Market under Chapter 15 of the listing rules made by the UK Listing Authority (the “Listing Rules”);
- (ii) to seek a listing on AIM; or (iii) (more recently) seek a “secondary listing” on the Official List and to trading on the Main Market under Chapter 14 of the Listing Rules.

Chapter 15

Chapter 15 imposes standards on investment companies beyond those applicable to all other types of entities applying for a primary listing on the Official List and to trading on the Main Market. Some overseas investment companies have been reluctant to list under Chapter 15 in light of the burden of the full regime applicable to UK-domiciled investment entities, in

particular the requirement for adequate spread of investment risk, a minimum of three years' audited accounts and the requirement that the directors and managers demonstrate sufficient and satisfactory experience.

AIM

AIM, designed as a forum for trading in securities of small, young and growing companies, offers an alternative to a Chapter 15 listing. It does not require three years of financial statements and generally imposes less rigorous listing requirements than are required for admission to the Official List. It has attracted a number of investment entities, primarily property funds or other conventional investment funds, but is generally considered too small for larger permanent capital vehicles.

Chapter 14

Another more recent alternative open to overseas investment funds was to apply for listing under the "minimum directive" regime contained in the secondary listing requirements in Chapter 14 of the Listing Rules. This includes only the mandatory aspects required under the various relevant European Union directives.

Chapter 14 was originally a mechanism to allow international companies to extend their presence and profile with a second (or third or fourth) listing in London. Since July 2005, however, a secondary listed company has not been required to have another listing, either in its home jurisdiction or elsewhere. This has meant that an overseas company's secondary listing in London could be its only listing.

In March 2006, citing potential risks to the retail investor base, the FSA proposed prohibiting the secondary listing of investment entities, arguing that the standards set out in Chapter 15 represented minimum standards to which any listed investment entity should be subject, regardless of domicile or regulatory status. However, this proposal was later withdrawn by the FSA because, among other reasons, it no longer thought that it was appropriate to prohibit secondary or directive minimum listings of overseas investment companies.

THE UNITARY REGIME

After consultation with participants in the industry, the FSA now proposes to bring in a unitary regime for investment vehicles in the first quarter of 2008. In the meantime, some changes to the existing Chapter 15 rules prompted by the consultation exercise will be implemented on an interim basis starting in September 2007.

Once the unitary regime comes into force in 2008, alternative funds will no longer be able to opt for the Chapter 14 "minimum directive" regulatory regime when they list in London. It is worth noting that the "minimum directive" regime is still available for listing on Euronext

Amsterdam. Existing funds that have already listed in London under Chapter 14 will not have to comply with the new unitary regime rules.

THE SPECIALIST FUND MARKET

Securities will not need to be approved for public notification on the Official List in order to be traded on the Specialist Fund Market, which therefore will be considered an unlisted market. As a consequence, entities admitted to this market will not be subject to the Listing Rules.

The Specialist Fund Market will apply only the minimum standards imposed by European directives. Consequently, funds admitted to it will have a relatively low ongoing disclosure burden, will not need independent boards and can sell non-voting shares. Applicants to the Specialist Fund Market will be required to produce a prospectus approved by their relevant EEA Competent Authority, which is the FSA (through the UK Listing Authority) for applicants whose Home Member State is the UK. Non-EU applicants who have not previously selected a Home Member State in the European Union can select the UK in connection with their application.

In the current market, hedge funds, private equity and property managers have been rushing to take advantage of booming investor demand to float closed-end funds to provide them with locked-up capital. Euronext Amsterdam won an early lead over its rival London Stock Exchange last year, hosting big fund launches from buy-out groups Kohlberg Kravis Roberts and Apollo Management, as well as the first two main-list hedge fund floats by Boussard & Gavaudan and Marshall Wace's MW Tops vehicle.

It remains to be seen how successful the Specialist Fund Market will be in attracting investment entities. The FSA's decision to bar access to the lighter-touch regime of Chapter 14 may prompt some alternative fund sponsors to opt for the Amsterdam exchange. London, however, as the pre-eminent location for the European hedge fund industry and private equity sponsors, has a natural advantage in the continuing battle for further business from listed alternative investment vehicles. This new Specialist Fund Market should help enhance this position.

Please feel free to get in touch with us if you have any questions.

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