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April 2, 2002

VIA E-MAIL

To Our Investment Adviser Clients and Other Friends

Re: *Anti-Money Laundering and the USA PATRIOT Act*

As part of the U.S. government's response to the tragic events of September 11th, President Bush signed into law the USA PATRIOT Act of 2001. The International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001 (the "Act"), codified as Title III of the USA PATRIOT Act, amends U.S. anti-money laundering laws and is intended to ensure that members of the U.S. financial services industry are subject to anti-money laundering requirements.

The Act imposes anti-money laundering compliance obligations on all "financial institutions." "Financial institutions" include investment banks, broker-dealers, commodity pool operators and investment companies. While the term "investment company" is not explicitly defined, the legislative history indicates that the term probably includes both registered investment companies (that is, mutual funds) and unregistered private investment companies (such as hedge funds, venture capital funds and commodity pools).

Notably absent from the definition "financial institutions" are investment advisers. Nonetheless, we recommend that investment advisers adopt anti-money laundering programs.

ANTI-MONEY LAUNDERING PROGRAMS

The Act requires each "financial institution" to establish by April 24, 2002, an anti-money laundering program that must, at a minimum:

1. Include internal policies, procedures and controls;

2. Designate a compliance officer to administer the anti-money laundering program;
3. Establish an ongoing employee training program; and
4. Include an independent audit function to test the program.

Although the Act does not say how these criteria are to be satisfied, the Secretary of the Treasury is required to prescribe regulations by April 24th that take into account the “size, location and activities of financial institutions” to which the regulations apply.

RECOMMENDATIONS FOR COMPLIANCE

The primary goal of an anti-money laundering program should be to develop procedures that allow you to “know your customer” and that can be reasonably expected to help your firm detect and report suspicious activity.

1. Develop Internal Policies, Procedures and Controls. Your firm should develop written policies, procedures and controls that apply to existing and prospective clients and investors. You should consider the scope of your activities and the types of accounts you maintain when preparing these policies. Among other things, the policies could require your firm to:

- Identify certain activities that would require additional scrutiny or due diligence (for example, wire transfers from or transactions with suspect countries or when a client or investor is a bank or other institution that is acting as an agent for an undisclosed principal);
- Periodically obtain updated copies of government watch lists and compare your client and investor lists with the names on the watch lists (see, for example, the control list prepared by the Office of Foreign Assets Control at www.ustreas.gov/ofac or obtain the SEC control list by sending an email to enf-search@sec.gov (put on the subject line “Enf-Search Request”));
- Obtain appropriate representations and supporting documentation from existing and prospective clients and investors (for example, a certified or notarized copy of a driver’s license or passport for individuals and copies of charter documents and certificates of good standing from entities);
- Obtain appropriate representations and information from existing and prospective clients and investors that are investment entities (for example, representations that the client or investor has an appropriate anti-money laundering program and has obtained appropriate background information regarding all of the officers and beneficial owners of the investment entity);
- Take appropriate action if the activities of an existing or prospective client or investor raise suspicion of money-laundering activities (including termination of the relationship with that client or investor, reporting that matter to the appropriate governmental agency or freezing the assets of that client or investor); and
- If you are an investment adviser or manager for a foreign investment fund, obtain appropriate representations from the administrator or other person who screens and accepts the

subscriptions for that fund that it uses appropriate anti-money laundering procedures and ask it to compare the fund's investor list with watch lists.

Some of these policies may require you to modify your client or investor questionnaires, subscription agreements and other contracts with third-party service providers and obtain updated and additional information from your existing clients and investors. In addition, the "financial institutions" with which you do business (such as prime brokers, custodians and fund administrators) may require you to confirm that you have an appropriate anti-money laundering program or that you have obtained appropriate background information regarding your clients and investors (including investors in investment funds that you manage).

You should amend, supplement and replace your policies, procedures and controls as the laws, rules and regulations develop over time.

2. Designate a Compliance Officer. Your firm should designate a Compliance Officer who has thorough knowledge of your anti-money laundering policies, procedures and controls and has sufficient responsibility and authority to implement and enforce the policies, procedures and controls (including the ability to investigate suspicious activity).

3. Implement Employee Training Programs. Your firm should implement a program to train employees to recognize signs of possible money laundering activities and to educate them about the firm's procedures for handling suspicious activities. You should keep the training program up to date and inform your employees as anti-money laundering laws, rules and regulations are proposed, modified and adopted.

4. Provide an Independent Audit. Your firm's anti-money laundering program should provide for an independent audit to review and test the implementation of the firm's policies, procedures and controls. Although the Act does not specify what is required by the "audit", we do not believe it requires the same level of scrutiny that an audit of financial statements would entail and we believe that a review or examination of your policies, procedures and controls by an independent third-party should suffice until the government provides more guidance on this matter. In addition, the Act does not specify the frequency of the audit. We recommend, however, that you conduct the audit at least annually.

For your convenience, we have enclosed a generic form of "Statement of Policies and Procedures Relating to Anti-Money Laundering" that can be used as a model to create your own policies and procedures. Among other things, the enclosed *Policies and Procedures* would require you to obtain additional information and documentation from existing clients and investors to the extent you have not previously obtained such information and documentation (see section B of the *Policies and Procedures*). Because the implementation deadline of April 24, 2002, is quickly approaching, we decided to distribute this letter and the enclosed *Policies and Procedures* now, even though the requirements regarding anti-money laundering policies and procedures are not yet clearly defined. The enclosed *Policies and Procedures* are intended as a reasonable effort to comply until the government publishes more guidance, at which time you should reevaluate your policies and procedures and revise them as appropriate.

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Contact us if you need assistance developing your anti-money laundering program or preparing appropriate documents (including (a) updating your client or investor questionnaires and subscription agreements for prospective clients and investors, or (b) preparing supplemental client or investor questionnaires and representation letters for existing clients and investors). If you have any questions regarding these requirements, please contact Douglas Hammer, John Broadhurst, Carolyn Klasco, Christopher Rupright, Carolyn Reiser, John Milani, Monique Alonso, Joan Grant, Ellyn Roberts, Neil Koren, Anthony Caldwell, Latisha Brown or James Frolik.

SHARTSIS, FRIESE & GINSBURG LLP

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[NAME OF ADVISER]
STATEMENT OF POLICIES AND PROCEDURES
RELATING TO ANTI-MONEY LAUNDERING

This Statement of Policies and Procedures (this “Statement”) addresses the responsibilities of the employees of **[NAME OF ADVISER]** (the “Firm”) with respect to anti-money laundering activities. This Statement does not attempt to describe every regulatory and compliance requirement applicable to these activities, but rather summarizes some of the legal issues involved and establishes general rules and procedures.

Persons with questions not answered by this Statement should contact the Compliance Officer.

A. The Firm.

1. The Firm has appointed **[Name]**¹ as its “Compliance Officer,” who serves until he or she resigns or is replaced by the Firm.

2. At least once each month, or other time that the Compliance Officer considers reasonable, the Compliance Officer obtains updated copies of government watch lists prepared by the Office of Foreign Assets Control (at www.ustreas.gov/ofac) and by the Securities and Exchange Commission (the “SEC”) (email at enf-search@sec.gov, with “Enf-Search Request” on the subject line), and compares the names on the watch lists with the names of the Firm’s clients and investors in any U.S. fund (as defined below) or Foreign Fund (as defined below).

3. An employee of the Firm should immediately notify the Compliance Officer if that employee suspects that money laundering activities are taking place in relation to a U.S. Fund or Foreign Fund. Current regulations do not define money laundering activities, but at least the following matters should be reported to the Compliance Officer:

- a. wire transfers from or transactions with suspect countries;
- b. a client or an investor is a bank or other institution that is acting as an agent for an undisclosed principal;
- c. a client or an investor makes frequent investments/contributions or withdrawals/redemptions, or investments/contributions and subsequent withdrawals/redemptions occur within a short time; or
- d. a prospective client of the Firm or investor in a U.S. Fund or Foreign Fund is a senior foreign political figure, immediate family member of a senior foreign political figure or close associate of a senior foreign political figure.

4. If the Compliance Officer becomes aware of any suspicious activity, the Compliance Officer will:

¹ The Compliance Officer should be an executive officer of the Firm and have sufficient authority to implement and enforce this Statement.

- a. immediately consult with the Firm's legal counsel;
- b. if permissible under the contract or other arrangement governing the Firm's relationship with the suspected client or investor, immediately suspend all activity with respect to the account of the suspected client or investor (including, without limitation, suspending the client's or investor's right to withdraw capital from or redeem beneficial ownership interests in that account);
- c. notify the SEC immediately and act in accordance with any instructions provided in writing by the SEC; and
- d. unless otherwise instructed in writing by the SEC, determine whether the Firm should terminate its relationship with the suspected client or investor.

B. Investment Funds and Clients.

1. If the Firm or any of its affiliates acts as the general partner, managing member or in any other similar capacity with respect to a domestic investment fund (a "U.S. Fund"), the Firm will require that each such U.S. Fund obtain appropriate representations and warranties from prospective and existing investors and:

a. If the existing or prospective investor is a natural person, obtain either that investor's notarized signature on his or her subscription agreement (this option is available only for prospective investors) or a certified or notarized copy of that investor's driver's license or passport, unless that investor has previously provided such information to the Firm or the Firm has previously established a substantive relationship with that investor;

b. If the existing or prospective investor is an entity (unless shares of that entity are traded publicly in the United States on a national securities exchange), obtain a certified copy of that entity's charter documents and certificates of good standing;

c. If the existing or prospective investor is an investment entity, in addition to the documents required by the preceding item b, obtain additional appropriate representations from that investor, which representations should include, among other things, representations that the investor (i) has an appropriate anti-money laundering program that complies with all applicable laws, rules and regulations and is designed to detect and report any activity that raises suspicion of money laundering activities, and (ii) has obtained appropriate background information regarding all of the officers and beneficial owners of the investment entity.

2. If the Firm acts as the investment adviser or in any other similar capacity with respect to a foreign investment fund (a "Foreign Fund"), the Firm requires representations and warranties from each such Foreign Fund or its administrator, as appropriate, that the administrator or other person who screens and accepts the subscriptions for that Foreign Fund uses appropriate anti-money laundering procedures and compares the Foreign Fund's investor list with watch lists described above.

3. If the Firm acts as the investment adviser or in any other similar capacity with respect to any other account, the Firm requires representations and warranties from each such client similar to the representations described in sections B.1 and B.2 above, as applicable.

C. Meetings. The Compliance Officer holds a meeting with all of the Firm's employees at least once each year to discuss this Statement (including modifications to this Statement required by applicable law, rule or regulation), provides updated information regarding the Firm's anti-money laundering practices (including, if applicable, by providing a copy of the most recent watch lists) and answers employees' questions regarding the Firm's anti-money laundering practices.

D. Audits. The Firm will have an independent audit (as that term is used in and interpreted under the USA PATRIOT Act of 2001) of its anti-money laundering program at least annually.