



## Newsletter – November 2016

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### **Summary**

In November, the HFSB held events in **Montreal**, **New York** and **Shanghai** that brought together major investors and managers from around the world to discuss industry issues. At the HFSB's first-ever event in Shanghai, co-hosted with the Shanghai Lujiazui Financial City Development Authority, Chinese and global investors and managers discussed the growth and development of the Chinese hedge fund industry, as well as risks and opportunities. In New York, the HFSB held its first-ever information session for prospective manager signatories and plans to hold similar events in other US cities. In Montreal the HFSB held its 4<sup>th</sup> annual Institutional Investor Roundtable.

Relating to the Hedge Fund Standards and HFSB Toolbox, the HFSB is forming a working group to explore the area of liquid alternatives, given the growth in regulated alternative investment funds. The purpose of the working group will be to increase understanding and clarity on how the Standards apply to regulated products. The HFSB also has updated two of its Toolbox items – the Standardised Board Agenda and Cyber Security Memo.

### ***HFSB in North America***

#### ***New York: Information Session***

The Hedge Fund Standards Board (HFSB) held **an interactive information session about the HFSB in New York** on November 8. The event was attended by over 30 representatives from hedge fund managers, who had an opportunity to learn about the HFSB and the benefits of becoming a Signatory to the Hedge Fund Standards. Speakers included HFSB Investor Chapter members (**OMERS**, **Teacher Retirement System of Texas** and **New Holland Capital**) and HFSB Signatories (**MKP Capital Management** and **Reservoir Capital**), who shared their perspectives on engaging with the HFSB.

The HFSB would like to thank New Holland Capital for hosting the event at their offices.

Given the success of the New York event, the HFSB is planning to hold similar events in other major US cities in 2017 to facilitate better understanding of how the Standards work and how they strengthen and improve the hedge fund industry.

#### ***Montreal: Institutional Investor Roundtable***

The HFSB held its 4<sup>th</sup> annual Canadian Institutional Investor Roundtable in Montreal on November 10. The event brought together some of the largest Canadian institutional investors, hedge fund managers



and the Canadian regulator to explore the state of the industry and key investor priorities, including ways to better align interests between investors and managers. The investor panel included representatives from **Caisse de dépôt et placement du Québec**, **Canada Pension Plan Investment Board** and **PSP Investments**. The manager panel (“Industry Leaders’ Perspective”) included senior executives from **Addenda Capital**, **Innocap** and **Fiera Capital**. A senior representative from the **Autorité des marchés financiers** provided an update on current regulatory developments.

Key areas covered included:

- how the industry can better explain the role of absolute return/alternatives;
- manager fees and how to create better alignment – differing approaches by strategy – and the unintended consequences of fee structures;
- risk management: data needs of institutional investors for portfolio monitoring (e.g. Open Protocol vs. position level), the role of risk information in the manager dialogue and hedge overlays in portable alpha strategies; and
- the rise of factor-based investing: “more difficult for managers to hide behind the simple stuff” and the impact of factor-based investing on market dynamics.

The HFSB would like to thank Caisse de dépôt et placement du Québec for hosting the event at their offices.

## ***HFSB in the APAC Region***

### ***Shanghai: Institutional Investor Roundtable***

The HFSB held its first **Institutional Investor Roundtable in Shanghai** on November 23 in collaboration with the Shanghai Lujiazui Financial City Development Authority. The event brought together 60 representatives from investors and managers (China-based and global) to discuss the state of the Chinese hedge fund industry. Speakers included representatives from **Albourne Partners**, **Chongyang Investment**, **PAAMCO Asia**, **Rosefinch Investment**, **Shanghai Lujiazui Financial City Development Authority**, **Springs Capital**, **Trustbridge Partners**, **Winton Capital Asia** and **Zhong Lun Law Firm**.

The discussion focussed on the status of the hedge fund industry in China, the domestic investor structure and how international firms can do business in China. A panel of international institutional investors outlined global due diligence expectations and minimum standards local managers need to meet in order to attract international capital.

Some of the key insights included:

- Local managers can benefit from exposure to international investors, particularly in understanding institutional investor expectations in areas of risk management, governance and investor disclosure – the Hedge Fund Standards provide a blueprint for firms to adopt in all of these areas.
- Global institutional investors usually have a longer-term perspective and look for domestic managers who can articulate their investment approach over the long term and who have a strong risk management culture. These investors tend to be less focused on individuals who are just successful traders.
- Domestic investors need to develop strong due diligence practices, and there is a potential role for funds of funds to help the high net worth segment scrutinise individual managers. The Hedge Fund Standards and the HFSB Toolbox provide useful resources for investors (institutional and high net worth investors) in their due diligence approach.



- International managers usually work with local Chinese business partners to manage domestic portfolios and interact with local investors.

Please see [the press release](#) for further information on the event. The HFSB would like to thank Zhong Lun Law Firm for hosting this roundtable at their offices in Shanghai.

### ***Liquid Alternatives - New Working Group***

“Liquid alternatives”, which are alternative investment strategies available through regulated investment products, such as mutual funds (e.g., 1940 Act funds, UCITS), have grown in popularity in recent years. These products enable a broader range of investors to access alternative investments strategies to pursue returns and diversify their portfolios.

Given the growth in this area, the HFSB intends to explore good standards of practice applicable to liquid alternatives against the backdrop of existing regulation and the Hedge Fund Standards. The goal is to increase the understanding of how the Standards apply to liquid alternatives. HFSB stakeholders who are interested in participating in the working group should contact the HFSB at [info@hfsb.org](mailto:info@hfsb.org).

### ***HFSB Toolbox – Updates***

The HFSB updates the content of its Toolbox from time to time to ensure the materials are up-to-date. The following additions have been made:

#### **Standardised Board Agenda – “how to run a fund board meeting”:**

The following additions have been made:

- Review of cyber security incidents (under Operations Report)
- Review of the manager’s cyber security policy (under Operations Report)
- Reporting of cyber security incidents at the Fund Administrator (under Administrator Report)
- Inclusion of reference to the HFSB Standardised Administrator Transparency Reporting Template (Administrator Report)

Please click [here](#) to see the updated [Standardised Board Agenda](#). Managers and investors should encourage the adoption of the agenda by fund boards.

#### **Cyber Security Memo:**

The development of regulatory requirements in the area of cyber security is currently a priority for many securities regulators. The HFSB has updated its Cyber Security Memo in the last several months to incorporate the following new developments into the memo’s appendix (Appendix A: Overview of regulatory requirements, guidance and approaches to cyber security):

- National Futures Association (NFA) [Self-Examination Questionnaire](#) (to help member firms comply with NFA’s Information Systems Security Programs (ISSP) rules and interpretations) [02-2016]
- SEC Office for Compliance Inspections and Examinations (OCIE) [Examinations Priorities](#) (testing and assessment of firms’ implementation of procedures and controls) [02-2016]
- Canadian Securities Administrators (CSA) [Staff Notice 11-332 on cyber security](#) (promoting cyber security awareness and resilience, overview recent and upcoming initiatives) [09-2016].



To see the full list of regulatory requirements, guidance and approaches to cyber security, please visit the HFSB Cyber Security Memo available in the [HFSB Toolbox](#).



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