



## Newsletter – June 2017

### *In this month's newsletter:*

- *New Stakeholders*
- *HFSB in North America*
- *Open Protocol: Template and Manual for Insurance Funds published*
- *Upcoming events*
- *Summary of HFBS activities in Q1-Q2*

### ***New Stakeholders***

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

#### ***Signatories***

- China Alpha Fund Management Ltd (Hong Kong)
- Jasper Capital International (China)

### ***HFSB in North America***

#### **New York**

This month the HFSB Annual North American Stakeholder Forum brought together over 100 guests representing its North American Signatories, Investor Chapter Members and Core Supporters. The event included investor and manager panel discussions with speakers from CAM Capital, Citadel, CPPIB, New Holland Capital, Man Group, Napier Park Global Partners and Teacher Retirement System of Texas. Topics covered during the panel discussions included:

- Ongoing alignment and fee discussion (new fee structures, liquidity terms / lock ups / hurdles, focus on net return / alpha after fees)
- Investors' perspectives on responsible investment and its implementation, as well as exploration of spectrum of approaches (e.g., purely disclosure based vs. application of investment restrictions) and a discussion of applicability to different alternative investment strategies
- Improving governance in US onshore structures (without independent boards), e.g., via advisory boards, other contractual arrangements, GP boards, etc.
- Entrepreneurialism in the alternative investment industry given rising barriers to entry, including rising compliance costs, higher investor expectations/scrutiny and fee pressure; the important role of seeding by major investors to secure future capacity
- Regulatory engagement: Impact of the new US administration on asset managers and FSB/IOSCO's work on asset management vulnerabilities



The closing remarks were made by **James D. Gatta, Chief, Criminal Division, US Attorney's Office, Eastern District of New York** and **James P. Loonam, Deputy Chief of the Business and Securities Fraud Section, US Attorney's Office, Eastern District of New York**. They provided a perspective on current enforcement priorities, including fraud involving the valuation of level 3 assets. The federal prosecutors acknowledged that this area may be “more art than science” at times but noted that the complexity of valuing such assets is not an excuse for fraud. The government is becoming increasingly sophisticated at discerning good faith errors from outright fraud. They recommended that firms ensure they have well-documented arrangements in place to ensure consistency in valuation processes and a fair treatment of investors. The [Hedge Fund Standards](#) cover the topic of valuation in great detail, including segregation of functions, approach to handling of hard-to-value assets and investor disclosure.

The HFSB would like to thank all the speakers for their insightful contribution to the discussions. **We particularly would like to thank our host, Herbert Smith Freehills in New York and London, for hosting our events, as well as their ongoing support for our endeavours.**

## **Boston**

The HFSB held an Institutional Investor Roundtable in Boston this month. The speakers from Pension Reserves Investment Management Board, Frontlight Capital, Ionic Capital Management, Man Numeric and MKP Capital discussed the following topics:

- Rationale for inclusion of alternative investments in a retirement system portfolio
- Spectrum of approaches for handling of trade errors – investor perspective
- Strengthening manager alignment of interest with investor through better risk disclosure (ATRs, Open Protocol, stress testing information)
- Risk management approaches in global macro strategies, including concentration limits and extreme loss scenario modelling
- Strong culture in investment firms as a differentiator: how it helps firms and their employees make better decisions and improves alignment; critical role of “tone from the top”

The discussion also included an analysis of how *big data* and *artificial intelligence* impact investment management with the help of the “[Fundamental Law of Active Management](#)”:

- An investment manager’s risk adjusted return (expressed as *Information Ratio*) is a function of the manager’s “selection skill” (=information coefficient) and the “number of independent investment opportunities” (breadth)
- *More (big) data* can help increase the breadth (i.e., in CTA strategies) and also improve a manager’s selection skill (i.e., in discretionary/fundamental strategies)
- *Artificial intelligence* can help incorporate more (unstructured) data into investment decision-making and potentially even take some of these decisions in the future

However, some of the challenges in this area are (1) the identification of data sources that actually add explanatory power to the investment analysis, (2) assessing the accuracy of large data sets/cleansing data and (3) the development of artificially “intelligent” systems.

**The HFSB would like to thank the Boston team of KPMG for hosting our event and contributing to the discussions.**



### ***Open Protocol – Template and Manual for Insurance Funds published***

The Open Protocol (OP) Insurance Working Group has published the final version of the [Open Protocol Template and Manual for Insurance Funds](#), following a public consultation launched in November 2016. The OP Template for Insurance Funds will facilitate better risk disclosure about insurance risk exposures. Open Protocol was added to the [HFSB Toolbox](#) in May 2017. The Insurance Open Protocol is the result of a collaborative process involving managers, investors and other industry stakeholders. To read the press release in full, please click [here](#).

### ***Upcoming events***

- **7 September, London: HFSB Annual General Assembly**

This is the 9<sup>th</sup> annual event for the HFSB stakeholders. This London gathering will bring together the HFSB Signatories, Investor Chapter members and Core Supporters.

- **19 September, Chicago: HFSB Institutional Investor Roundtable**

Topics for discussion include use of alternative data in investment management and how managers can instil a strong culture in their firms.

- **21 September, Washington, D.C.: HFSB Institutional Investor Roundtable**

The event will bring together senior policy and regulatory officials, institutional investors and alternative investment managers.

The full event schedule is available [here](#).

### ***Summary of HFSB activities in Q1-Q2***

2017 has proved to be a very busy year for the HFSB so far, with numerous events and activities in all major financial centres. Below is a quick summary.

#### **APAC Committee**

The HFSB kicked off 2017 with a number of important activities, starting with expanding its [APAC Committee](#) to include George Long, Founder, Chairman & CIO of LIM Advisors and Danny Yong, Founding Partner and CIO of Dymon Asia Capital.

#### **HFSB events**

Between January and June 2017, the HFSB held institutional investor roundtables in Geneva, Helsinki, Toronto, Hong Kong, San Francisco, Melbourne, Sydney, New York and Boston. The HFSB also organised a cyber-attack simulation exercise which was hosted by the Monetary Authority of Singapore (MAS).

#### **Stakeholders**



During the first half of 2017, the HFSB welcomed 13 Signatories, Investor Chapter members and Core Supporters:

**Signatories:**

- China Alpha Fund Management Ltd (Hong Kong)
- Citadel (USA)
- Hiscox (Bermuda)
- Ivaldi Capital (UK)
- Jasper Capital International (China)
- Misaki Capital (Japan)
- Myriad Asset Management (Hong Kong)
- Nordkinn Asset Management (Sweden)
- Simplex Asset Management (Japan)

**Investor Chapter:**

- Japan Bank Post (Japan)
- Morgan Stanley Investment Management (USA)
- Pennsylvania Public School Employees' retirement System (USA)

**Core Supporter:**

- Carlson Capital (USA)

**Content**

• **Open Protocol (OP)**

The HFSB added [Open Protocol](#) to its Toolbox and became Co-Chair of the Open Protocol Working Group. The [Open Protocol Template and Manual for Insurance Funds](#) was published in June 2017.

• **Fees & Expenses**

The Working Group, put together by the HFSB to review the existing methodology and common definitions of fee terms and definitions to improve understanding between managers and investors, completed its work. Their findings will be published shortly

• **Responsible Investment DDQ**

The HFSB, alongside other HFSB stakeholders, participated in a working group led by the PRI to develop a due diligence questionnaire for hedge fund managers focussing on responsible investment. The DDQ is available [here](#). The HFSB will continue to explore this topic with its stakeholders. If you are interested in participating in these discussions, please contact us at [info@hfsb.org](mailto:info@hfsb.org).

• **Analysis of Disclosure Statements**

Last year, the HFSB launched a [new project](#) to analyse the explanations provided by signatories to see which standards trigger the most explanations, as well as to discover any trends. The analysis highlighted the diversity of practices in the industry, reflecting the wide



variety of strategies managers pursue, as well as requirements of different jurisdictions. Starting from March 2017, we started publishing our analysis on explanations provided in specific sections of the Standards:

- Valuation (published in [March](#))
- Disclosure (published in [April](#))
- Risk Management (published in [May](#))
- Fund Governance (will be published in July)
- Shareholder Conduct (will be published in August)

### **Public Speaking**

- Dame Amelia Fawcett, Chairman of the HFSB, addressed:
  - Annual Texas Hedge Fund Conference in Austin, Texas (February)
  - Institutional Investor Public Funds Roundtable in Los Angeles (April).
- Thomas Deinet, Executive Director of the HFSB, participated in a cyber security event hosted by the Canadian Securities Authorities and moderated panel discussions at various high profile industry conferences, including:
  - AccessAlts Asia Global Summit in New York (March)
  - GAIM Ops Cayman Conference (April)
  - Alternative Summit Korea (ASK) 2017 Global Summit in Seoul (May)
  - Institutional Investor Endowment & Foundation Roundtable in Boston (June)

## **APPENDIX**

### **China Alpha Fund Management Ltd**

China Alpha Fund Management (HK) Limited ("China Alpha") is based in Hong Kong and is licensed with the Hong Kong Securities and Futures Commission (SFC) to engage in Type 4 (advising on securities) and Type 9 (asset management) regulated activities.

China Alpha has over 15 years' experience as a greater China Long /Short fund manager. In addition to an experienced and stable senior management team, the firm has extensive research capabilities in Chinese companies which provides its portfolio managers with the flexibility to allocate across mainland China, Hong Kong listed and ADR equities.

China Alpha combines bottom up securities selection with top down exposure management and takes a private equity due diligence approach to companies we invest in. China Alpha focuses on "value chain" investing and identify those high conviction companies from the greater China investment universe

### **Jasper Capital International**

Jasper Capital International, Ltd. is a systematic investment manager founded in 2013 in Shenzhen, China. Jasper develops and deploys investment strategies in China's domestic equity markets that seek to maximize risk-adjusted excess



returns by applying a scientific approach to our strategy identification and investment management.

Jasper's team of tenured investment professionals have extensive investment and risk management experience in China and the United States and manage US\$1.4 billion across 4 strategies: Long Only Bias, Long-Short Equity, Market Neutral, Hedged Seasoned Equity Offerings.



To unsubscribe from this newsletter email: [info@hfsb.org](mailto:info@hfsb.org)

*Copyright © 2017 HFSB, All rights reserved.*

You have signed up to receive our monthly newsletter.

**Our mailing address is:** HFSB, Somerset House, New Wing, Strand, London WC2R 1LA, United Kingdom