

SBAI CREATES STANDARDISED TOTAL EXPENSE RATIO (“STER”) **FOR ALTERNATIVE INVESTMENT MANAGERS**

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The Standards Board for Alternative Investments (SBAI), formerly the Hedge Fund Standards Board (HFSB), has released the results from the working group it established in 2016 to study fee terms, methodology and definitions. The SBAI is the standard setting body for the alternative investment industry, supported by approximately 200 managers and investors managing \$3 trillion globally.

The SBAI working group has created a Standardised Total Expense Ratio (“STER”) that calculates a single, standardised expense ratio to facilitate better understanding, comparison and monitoring of fees and expenses across alternative investment funds. The STER calculation aggregates expenses and management fees charged to, or incurred by, a fund. A unique and important feature of the new STER methodology is that it includes the costs of research bundled with dealing commissions (often referred to as “soft dollared research costs”).

The result is a STER that is comparable across funds – whether the manager deploys a pass-through expense model or not; whether the manager uses “hard” or “soft” dollars to pay for research expenses; and whether or not support services are internal or outsourced. The STER was developed in response to needs amongst institutional investors for a standardised tool to compare and monitor structural costs between alternative investment funds and over time. To make it useful for comparison purposes, STER excludes incentive fees which will fluctuate as a function of performance and trading related costs that will vary significantly and depend on the specific investment strategy. STER is intended to be a ratio that is provided in addition to a fund's existing fee and expense disclosures. Given the benefits of a simple, consistent and transparent comparison of costs among funds and peer groups, the SBAI encourages the industry to start to use the STER methodology.

Thomas Deinet, Executive Director of the SBAI said: “The STER calculation demonstrates the commitment within the alternative investment industry to providing transparency for the benefit of investors. While the Standards already require full disclosure of fees and expenses, the STER provides a recommended method for aggregating, categorising and disclosing fund costs, including soft dollared research costs, so that investors can more easily understand and compare costs on an ‘apples-to-apples’ basis.”

John Richardson, Chief Operating Officer and General Counsel at Ionic Capital Management, said: “The general principles around disclosing fees and expenses are well known in the industry; however, to date there hasn't been a standard methodology for classifying costs and calculating a total

expense ratio. The STER should be very useful for both investors and managers in establishing a standardised approach that aids in transparency and comparability.”

Adrian Sales, Head of Operational Due Diligence at Albourne Partners, said: “Albourne commends the SBAI for their guidance on a standardised total expense ratio, which will provide greater transparency to investors, and will help both managers and investors understand the typical types of expenses charged to funds.”

The paper detailing the STER methodology can be found [here](#). Members of the SBAI Fee Terms and Definitions working group include representatives from Albourne Partners, Caisse de dépôt et placement du Québec, Ionic Capital Management, PAAMCO, The Rock Creek Group, Teacher Retirement System of Texas, Unigestion and Winton Capital.

The STER methodology is part of the SBAI Toolbox content, which serves as a guide only and is not formally part of the Standards and the “comply-or-explain approach”. Other Toolbox content and standardised templates include Open Protocol risk disclosure, Administrator Transparency Reporting, a Standardised Board Agenda and a Cyber Security guide. For additional information on Toolbox items, please see www.sbai.org/toolbox.

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Notes to editors:

1. The SBAI was formed in January 2008 as the standard-setting body for the alternative investment industry, bringing together managers and investors globally to help determine how the industry should operate. It is custodian of the Alternative Investment Standards, which create a framework of transparency, integrity and good governance for the industry, facilitate investor due diligence and complement public policy. The SBAI also provides practical guidance through the SBAI Toolbox to investors and managers in areas such as fund governance, standardised transparency and risk reporting, cyber security and a standardised total expense ratio. The SBAI is supported by more than 125 alternative investment managers with approximately \$1 trillion in aggregate assets and by more than 65 institutional investors overseeing \$2 trillion in assets. The Standards and the full list of signatories and supporters are available at www.sbai.org.
2. In July 2014, the SBAI became an affiliate member of the International Organisation of Securities Commissions (“IOSCO”). In April 2017, Ashley Alder, CEO of the Securities and Futures Commission of Hong Kong and Chairman of IOSCO, said: “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.” In May 2016, Gerard Fitzpatrick, Senior Executive Leader, Investment Managers and Superannuation at the Australian Securities Commission (ASIC) said: “I commend the HFSB for identifying the importance of adequate risk disclosure and its ongoing transparency initiatives, including the launch of the standardised Administrator Transparency Report last year and the Open Protocol risk reporting standard. These initiatives are not just relevant to hedge fund managers but to all alternative investment funds and beyond.”

3. The Trustees of the SBAI are:

- Dame Amelia Fawcett, Chairman (SBAI)
- Jane Buchan, CEO, Pacific Alternative Asset Management Company (PAAMCO)
- Clint Carlson, President & CIO, Carlson Capital
- Bruce Cundick, CIO, Utah Retirement Systems
- Luke Ellis, CEO, Man Group plc
- David George, Head of Debt & Alternatives, Future Fund Australia
- Chris Gradel, Founder, Pacific Alliance Group (PAG)
- Kathryn Graham, Head of Strategy and Co-ordination, Universities Superannuation Scheme Ltd
- Henry Kenner, Founding Partner & CEO, Arrowgrass Capital Partners LLP
- George Robinson, Co-Founder, Sloane Robinson
- Simon Ruddick, Chairman & Co-Founder, Albourne Partners
- Daniel Stern, Co-Founder and Co-CEO, Reservoir Capital Group
- Betty Tay, Managing Director, Head of External Managers Department, GIC Private Limited
- Mario Therrien, Senior VP, External Portfolio Management - Public Markets, Caisse de dépôt et placement du Québec
- Dale West, Senior Managing Director, Teacher Retirement System of Texas
- Poul Winslow, Managing Director, Head of Thematic Investing and External Portfolio Management, Canada Pension Plan Investment Board

4. The Founders of the SBAI are:

- AlphaGen Capital
- Brummer and Partners
- Cheyne Capital
- CQS
- Lansdowne Partners Limited
- Man Group plc
- Marshall Wace

- Och-Ziff Capital Management
- Winton Capital Management

5. The Core Supporters of the SBAI are:

- Aberdeen Asset Management
- Albourne Partners
- Arrowgrass Capital Partners LLP
- Carlson Capital
- Ionic Capital Management LLC
- PAAMCO
- PAG
- Reservoir Capital Group
- Unigestion