



Newsletter- February 2019

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SBAI Alternative Credit Working Group

Following its announcement in November 2018, the Standards Board will kick off the Alternative Credit Working Group at a launch event in New York City on 12 March. Topics for further exploration include:

- Taxonomy of the alternative credit space
- Conflicts of interest (e.g. investing at different levels of the capital structure, refinancing loans from one fund into another, robustness of insider information protection, side pocketing)
- Transparency of level 3 assets (provide Administrator Transparency Reports)
- Disclosure of pricing impact of systematic risk premia on valuation

The Standards Board in Texas

The Standards Board held a series of events in Texas and participated in the Texas Hedge Fund Conference, where several current and former Trustees of the SBAI were among the speakers.

Culture & Diversity in Asset Management

The SBAI continued its series of culture and diversity in asset management breakfast sessions in Dallas and Austin where over 50 industry leaders gathered. The sessions were hosted in collaboration with Carlson Capital (an SBAI Core Supporter), Teacher Retirement System of Texas and the Texas Alternative Investment Association (TAIA). Key points raised:

- "Company culture" as an internal mechanism: powerful driver of behaviour and tool to help with recruiting and retention
- How to evidence culture: Tone from the top, but key evidence is actual decision-making: "does the firm follow through in line with its articulated values?"
- "Culture" needs to be underpinned with "purpose": but is the alternative investment industry good at articulating its purpose? Can better explaining its "purpose" help both with addressing misconceptions/reputational issues and recruiting and retention?"
- Diversity & recruitment: Broadening the talent pool by addressing unconscious biases in recruiting process and reducing self-deselection of talent – question raised: can a better articulation of the industry's purpose help to broaden the talent pool to those who have not previously considered working in financial services/asset management?



- Public fund example: Dedicated percentage (as opposed to absolute amount) allocation to emerging / minority led managers

The SBAI will continue to explore the topic of culture & diversity at upcoming breakfast sessions in Boston and Los Angeles.

SBAI Manager Information Session

The SBAI held an information session in Dallas, hosted by JP Morgan, with over 10 asset managers in attendance. This session is the first of a series of events we are hosting around the world educating emerging asset managers about the benefits of the SBAI and providing a road map to build an institutional quality investment business.

The Standards Board would like to thank all the speakers and panellists for the insightful contributions at our various Texas events. A special thank you goes to the hosts - Carlson Capital, JP Morgan, Reservoir Capital, Teacher Retirement System of Texas and the Texas Alternative Industry Association for their generosity and support during the events.

SBAI Swiss Institutional Investor Roundtable

The Standards Board brought together Swiss-based and international investors and managers at its 5th Annual Swiss Institutional Investor Roundtable in Geneva. The event, hosted by Unigestion (an SBAI Core Supporter), focused on the following areas:

Working Group updates:

- SBAI Governance working group: Updating the [SBAI Standardised Board Agenda](#), including mapping local code of conduct frameworks (Ireland, Luxembourg, Cayman Islands) to the board agenda items; governance case studies
- [SBAI Standard Total Expense Ratio \(STER\)](#): Implementation Case Study - adding STER to [SBAI Administrator Transparency Reports \(ATRs\)](#)

Alternative Credit:

- Important role of market based-finance as a complement to bank lending
- Investor perspective: Mapping out the alternative credit landscape, current investor priorities, approaches to diversification, impact of foreign currency hedging
- Approaches to structuring regulatory capital solutions with Financial institutions
- Valuation: should pricing impact of changes in systematic risk premia be accounted for?

Quantification of Asset Management:

- Fund flows and market dynamics: How passive and quantitative investing impact markets
- Q4 2018 - what happened in the markets, key lessons
- Factor-based investing: areas of innovation, including introducing dynamic approaches
- Simulating financial markets with agent-based models



The panellists included senior representatives from Cern Pension Fund, Ionic Capital Management (an SBAI Core Supporter), Mirabaud Asset Management, Neuron Advisors, Orchard Global Asset Management (an SBAI Core Supporter), Trium Capital and Unigestion. The SBAI would like to thank all the panellists for their contribution to the discussion. A special thank you goes to Unigestion for hosting this event.

SBAI at the “New Developments in Factor Investing” Conference

The Standards Board participated in the “New Developments in Factor Investing” conference in London, a quantitative research-focussed event hosted by Unigestion, in collaboration with Imperial College Business School and House of Finance at Paris Dauphine University. Areas discussed include:

- A methodology to estimate mispricing risk in factor models
- Implicit tilting of FAMA French factors through mechanical macro-factor overlays
- Application of deep learning to extract “deep factors” hidden by unexplained alphas in benchmark models
- Understanding tail risk in market neutral strategies
- A new methodological approach to building Factor Mimicking Portfolios

The SBAI practitioner panel focussed on understanding market dynamics in 2018, key lessons and areas for future innovation in factor strategy development. The Standards Board would like to thank the speakers and participants; a special thank you goes to Unigestion for facilitating this thought-provoking event.

The Standards Board has a factor-based investing working group, currently focussing on “assessing quality of back-testing” and “broker dealer practices”. For further information, please contact us at info@sbai.org.

The Standards Board responds to IOSCO Report on Leverage

The Standards Board has submitted a response to the [IOSCO Report CR08/2018 on “Leverage”](#). Key points raised:

- The Standards Board welcomes the proposed 2-step approach, the assessment of pros and cons of different leverage measures and the proposed adjustments of Gross Notional Leverage (GNE) (e.g. 10-year bond equivalents for interest derivatives, delta adjustment for options etc.) to come to a more meaningful approach to assessing leverage.
- The Standards Board also highlights some of the risks and data collection challenges, including the limitations of singular (risk-) measures, the risk of a rear-mirror view approach to detecting systemic concerns (instead of looking for the “unknown unknowns”, which requires a more creative approach to exploring monitoring financial stability), as well as cross-border data sharing
- The SBAI encourages IOSCO to look at existing regulatory reporting, i.e. Form PF and AIFM-D Annex IV, to avoid duplicating efforts and to maximise the likelihood of adoption.



- The SBAI highlights the usefulness of Open Protocol (OP), which it adopted in its Toolbox in 2017: OP provides a uniform framework with consistent data inputs, standard calculation methodologies to aid investors with the calculation of aggregate exposure and risk across funds. Many of the analyses proposed in the IOSCO Report can be conducted on the basis of OP information.

The Standards Board's full response is available [here](#).

Upcoming Events

- 7 March 2019, Hong Kong: SBAI Panel at the AIMA APAC Forum (third-party event)
- 12 March 2019, New York, SBAI Credit Working Group Event Launch
- 16 April 2019, Boston: Culture & Diversity Breakfast Session
- 23 April 2019, Los Angeles: Culture & Diversity in Asset Management Roundtable
- 24 April 2019, San Francisco: SBAI Institutional Investor Roundtable
- 16 May 2019, New York: SBAI Annual North American Stakeholder Forum
- 26 September 2019, London: SBAI Annual General Assembly
- 21 November 2019, Montreal: Institutional Investor Roundtable

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



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