



Newsletter – October 2019

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New Stakeholders

The Standards Board is delighted to welcome new additions to the SBAI family.

Investor Chapter

- Employees Retirement System of Texas (US)

Signatories

- Securis Investment Partners LLP (UK)

Standards Board Launches Responsible Investment Working Group

Responsible investing (RI) has become an area of focus for many institutional investors and investment managers. Investor approaches range from more explicit inclusion of Environmental, Social and Governance (ESG) factors in the investment process, screening (exclusion of certain assets from the investable universe deemed to be non-ESG friendly) to active engagement with companies on ESG issues. Impact investing is a special form of RI looking at broader societal and/or environmental impact beyond financial return.

RI approaches have been pioneered in the long-only equity markets (including private equity), driven by a combination of risk-return as well as ethical considerations of institutional investors. Some alternative investment managers have incorporated ESG considerations into their internal policies and procedures in response to allocator demand; however, the application of RI concepts in alternative investments is not always straight forward and is generally not well understood.

The objective of the Standards Board's Responsible Investment Working Group is to help institutional investors and alternative investment managers better understand how RI can be



applied in different alternative investment strategies, as well as the specific challenges and questions that arise in these contexts. Key areas of focus will be to:

- Review existing materials about RI in alternative investments (including emerging regulatory developments)
- Develop a framework to help investors and managers calibrate their approach to RI in alternative investment strategies (spectrum of approaches)
- Translation of approaches into RI policy and/or investor disclosure

The Standards Board has been involved in discussions and working groups addressing RI since 2012, when it contributed to the [PRI Responsible Investment in Hedge Fund Report](#) (2012) and the [PRI DDQ](#) (2017). In addition, the topic has been featured at various Standards Board Institutional Investor Roundtables in Asia, Europe and the US.

Standards Board Publishes Updated Standardised Board Agenda

The Standards Board has published an updated version of its [Standardised Board Agenda](#) in its Toolbox. The original version was published in April 2014 to provide guidance to fund directors, managers and investors on issues relating to running fund board meetings, topics to be addressed and documentation to be produced at those board meetings.

Fund governance arrangements have become an area of increased investor scrutiny, and fund jurisdictions have strengthened their respective governance frameworks. The Standards Board's Governance Working Group, formed in 2018, has updated the Standardised Board Agenda following an extensive review of these fund governance frameworks in key investment fund jurisdictions, including Cayman Islands, Ireland and Luxembourg. The agenda now includes a declaration and review of conflicts of interest of fund directors, a review of structural conflicts of interest (e.g., between different funds of the same manager), a more extensive review of the fund manager's Management/Executive Committee Report, a review of non-audit services provided by the auditor and an assessment of independence of the audit firm.

Kai Rimpi, Head of Hedge Funds at Varma, the Finnish Pension Insurer, and member of the working group, said: "Investment managers and Fund Directors are encouraged to review the Standardised Board Agenda and to tailor it to the specific characteristics of the fund. From an investor's perspective, the agenda provides a useful benchmark for due diligence of a fund's governance arrangements."

The updated Standardised Board Agenda is available [here](#).



Institutional Investor Roundtables in Washington, DC and Philadelphia

The Standards Board held two institutional investor roundtables in October in Washington, DC and Philadelphia. Key areas discussed include:

- **Public versus private markets:** Exploring the rationale for the rise in popularity of “private investments” and related emerging risks:
 - Private credit - Rise of market-based finance in a world of shrinking banks: is it eating into allocators’ hedge fund allocations? Investor perspective by credit asset class
 - Private equity - Is the party still in full swing, or are there warning signals on the horizon? (WeWork “revaluation” following public market scrutiny; is the lower volatility of private valuations a convenient illusion?)
 - Perspective on investor liquidity balance sheet: more private investments, longer lock up for lower fees, ... what will happen during the next drawdown/liquidity stress?
- **Responsible investments (RI):** How does it apply to alternative investments? What is the spectrum of approaches? (**also see SBAI’s newly launched RI Working Group above**)
 - Spectrum of investor philosophies, ranging from screening/exclusions to RI integration into active engagement – what are the latest investor preferences?
 - Varying degree of applicability to different alternative strategies as a function of underlying assets, investment rationale, holding period, etc. – how should a manager communicate its approach?
- **Co-investments:** Key considerations in the area of governance and structuring; what information do investors need to assess potential conflicts of interest (**SBAI will publish Toolbox guidance helping managers and investors navigate this area**)
- **Factor investing:** Overview of process to approve a “portable alpha” program, key due diligence considerations (**SBAI will launch Toolbox guidance on Back-testing and Broker Dealer Practices**)

The Standards Board would like to thank the panellists from Carnegie Institution for Science, CERN Pension Plan, Edgehaven Pty Ltd (Alternative Asset Advisor to Royal Mail Pension Plan), Howard Hughes Medical Institute, Ionic Capital Management, Orchard Global Asset Management, The Rock Creek Group, The World Bank, Turning Rock Partners and West Virginia Investment Management Board.

A special thank you goes to The Rock Creek Group, an Investor Chapter Member, for hosting the Washington DC roundtable and Albourne Partners, a Core Supporter, for supporting and hosting the Standards Board at its Annual Conference in Philadelphia.



Culture and Diversity Roundtable in Chicago

The topic of culture and diversity has risen to the top of board and management agendas in every sector. Financial regulators also are exploring the linkages between culture (or the lack thereof) and compliance failures. As part of its Culture & Diversity series, the Standards Board held its 10th “Culture and Diversity in Asset Management” roundtable in Chicago, bringing together senior industry leaders. Participants included senior representatives from institutional investors, alternative investment managers and investment consultants who explored this complex and far-reaching subject with a particular focus on critical business and strategic issues, as well as best practices. Key points raised included:

- Importance of strong embedded values and “client centricity” to foster good culture
- Challenges in preserving culture during growth spurts
- Clues in investor due diligence to detect disconnect between stated and actual culture
- Importance of putting diversity into every process (for example, a pool of candidates, have 30% female vs. male, etc.)
- Measures to monitor achievement of objectives and goals (making sure goals are tangible)
- Partnering with external organisations to achieve goals in diversity

The SBAI would like to thank Citadel, a Signatory and Core Supporter of the SBAI, GCM Grosvenor, an SBAI Investor Chapter Member, for hosting this event and the all participants for their thoughtful contributions.

Upcoming Events

- 19 November 2019, Toronto: SBAI Culture & Diversity in Asset Management Roundtable
- 19 November 2019, Toronto: Insurance Linked Strategies at SBAI Investor Roundtable
- 21 November 2019, Montreal: SBAI Institutional Investor Roundtable
- 4 December 2019, New York: SBAI CIO Roundtable
- 5 December 2019, Hong Kong: SBAI Institutional Investor Roundtable
- 12 December 2019, Shanghai: SBAI Institutional Investor Roundtable
- 4 February 2020, Helsinki: SBAI Nordic Institutional Investor Day
- 7 February 2020, Geneva: SBAI Swiss Institutional Investor Roundtable

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



APPENDIX

Employees Retirement System of Texas

The Employees Retirement System of Texas (ERS) manages benefits for employees and retirees of State of Texas agencies and some higher education institutions. These benefits contribute to the financial security and overall well-being of employees, retirees and their families. They are an important part of the compensation package of state agency and institution employees.

Securis Investment Partners LLP

Founded in 2005, Securis Investment Partners LLP (Securis) is one of the leading Insurance Linked Securities (ILS) managers with 53 employees operating from offices in Bermuda, Japan, Switzerland, the UK and the US. The firm's overall assets under management are \$5.5bn as at 1 September 2019. Securis invests exclusively in ILS across the spectrum of insurance, reinsurance, and retrocession transactions, and across regions and perils opportunistically on both the Non-Life and Life side. Securis is registered with the SEC, the FCA, BMA, FINMA and Japan FSA.



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