

**Newsletter**

May 2014

Dear All,

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

**Investor Chapter**

We are delighted to welcome the third member of our Investor Chapter from Finland and the first member from the Middle East:

- Elo Mutual Pension Insurance Company (Finland)
- Gulf Investment Corporation (Kuwait)

**New HFSB Trustees**

As previously reported in our recent Press Release, the HFSB elected Jane Buchan, CEO of PAAMCO (Pacific Alternative Asset Management Company), and Chris Gradel, Founder of PAG (formerly known as Pacific Alliance Group) to its Board of Trustees.

To read the press release in full, [please click here](#).

**HFSB Stakeholder Annual General Assembly and Institutional Investor Roundtable**

The HFSB held its Annual General Assembly on 21<sup>st</sup> May 2014 in London. This event also included an Institutional Investor Roundtable where practical case studies were presented by HFSB Core Supporters, Investor Chapter members and Signatories. The event was hosted for the sixth time by Herbert Smith Freehills.

**The keynote speech** was delivered by Dr Esther Wandel, Head of Investment Funds Policy at the UK FCA. She talked about the latest regulatory developments (AIFM-D, shadow banking, NBNI G-SIFI etc.) and she noted that "the FCA encourages the asset management industry to challenge itself constantly. We need a change of culture, not just a change of rules or systems. Initiatives like the Hedge Fund Standards Board can be an important driver for that."

**The HFSB Institutional Investor Roundtable** included case studies on topics ranging from implementing a responsible investor programme, building better partnerships, pitfalls in due diligence and fund governance to cyber security and data protection.

**Christophe Juhem** of Unigestion, who presented a case study on due diligence on fund-gating, noted that "investors and managers need to understand the dynamics created by different gating methodologies, and their impact on investor behaviour in times of distress".

**Tara Glaser of CQS** pointed out that "the [Standardised Board Agenda](#) recently published by the HFSB is a useful tool which fund directors should consider to make sure their approach to fund governance meets high standards to ensure the success of their board meetings and overall effectiveness of the board".

**Edward Mason**, Secretary to the Church of England's Ethical Investment Advisory Group, highlighted that "responsible investment is important to many asset owners. We'd like to see active engagement by hedge funds with the HFSB and also with the UN PRI."

During the subsequent panel discussion, representatives from University Superannuation Scheme, Church Commissioners and PAAMCO shared their perspectives on how investors and managers can build better partnerships.

The HFSB would like to thank all the presenters from CQS, Towers Watson, Unigestion, Varma Mutual Pension Insurance Company and Winton Capital for their insightful presentations.

The HFSB would also like to take this opportunity to thank Herbert Smith Freehills for their generous hospitality and ongoing support for the last six years.

### **HFSB Regulatory Workshop in Helsinki**

This month the HFSB also hosted a regulatory workshop in Helsinki for Finland's Supervisory Authority (FIN-FSA). Representatives from Finland's Central Bank, the Ministry of Finance and the HFSB's Finnish Investor Chapter members were in attendance.

The focus of the workshop was to understand "shadow banking" and to explore various approaches to measuring and monitoring systemic risks. Case study presentations were made by HFSB stakeholders: Albourne, Capital Fund Management, Towers Watson, Varma Mutual Pension Insurance Company and Winton Capital Management, as well as the FIN-FSA.

**Jarmo Parkkonen**, Head of Department, Market Supervision of the FIN-FSA said: "We need to gain a better understanding of the nature and significance of the systemic risk arising from the recent developments in the financial markets, especially in the area of shadow banking. The HFSB workshop provided a very useful exchange of views between the different market participants, and we hope to continue the dialogue with regulators, market participants and the HFSB".

**Gaurav Amin** of Albourne stated that "Regulators need to work with managers and investors towards a unified data structure in order to enable global risk aggregation and systemic risk assessment, and to reduce the reporting complexity for the industry. The Open Protocol provides a universal 'risk language' that caters precisely for this."

**Martin Tornqvist** of Capital Fund Management noted that "It is very difficult to predict market crashes purely by looking at positions - it's like predicting an avalanche by looking at the snowflakes. A lot more research is needed in the area of market crashes, and it seems that hedge funds are still looking for the holy grail."

**Jarkko Matilainen** of Varma Mutual Pension Insurance said: "Capital markets and specialist credit investors increasingly complement the bank lending channel. This is a healthy development since it provides opportunities for institutional investors, increases the choice of sources of finance for corporates and allows risk-taking without systemic contamination."

**Thomas Deinet** of the HFSB, said: "The Hedge Fund Standards provide a powerful tool to strengthen the market place and complement regulation. They also address systemic concerns, such as 'runs on funds': as a reaction to the redemption crisis in 2009, the HFSB strengthened the Standards to address handling of redemptions and situations of liquidity distress, to mitigate the potentially damaging externalities (run risk) that can arise during periods of market distress. The HFSB welcomes any opportunity to work with regulators to assess and understand systemic risks as well as address other regulatory concerns."

The HFSB would like to take this opportunity to thank all the presenters for their practical presentations and valuable intellectual contribution to the workshop.

## Upcoming events

The HFSB is running two Institutional Investor Roundtables in June:

- 18 June 2014, Institutional Investor Roundtable, Montreal (for HFSB stakeholders only)
- 19 June 2014, Institutional Investor Roundtable, Boston (open to managers and investors)

Please contact us if you would like to attend the above events.

## HFSB in the Qatari Media

As previously reported, last month Dame Amelia Fawcett visited the Middle East to meet with their regulators and the investor community. During her visit she was interviewed by *The Edge*, a Qatari publication. She talked about the role of the HFSB, applicability of the Hedge Fund Standards internationally as well as the prospects of hedge funds in the Gulf Cooperation Council (GCC). She stated that “broadening the existing capital markets and making them accessible to international investors, ensuring market integrity, and having a sound regulatory regime (which can include the Hedge Fund Standards to complement local regulation) are key success factors for attracting both more hedge fund managers and investors. With increasing liquidity and investment choice, it is very likely that more hedge funds will establish a presence in the GCC.” Please click on the link to read [the interview in full](#).

## APPENDIX

### Elo Mutual Insurance Company

Elo Mutual Pension Insurance Company was established at the beginning of 2014 through the merger of LocalTapiola Mutual Pension Insurance Company and Mutual Insurance Company Pension-Fennia. Elo is a provider of statutory earnings-related pension cover in Finland and is currently the third largest private sector pension insurance company in Finland with total assets under management exceeding 19 billion euros. Elo has a leading market position among Finnish entrepreneurs and SMEs. Both premiums written and pensions paid stood at ca. 3 billion euros each at the end of 2013.

### Gulf Investment Corporation

Gulf Investment Corporation (GIC) is an investment company incorporated in the State of Kuwait on November 15, 1983 as a Gulf Shareholding Company. It is equally owned by the governments of the six member states of the Gulf Cooperation Council (GCC), i.e., Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. GIC was formed to foster economic growth, economic diversification and capital markets development across the GCC region.

GIC’s Principal Investments activity has made significant contributions to the GCC economies through development of major power and industrial project initiatives and, during its approximately thirty year history, has led or participated in initiatives with a total project value in the tens of billions of dollars, generating employment for thousands of people in the region.