



Newsletter – April 2017

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HFSB on the US West Coast

San Francisco: "Alternative Investments Meet Silicon Valley"

Speakers at the HFSB's second West Coast Institutional Investor Roundtable included senior representatives from Albourne, Ascent Private Capital Management, Eagle Alpha, J Paul Getty Trust, Predictive Inc., San Francisco Employees' Retirement System, SignalFire and Winton Capital. One of the panels explored the evolving role of "big data" and "artificial intelligence" in asset management. Topics discussed included:

- Overview of the alternative data landscape, suitability of different datasets for discretionary asset management vs. trend following strategies
- Cost/benefit assessment of new datasets from a CTA's perspective
- Compliance and ethical considerations and risks, including "leakage" of insider information into datasets, privacy issues, exclusivity arrangements, right to commercialise data/terms of use (vendors) and intellectual property breaches
- Automating monitoring of regulatory filings (e.g. Form ADV) for due diligence, monitoring and competitive intelligence purposes, and potential predictive approaches (warning signals)
- Limitations and risks of AI/deep learning techniques and investor appetite for "black box" investing
- Big data and "augmented" intelligence in venture capital investing

The HFSB would like to thank all the speakers for their contribution to the discussion and Winton Capital for hosting this pioneering event.

Los Angeles

Dame Amelia Fawcett, Chairman of the HFSB, participated in a panel discussion at the Public Funds Roundtable hosted in Los Angeles by Institutional Investor. The panel ("It's a Mad, Mad World") examined how investors can manage their portfolios and identify opportunities amid ongoing economic and political uncertainty. Dame Amelia highlighted the importance of standards in challenging times and the role of the HFSB in being nimble, innovative and staying ahead of the curve. She pointed particularly to its ground-breaking work in conflicts and cyber security, which was widely acknowledged by both the industry and



global regulators. She added that the HFSB's Silicon Valley Roundtable was an excellent example of its role in pulling together investors and managers to discuss emerging issues long before others, including regulators, do so. She noted that this sort of work helps the industry to "control its destiny" and demonstrates the industry's ongoing commitment to responsible standards and practices, particularly in times of change and innovation.

HFSB in the APAC region

Hong Kong: Institutional Investor Roundtable

The third annual HFSB Institutional Investor Roundtable in Hong Kong was **hosted by the Hong Kong Monetary Authority (HKMA) and opened Mr Eddie Yue, Deputy Executive Director of the HKMA**. The panel discussions at the event focused on improving the investor-manager relationship, alignment of interest and fees. The panellists included senior representatives from Canada Pension Plan Investment Board, HKMA, LIM Advisors, Northwest Investment Management, Orchard Global Asset Management and PAG. The closing remarks were made by **Mr Ashley Alder, CEO of the Securities and Futures Commission of Hong Kong**. He stated: **"When the industry evolves its own robust conduct standards, particularly through an organisation like the HFSB, where funds and investors come together, laws and regulations we enforce are less likely to be breached. There is no reason why the Standards should only apply to hedge fund managers, and we would like to encourage the HFSB to explore widening its remit."**

Singapore: Cyber-Attack Simulation

The HFSB held its fourth cyber-attack simulation exercise in Singapore on 7 April, following previous sessions in London, New York and Hong Kong. The event, which was attended by over 120 market participants, was **hosted by the Monetary Authority of Singapore (MAS)** and included a discussion on cyber security basics, anatomy of breaches, legal/regulatory considerations and a cyber-attack simulation exercise. The event was opened **by Mr Tan Yeow Seng, Director & Head of the Technology Risk and Payments Department of the MAS**. Speakers included senior cyber security experts from Dymon Asia, eSentire, Graticule Asset Management Asia, Herbert Smith Freehills and Morgan Lewis Stamford.

Mr Tan Yeow Seng noted: **"I commend the HFSB's efforts to improve cyber security practices in the asset management industry. The cyber-attack scenarios explored during the event were useful in raising awareness of the participants about different safeguards and actions to consider when responding to a cyber-attack incident."**

In addition to direct cyber-attacks on asset managers, such as data theft and crypto ransomware, **the panellists explored incidents indirectly affecting asset managers, such as cyber-attacks on service providers (e.g. prime broker, fund administrator) and a stock exchange**. Safeguards and response measures discussed in this context included backing up prime brokerage relationships, counterparty/portfolio risk management, record-keeping, availability of alternative trading venues and approaches to halt misdirected redemption payments.

The HFSB would like to thank all the speakers and the panellists for sharing their extensive knowledge and expertise. We particularly would like to thank our hosts – the HKMA and the MAS for hosting our events. We also would like to express our gratitude to CAIA's Asia team, Herbert Smith Freehills and Investment Management Association of Singapore for supporting our events.



Other conferences

HFSB panel at the GAIM Ops Cayman

HFSB stakeholders participated in a panel discussion on “Demystifying fees, terms, conflicts, and more...”, exploring the approaches to strengthening alignment of interest between investors and managers. The highlights of the discussion included:

- Assessment of alpha share across the return spectrum and focus on net returns after fees
- Improving transparency around cost/total expenses incurred by the fund
- Liquidity vs. lower fee trade-off: not all investors are prepared to give up liquidity/flexibility
- Investor – manager partnership: market insights, deal flow, co-investment opportunities as part of the overall value assessment
- The importance of the results of the [HFSB consultation CP4 to address conflicts of interest](#)
- Increasing regulatory focus on fees (in retail asset management)

Michael Williams, COO of Napier Park Global Capital said: “The debate about fees is not new. One way to strengthen the alignment in credit strategies are hurdle rates along with longer lock ups. However, it is important that managers do not cut corners and increase business and operational risk in an environment of increased fee pressure.”

The HFSB would like to thank the panellists from Caisse de dépôt et placement du Québec, CAM Capital, Napier Park Global Capital and Duff & Phelps for their insightful contribution. We also would like to thank the organisers of the GAIM Ops Conference for facilitating this discussion at their event.

Upcoming events

- 3 May, Sydney: 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](#).

FX Global Code

We would like to inform you that the Foreign Exchange (FX) Global Code will be launched on 25 May 2017. The FX Global Code establishes a set of good practices in the foreign exchange markets to promote a robust, liquid and fair open market for wholesale FX and applies to all market participants, including sell-side and buy-side entities, central banks, platform operators and liquidity providers. The Global Code is principle-based and its adoption is voluntary. It is intended to strengthen the integrity and effectiveness of the FX market, and it was developed by a group of Central Banks and market participants to address concerns in relation to the functioning of FX markets globally. Investment managers and investors will benefit from better practices in FX markets, including fair treatment of clients and better transparency in areas such as “pre-hedging of client orders” and “mark-up practices”.

The HFSB welcomes the publication of the FX Global Code for the wholesale foreign exchange market and encourages market participants to align their practices with the Code (where applicable).



HFSB Stakeholders are invited to attend an evening event organised by the Global Financial Markets Association (GFMA) to mark the launch of the Global Code on Thursday, 25 May, 2017 in London; speakers include **Guy Debelle** (Deputy Governor, Reserve Bank of Australia), **Simon Potter** (Head of Markets, New York Federal Reserve Bank) and **Chris Salmon** (Executive Director, Markets, Bank of England). Please contact us if you would like to find out more and register to attend.

Analysis of conformity with the Standards: Disclosure

Last month we focused on the Valuation section of the Standards. We now want to look at how the explanations differ in the Disclosure section of the Standards. As we highlighted in last month's newsletter, 65% of the signatories who provided explanations in this section did so on a comply-**and**-explain basis, even though the HFSB mechanism requires comply-**or**-explain only.

In the Disclosure section, the Standards recommend that the manager should disclose in their fund's offering documents their investment policy, strategy and associated risks. All the signatories comply with these Standards, though some signatories indicated that they do not disclose in the fund's offering documents the details of any investment restrictions or guidelines and the procedures the manager will follow in respect of any breaches. They stated that these details, which are also covered by the Disclosure Standards, are incorporated in separate agreements with the client.

Material changes in the investment policy/strategy should be disclosed periodically so that investors have sufficient time to redeem without penalty prior to the effective date of the changes. Here all signatories state that they regularly communicate with their investors on any change in the policy or strategy and give them advance notice to allow them to redeem.

The Standards also recommend that the manager should disclose the existence of side letters which contain "material terms" and the nature of such terms. The explanations in this area fall into three categories:

- (a) The existence of such side letters and the nature of the terms are disclosed via the fund's offering documents, prospectus or confidentiality agreements etc.
- (b) The existence of side letters is disclosed but not the terms, due to the confidential nature of these side letters. However, fund directors will ensure that shareholders are not materially disadvantaged in connection to their redemption rights.
- (c) The manager does not enter into side letters, therefore these Standards do not apply to them.

The topic of side letters is frequently discussed at HFSB Institutional Investor Roundtables: in situations where side letters address shortcomings or inconsistencies in the fund's offering documents, it is good practice to adjust the offering documents for the benefit of investors.

Next month we will look into the explanations provided in the largest section of the Standards - Risk Management.



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Our mailing address is:

HFSB, Somerset House, New Wing, Strand, London WC2R 1LA, United Kingdom