hedge fund standards board

Bringing managers and investors together to set standards for the hedge fund industry

Newsletter – March 2017

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New Stakeholders

The HFSB is delighted to welcome new additions to its family:

Signatories

- Ivaldi Capital (UK)
- Nordkinn Asset Management (Sweden)

Investor Chapter

- Morgan Stanley Investment Management (USA)

HFSB in Toronto

This month, HFSB held its first Institutional investor Roundtable in Toronto, Canada in collaboration with Canada Pension Plan Investment Board (CPPIB). The event attracted over 50 allocators and managers to explore current industry issues. Opening remarks were provided by Christopher Bent, Senior Legal Counsel, Investment Funds & Structured Products at the Ontario Securities Commission. Mr Bent spoke about the project focused on adopting new rules for the regulation of publicly-offered alternative funds in Canada.

The panellists covered the following topics:
- Engagement with the HFSB: why do managers and investors engage through the HFSB – how it helps managers and how it helps investors in conducting due diligence.
- Allocator perspective: what is the right alpha share between investors and managers; should allocators seek to time the market or leave these decisions to investment managers.
- Manager perspective: perspectives on current market environment (including the so-called "Trump" trade), implications for Canadian equities, where next, oil/energy commodities.

The panel also explored the use of alternative datasets, including social media data, to inform equity investment strategies.

The HFSB would like thank the speakers from AlphaGen Capital, Caisse de dépôt et placement du Québec, CPPIB, MKP Capital Management, Ontario Teachers' Pension Plan, Orchard Global Capital Group and

Periscope Capital for their insightful contribution to the event. A special thank you to CPPIB for hosting the event.

Upcoming events

- 6 April, Hong Kong: HFSB Institutional Investor Roundtable
- 7 April, Singapore: Cyber-Attack Simulation Exercise
- 25 April, HFSB Panel at GAIM Ops Cayman Conference
- 26 April, Los Angeles: HFSB Chairman, Dame Amelia Fawcett, will speak at Institutional Investor Public Funds Roundtable
- 27 April, San Francisco: HFSB Institutional Investor Roundtable "Alternative investments meet Silicon Valley"
- 2 May, Melbourne: HFSB Institutional Investor Roundtable
- 3 May, Sydney: HFSB Institutional Investor Roundtable
- 17 May, Tokyo: HFSB Institutional Investor Roundtable
- 18 May, Seoul: HFSB Panel at the ASK 2017 Global Summit
- 1 June, New York: Annual North American Stakeholder Forum
- 5 June, Boston: HFSB Institutional Investor Roundtable

The full event schedule is available here.

Analysis of conformity with the Standards: Valuation

Last month we reported on the HFSB's latest project to analyse the explanations provided by signatories (as part of the conformity process) in order to see which standards trigger the most explanations, as well as to discover any trends. This month we will look at some of the Standards in the Valuation section.

The explanations in this area vary from signatory to signatory and can be divided into the following groups:

- The signatory wishes to explain in more detail how it achieved conformity with a standard(s).
- The signatory wishes to explain what other procedures and arrangements it has in place in addition to what was recommended in the Standards
- The signatory chooses not to comply because a particular standard is deemed irrelevant to the firm.
- The Signatory chooses not to comply because a particular policy or a procedure recommended in the Standards has not been adopted yet or is implemented differently from what is recommended in the Standards.

The Valuation section triggered proportionally more explanations, which appears to reflect the high complexity of, and large variety of approaches in, this whole area.

Let's look at a specific section on mitigating conflicts of interest when performing asset valuation. The Standards in this section recommend that valuation arrangements should be put in place that mitigate conflicts of interest in relation to asset valuation. The explanations provided by the Signatories in this section fall into four categories:

(a) Valuation is performed by 3rd party service providers only.

(b) Valuation is performed partially by 3rd party service providers, as the fund administrator may not have the required expertise to value certain types of securities.
(c) Valuation is performed in-house only because the securities that the firm's funds trade are generally OTC securities and require market specific knowledge, BUT, the firm obtains as many 3rd party prices on a security as possible to ensure that a security is fairly marked.
(d) Valuation is performed both by 3rd party service providers and in-house for comparison purposes. In addition, Level I & II assets are valued in-house due to size, structure of funds and costs.

However, it should be noted that all of the above explanations are disclosed by the signatories to their investors via the disclosure statements.

The Standards also recommend that another way of mitigating conflicts of interest in asset valuation (whether by performing valuations in-house or providing final prices to a valuation service provider) is segregation of the valuation function from portfolio management. The methods used by the signatories here range from complete segregation of the valuation function from portfolio management to partial segregation and full involvement of the portfolio management function in the asset valuation process. Again, in every case variations from the Standards are disclosed to investors with appropriate details and reasoning.

These explanations demonstrate the diversity of practices in the industry and reflect the wide variety of strategies managers pursue. This analysis also highlights again the suitability of the "comply or explain" mechanism, which accommodates different types of managers regardless of their size, strategy or jurisdiction.

Next month we will explore the explanations provided in the Disclosure section.

APPENDIX

Ivaldi Capital	Ivaldi Capital is an Alternative Asset Manager focused on Global Long-Short Equity strategies. Established in 2009, with offices in both London and Singapore, Ivaldi Capital operates a deep value multi-manager approach to absolute return investing. Ivaldi strives to deliver returns with low volatility and low correlation to the market over a long term time horizon. The investment team consists of 13 investment professionals with extensive expertise across a wide spectrum of geographic and investment strategies. The Investment team is supported by institutionalized infrastructure, state of the art Real-Time Risk Management and a team of 10 non-investment professionals.
Morgan Stanley Investment Management	Morgan Stanley Investment Management, founded in 1975, is a $417bn investment manager delivering investment solutions across public and private markets worldwide. The firm's hedge fund solutions team, incepted in April 2000, allocates over $22bn to hedge funds on behalf of a wide range of institutional and individual investors.
Nordkinn Asset Management	Nordkinn Asset Management is a Nordic independent AIF manager based in Stockholm and Oslo. Nordkinn manages the Nordkinn Fixed Income Macro Fund, a master-feeder fund launched in July 2013. With AUM exceeding USD

900 m, Nordkinn is among the larger single hedge funds in the Nordic region.

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