hfSB™
hedge fund standards board

Newsletter
February 2015

Dear All,

Below is our February report.

New HFSB Trustee

The HFSB elected David George, Head of Debt & Alternatives of Future Fund Australia, to its Board of Trustees. David George said: "I am very pleased to join the Board. The HFSB is an important platform for promoting better industry practice to the benefit of end investors, managers and policymakers. I look forward to working with the other Trustees and to progressing this effort."

To read the press release in full, please click here.

New HFSB Signatories

The HFSB is delighted to welcome additions to the HFSB signatory family:

- **Hutchin Hill Capital, LP (USA)**
- **Kriya Capital Limited (Hong Kong)**

Institutional Investor Roundtables in Australia

The HFSB kicked off its 2015 global series of Institutional Investor Roundtables in Sydney and Melbourne.

Sydney 17 February

ASIC Commissioner Greg Tanzer delivered the opening address at the Sydney event attended by over 60 delegates representing Australia's hedge fund and investor community. Commissioner Tanzer provided an overview of ASIC's current priorities in the area of hedge funds, including the implementation of the IOSCO survey and the proactive risk-based surveillance approach. He noted that certain areas, such as governance, are difficult to regulate and emphasised the important role of institutional investors. Other speakers included senior representatives from Sunsuper, QIC, MST Capital, Unigestion and IONIC Capital. **Bruce Tomlinson, Portfolio Manager at Sunsuper**, an HFSB Investor Chapter member, talked about institutional investor priorities, including due diligence of co-investment opportunities and commercial arrangements such as longer lock ups in return for lower fees**. Les Andrews, COO of MST Capital**, an HFSB signatory, reminded managers and investors of the dangers of "tick box" approaches to managing compliance and investor due diligence: "There is a risk of false comfort. A manager needs to find the right balance between systematic approaches to managing the organisations and remaining flexible and adaptable to changing circumstances".

The panel also discussed institutional risk management techniques in stressed markets, conflicts of interest and due diligence case studies.

Melbourne 18 February

The second HFSB roundtable of 2015 was hosted by Future Fund in Melbourne. The event was opened by **David Neal, Managing Director of Future Fund Australia**. He stressed the importance of a collaborative approach between managers and investors to improve the market place, highlighted the challenges faced by institutional investors when poor publicity hits the industry, and how the participation in the HFSB process helps address these concerns. His full speech is available here.

The HFSB would like to thank their speakers for their insightful presentations as well as Bloomberg and Future Fund for their very generous hospitality and support.

HFSB in the Australian Press

The HFSB activities in Australia have been closely followed by the local press, including the Australian Financial Review, The Investor Daily, and Investment Magazine, highlighting the proactive role Australian institutional investors play in driving better Standards in the global industry through the HFSB platform.

Japanese Securities Dealers Association in London

The HFSB hosted a panel discussion in London for the visiting senior delegation of the Japanese Securities Dealers Association (JSDA), a self-regulatory organisation for the Japanese securities market. The delegation had an opportunity to learn about the HFSB's standard-setting activities and meet with HFSB Signatories and Investor Chapter members, who served as panellists for the event. They touched upon various regulatory and compliance issues related to hedge funds and how European investors see the Japanese market.

HFSB Events in Spring

The HFSB will continue its global series of the Institutional Investor Roundtables in the following locations:

- 31 March – Hong Kong
- 1 April – Shanghai
- 13 May – London (HFSB stakeholders assembly)

UK FCA: Managers Need to Step up Controls against Insider Trading

Last week the FCA said that asset managers should improve controls against insider trading, as a lot of firms have shown weaknesses in monitoring trades for suspicious activities. These findings were published in the FCA thematic review "TR15/1: Asset management firms and the risk of market abuse".

The Hedge Fund Standards dedicate an entire section to the topic recommending procedures to prevent insider dealing, specifically:

- Notification should be issued to the compliance officer if an employee believes he/she has received inside information.
- If information is material and non-public, the securities of the issuer are to be placed on the restricted list (in which case such stock cannot be traded) or on a grey list (non-disclosed restricted list, which prevents such information being shared).
- Use of Chinese walls to prevent, for example, individual portfolio managers who are members of a creditors' committee of a distressed or bankrupt company from also trading such a company's debt or equity.
- Documentation of inside information known to employees who have no active involvement in the investment management function on a separate (non-publicised) register.

Please read Standards 23 to learn more.

SEC risk management programme: Aberrational Performance Inquiry (API)

This month Mark J. Flannery, the SEC's Chief Economist & Director of the Division of Economic and Risk Analysis spoke in New York at an annual event hosted by the Global Association of Risk Professionals. He talked about the SEC's risk assessment programmes, including the SEC's API, which is a data-driven analytical tool to uncover advisor misconduct in asset valuation (i.e. inflating or smoothing returns).

It is important to highlight that while the SEC's API can help identify bad behaviour, it unintentionally also may affect those managers who legitimately have outperformed the market and still have to face an API ('false positives').

The Hedge Fund Standards cover valuations in great detail, including segregation of functions in valuation, including third party valuation, approaches to handling and valuing hard-to-value assets, governance and documentation (see Standards 5-9).

A robust and consistent approach to valuation with strong internal controls will help managers address questions that will undoubtedly come up in such an API.

Hedge Fund Standards mentioned in the Bank of England "Fair and Effective Markets Review"

The HFSB's endeavours were recently referenced in the Bank of England "Fair and Effective Markets Review". The review focusses on the fixed income, currency and commodities markets (FICC) and looks at ways in which the public trust in these markets can be rebuilt in light of the recent scandals, including attempted benchmark manipulation and misuse of confidential information. The report reflects on the current regulatory and industry-led initiatives to improve transparency and compliance with international standards, including the HFSB, and raises the question of establishing a global code for the FICC markets**. The hedge fund investors and managers have led the way in establishing the HFSB as a market-driven, collaborative standard-setting platform**, and the HFSB welcomes an opportunity to provide its input to the FICC review process.

APPENDIX

Hutchin Hill Capital, LP	Hutchin Hill Capital, LP ("Hutchin Hill") is a global multi-disciplinary investment adviser founded by Neil Chriss, PhD, in 2007. Hutchin Hill manages approximately $3.3 billion in AUM and has approximately 130 employees including approximately 75 investment professionals. Hutchin Hill's global investor base includes institutions, endowments, foundations, pensions, private banks and family offices. The firm is headquartered in New York and also has offices in London, UK, Boston, MA, and Austin, TX. Hutchin Hill is registered with the U.S. SEC and CFTC, and its UK subsidiary is authorized and regulated by the UK FCA. Hutchin Hill's sole investment fund is the Hutchin Hill Diversified Alpha Fund, a multi-strategy hedge fund focused on liquid, relative-value and absolute return strategies.
Kriya Capital Limited	Kriya Capital was founded in 2009 by four partners, based in HK and regulated by the HK SFC. The firm primarily operates in the equity long/short space, with a fundamental bias and a focus on Asia. Kriya started with two original funds in 2010, a Pan Asia (including Japan) Fund and a Greater China Fund. A Japan Fund benchmarked against the TOPIX (US$) was launched in mid-2014. Recently, the Greater China Fund was awarded the Best L/S Fund (3 years) and Best Asian Start-up Fund at the 2015 AI Hedge Fund Awards.