Newsletter
November 2012

Dear All,

Below is our November report on the developments at the HFSB.

New Stakeholders

We are delighted to welcome three new signatories to the HFSB family:

- Monarch Alternative Capital LP (USA)
- Renaissance Technologies LLC (USA)
- Solaise Capital Management LLP (UK)

Public Speaking

Dame Amelia Fawcett made a keynote speech at HedgeInvest 2012 in London where she made a strong argument for the Hedge Fund Standards. She pointed out that the Standards are a complement and not a replacement for regulation. They are particularly effective in "less black and white areas" such as governance, risk management and transparency. Her speech was covered in the Hedge Fund Intelligence. The article in full is available here.

Dame Amelia Fawcett also was interviewed by Harriet Agnew of the Financial News. Dame Amelia talked, amongst other things, about the HFSB's ongoing campaign in North America which has resulted in 11 managers signing up to the Standards, including Bridgewater Associates, the world's largest hedge fund manager, and four investors joining the HFSB Investor Chapter in 2012. She emphasised that "Investors have been very influential and critical to our ability to get hedge funds in the US to sign up". The interview in full is available here.

Thomas Deinet made a keynote speech at QuantInvest 2012 in Paris on "How regulation impacts the alternative investment industry". He also made opening remarks at Hedge Funds World Zurich 2012.

Standards Corner

In recent weeks the UK FSA and the US SEC highlighted the importance of managing conflicts of interest between asset managers and their customers. Therefore, this month we would like to focus on this topic.

Conflicts of interest

Conflicts of interest can emerge between (1) hedge fund managers and their clients and (2) between clients. A robust approach to managing and mitigating these conflicts properly plays an important role in improving investor confidence in the hedge fund sector and in meeting regulatory requirements.

The Hedge Fund Standards address conflicts of interest, and areas covered include compliance, valuation and handling of redemptions.

Responsibility for **developing a culture of compliance** and professional conduct ultimately resides with senior management. A hedge fund manager should appoint a compliance officer who is independent of the portfolio management, and implement adequate reporting by the compliance function to senior management and the fund board (Standard 17c.2).

Documentation and training should ensure that staff (including front office staff) are familiar with compliance procedures. Standard 17a also states that a hedge fund manager should periodically test its compliance procedures or have them audited by an external party.

There are many other areas where conflicts can arise, including:

- In-house valuation of assets can give rise to conflicts, to be addressed through **separation/independence of the valuation function** from portfolio management, **investor disclosure** and **reporting to the fund governing body** (Standard 5-6).
- Conflicts between different investors in the same fund can arise in situations of liquidity distress, requiring **a robust approach to handling of circumstances, where normal redemption procedures may not apply** (Standard 2.1).

APPENDIX

Monarch Alternative Capital LP	Monarch Alternative Capital LP is a $5 billion distressed debt firm founded in 2002 with a long standing track record. Monarch takes a research-oriented and "event-driven" approach to investing, both of which have been developed by the team over the past twenty years in the industry. Monarch currently manages two hedge fund structured funds and two private equity structured funds that all maintain similar distressed debt strategies. In addition, Monarch manages a dedicated structured credit vehicle that is primarily focused on non-agency U.S. RMBS in sectors where the team can leverage their event-driven and activist approach.
Renaissance Technologies LLC	Renaissance Technologies LLC, founded by Dr. James Simons in 1982, is an SEC Registered Investment Adviser dedicated to applying rigorous quantitative methods to the design and execution of its investment programs. The firm approaches investing as a scientific problem that human acumen, advanced mathematical and statistical techniques, and robust technology are well suited to address. The Renaissance Institutional Equities Funds (RIEF) invest primarily in U.S. and non-U.S. equity securities publicly traded on U.S. exchanges, based on a quantitative, net-long investment strategy. The Renaissance Institutional Diversified Alpha Funds (RIDA) employ a quantitative global investment strategy with exposure to a diversified universe of equity securities traded on U.S. exchanges, futures and forwards, utilizing longer-term alpha sourcing. The Renaissance Institutional Futures Funds (RIFF) employ a quantitative leveraged, slow-trading, global futures and forwards strategy.

Solaise Capital Management LLP	Solaise Capital Management LLP runs a managed futures programme for a Cayman based fund and for managed accounts. The programme trades futures in Commodities, Equity Indices, Currencies, Bonds and Interest Rates. The approach is entirely systematic and covers a range of investment styles and frequencies. The partners are Ali Nejjar (formerly Director of Research at Winton Capital Management), Stephen Burby (also formerly Winton), Joao Teixeira (formerly Winton and then Aspect Capital) and James Walker (formerly C.F.O. at Aspect). Solaise was formed in 2010 and is based in London.

HFSB, Central Court, 25 Southampton Buildings, London WC2A 1AL, Email: info@hfsb.org; Tel: +44 20 3178 2753