Newsletter
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New Trustee

The HFSB is delighted to welcome Clint Carlson, the Founder of Carlson Capital, to the HFSB Board of Trustees. The addition of Mr. Carlson to the HFSB board reflects recent growth in the number of US managers supporting the Hedge Fund Standards. In addition to Carlson Capital, new US signatories in 2016 include Alyeska Investment Group, BCK Capital, MKP Capital Management, and ROW Asset Management.

Clint Carlson founded Carlson Capital in 1993. Prior to that he worked at the Bass Brothers organisation and Maxxam Group. Mr. Carlson received a B.A. and an M.B.A. from Rice University and a law degree from the University of Houston. He is a Board Member of the Rice Management Company and a member of the Board of Overseers for the Jones School of Business at Rice University.

Dame Amelia Fawcett, Chairman of the HFSB, said: "Clint's years of broad experience and proven business leadership in the asset management industry, particularly in the US, will add a valuable perspective to the Board, and his appointment demonstrates again the value of the Standards for the North American hedge fund community. We appreciate his willingness to serve as a Trustee and look forward to benefiting from his experience, judgement and counsel as we continue our engagement in North America and globally to improve industry practices."

Clint Carlson said: "I am delighted to join the Board. I believe Standards play a powerful role in our industry. Standardized practices, which are sound and ensure fair treatment of investors, strengthen our industry by increasing investor confidence and making investor due diligence and monitoring more efficient."

New Signatory

The HFSB is delighted to welcome a new addition to its signatory family:

- **Dymon Asia Capital (Singapore)**

HFSB Upcoming Events

22 Jun 2016: Institutional Investor Roundtable, Hong Kong
29 Jun 2016: Cybersecurity Seminar, London
8 Sep 2016: Annual General Assembly, London
27 Sep 2016: Institutional Investor Roundtable, Chicago
29 Sep 2016: Institutional Investor Roundtable, Washington, D.C

North American Stakeholder Forum in New York

The HFSB held its 5th North American Stakeholder Forum in New York on 19 May 2016. Approximately 100 hedge fund managers and investors gathered to discuss a broad array of topics including hedge fund regulation, alignment of interests, hedge fund standards, and the market environment.

Speakers and panellists included: Scott Balber (Herbert Smith Freehills), Alberto Fassinotti (Rock Creek Group), Robert Koenigsberger (Gramercy Funds Management), Barbara G. Novick (BlackRock), Dan Stern (Reservoir Capital

Group), Tse Wen Tai (GIC), Mario Therrien (Caisse de dépôt et placement du Québec), and Michael Vranos (Ellington Management Group).

The speeches, panels and audience Q&A sessions brought forth a number of lively discussions in an industry environment where hedge funds are grappling with increased regulatory scrutiny, changing markets, a challenging return environment and investor pressure on fees and terms. Observations from some of the participants included:

- Institutional investors continue to value the role hedge funds play in portfolios. Investors should look at hedge funds not as an asset class, but rather as a wide variety of strategy types, and choose individual strategies that fill portfolio needs.

- Hedge funds can add value not only through their returns but also because their views help inform an investor's overall portfolio strategy and decisions.

- Alignment of interests is crucially important with investors – specifically in ensuring a focus on long-term results. Investors often build this alignment into their staff compensation structures and desire the same with their manager fee terms.

- Hedge fund regulation is likely to increase as regulators look at the asset management industry more broadly in areas ranging from liquidity risk management, leverage and fee disclosures.

The event was hosted by the New York Office of Herbert Smith Freehills. The HFSB would like to thank Herbert Smith Freehills for their continuing support of the HFSB's efforts globally.

HFSB in Australia

As previously reported, the HFSB held its Australian Annual Institutional Investor Roundtables in Melbourne and Sydney which brought together approximately 100 industry participants. The events focused on institutional investor priorities for 2016/17 and how alignment between managers and investors can be improved. The Sydney event also included a cyber-attack simulation exercise, illustrating the response to a potential incident, including regulatory considerations. Speakers included representatives of Future Fund, Sunsuper, PAAMCO, Ionic Capital Management, Herbert Smith Freehills and the Australian Securities & Investment Commission (ASIC).

Gerard Fitzpatrick, Senior Leader of ASIC, opened the Sydney event. Mr Fitzpatrick said: "I commend the HFSB for identifying the importance of the cyber-attack risk and am glad to see the initiative of running the cyber-attack simulation exercises in London and New York. I also commend the publication of the HFSB cyber security toolbox memo, which identify key risks with their possible impacts, as well as strategies to mitigate these threats."

The roundtables in Sydney and Melbourne were hosted by Bloomberg and Future Fund respectively. The HFSB would like to take this opportunity to thank both Bloomberg and Future Fund for their tremendous support before and during the events, as well as their intellectual contribution to the discussions.

FSOC's latest update on asset management products and activities

Last month the US Treasury's Financial Stability Oversight Council (FSOC) endorsed a 27 page update on its review of asset management products and activities. According to the report, certain asset management products and activities might pose threats to financial stability, in areas such as liquidity, redemption and leverage.

In the area of **liquidity and redemption risk** in pooled investment vehicles, the following steps are highlighted to help mitigate potential financial stability concerns in mutual funds:
- Robust liquidity risk management practices, including preparations for stressed market conditions (for less-liquid assets)
- Regulatory guidelines on limitations to hold assets with limited liquidity
- Reporting/disclosure of liquidity profiles and liquidity risk management practices
- Tools to allocate redemption cost more directly to redeeming investors

- Additional public disclosures and analysis of external sources of financing

The update also highlights that regulators should consider whether these or other measures may be appropriate for reducing liquidity risk in collective investment schemes and similar pooled investment vehicles. It should be noted that most institutional hedge funds do not offer daily liquidity, and therefore do not exhibit the types of asset liability mismatch characteristics that may arise in funds with daily liquidity.

In the area of **leverage risk**, the Council recommends further analysis and announced the creation of an interagency working group to analyse relevant regulatory information (including Form PF) to assess how existing data can be augmented to improve the assessment of any risk to financial stability. This group is expected to report its findings to the FSOC by the fourth quarter of 2016.

The Hedge Fund Standards address many of the concerns highlighted in the FSOC report, specifically via dedicated Standards on liquidity risk management, stress testing, exit terms and the handling of redemptions in situations of liquidity distress. The Hedge Fund Standards also cover the disclosure of the use of leverage by funds to investors. They do not prescribe a singular definition of leverage / exposure levels but provide examples of leverage measures, including classic financial statement-based measures, as well as risk-based measures (which incorporate off balance sheet positions/derivatives).

In recent years, the HFSB has contributed actively to the global debate on financial stability (including the Financial Stability Board Consultations on Shadow Banking) and will continue to engage constructively on this topic with national and international regulators.

New working group on fee terms and definitions: volunteers invited

During the HFSB's recent discussions with its stakeholders, the issue of fee terms and definitions has been raised a number of times. While the Hedge Fund Standards cover the disclosure of commercial terms, which also include fees and expenses, the HFSB board has decided to review and explore the area of fee terms/definitions in more detail to improve understanding and clarity.

Following the Board's decision, the HFSB is inviting volunteers from its stakeholders to participate in a small working group to look into this area in more detail and to develop additional "Toolbox" guidance. ***The purpose of the working group is not to recommend fee levels or prescribe commercial arrangements, but to review the existing methodology and common definitions to improve understanding.***

Please contact us at info@hfsb.org if you are interested in participating.

APPENDIX

Dymon Asia Capital	Dymon Asia Capital, co-founded in 2008 by Danny Yong and Keith Tan, is a leading Asia focused alternative investment management firm. The firm's first product, which would evolve into the flagship and cornerstone of today's business, is a macro focused fund vehicle which was initially launched with US$100 million in seed capital from Tudor Investment Corporation and US$13 million in proprietary monies. As of June 30, 2015 assets under management (AUM) across hedge fund and private equity strategies are approximately US$ 4.7 billion. Dymon Asia Capital is proud to be majority owned by its Partner employees. The firm has over 100 employees. Headquarters are located in Singapore with offices in Hong Kong and the United Kingdom.