



Newsletter – December 2019

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New Stakeholders

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

Investor Chapter

- The Andrew W. Mellon Foundation (USA)
- Mitsui & Co. Pension Fund (Japan)

Core Supporter

- Fiera Capital Corporation (Canada)

SBAI Publishes a Memo on Co-Investments

The Standards Board has published a [memo on co-investments](#) which was developed by the Standards Board's Governance Working Group. Co-investments have become increasingly popular in alternative funds, not just in Private Equity and Real Estate, but also in other liquid and illiquid alternative investment strategies, including alternative credit and activist funds. Co-investments allow investors to participate in individual investment opportunities in parallel with the regular fund structure and most often at lower fees. Co-investments are used when opportunities are too large to be (fully) allocated to the fund vehicle or exceed the investment restrictions of the fund.

The Standard Board's [Co-Investment Memo](#) sets out the processes investment managers need to put in place to address key governance and compliance challenges that can arise when granting investors the right to co-invest. The memo also covers structuring considerations and issues in relation to fee, expense and cost allocation.

To read the press release in full, please [click here](#).



Standards Board in New York

The SBAI CIO Roundtable in New York brought investment decision-makers together to explore investment opportunities and priorities for 2020. Areas discussed include:

- **Organisation:** Breaking down silos between investment divisions to facilitate knowledge transfer and better decision-making. Strengthening internal capabilities through technology, hiring and focusing on areas of efficiency (costs, fees, etc.).
- **Risk Management:** Strengthening scenario analysis, i.e. rehearsing response to different market distress scenarios and understanding how “disruption” (technology, etc.) can affect the overall investment portfolio. Continued assessment of liquidity and risk, notably in private investments where there is meaningful embedded equity exposure.
- **Investment:** Emphasis on having a larger concentration of business with fewer firms; importance of strategic partnerships to lower fees and find new opportunities. Identifying good partners to incorporate machine learning into the investment process.
- **Customisation:** Spectrum of perspectives on pooled vehicles vs. bespoke funds/accounts:
 - Investors with external completion portfolios requiring more bespoke approach to improve tracking of benchmarks
 - Others just modify risk exposure to pooled vehicle through leverage (to increase gross exposure) or by separately hedging out beta
 - Some concerned that customization (investment restrictions, etc.) can lead also to suboptimal outcomes (is it the manager’s “best foot forward”?)

The SBAI would like to thank Robert Shafir of Sculptor Capital Management and Poul Winslow of Canada Pension Plan Investment Board for their invaluable contribution to the discussion. A special thank you goes to Sculptor Capital Management for hosting the roundtable.

Standards Board in APAC Region

Hong Kong

The Standards Board’s Hong Kong Institutional Investor Roundtable, hosted by the Hong Kong Monetary Authority (HKMA), brought together over 70 managers and investors. Areas of focus:

- Asset allocation – barbell between public and private investments
 - **Private credit:** Role of market-based finance in a world of shrinking banks
 - **Metrics for risk and return benchmarking:** what are the tail risks in Private Equity – are smooth(ed) track records disguising actual risk?
 - **Market and liquidity risk stress testing:** Assessing the impact of the shift to private assets in allocator portfolios in financial distress scenarios (incl. interplay of public vs. private markets)



- How client demand reshapes the alternative industry: more customisation and better alignment structures

” Howard Lee, Deputy Chief Executive of HKMA and Chief Executive Officer of Exchange Fund Investment Office said: “We welcome the efforts of SBAI, which advocates best practices and robust conduct standards of the global alternative investment industry. Hong Kong has been a leading asset management hub supported by strong infrastructure and ecosystem, ranking as the Asia's largest hedge fund centre. In addition, we are also the largest private equity centre in Asia after the Mainland China”.

The Standards Board and the SBAI APAC Committee would like to thank the speakers from Canada Pension Plan Investment Board, CQS, Gopher Asset Management, Graham Capital, Hillhouse Capital, HKMA and Northwest Investment Management (HK) Limited for sharing their diverse views and expertise. A special thank you goes to the HKMA for their support and hospitality. The next SBAI Hong Kong Institutional Investor Roundtable will be held on 4 March 2020.

Shanghai

The Standards Board continued its roundtable series in the APAC region with its annual event in Shanghai. The event was hosted by the Lujiazui Financial City in collaboration with the Allocate-to-China Initiative (ATC), Shanghai Asset Management Association and Wind. The speakers included senior representatives from AMAC, ATC (Sun Wei), CPPIB (Plato So) and Noah Holdings Ltd (William Ma) who explored the following key area:

- Challenges in raising capital from international investors: onshore versus offshore fundraising - what are deal breakers in due diligence practices?
- Differences and similarities between global and domestic practice (also see [SBAI China Working Group analysis](#))

The Standards Board would like to thank the speakers for their contribution to the discussion. A special thank you goes to the hosts from Lujiazui Financial City and Wind for their support and hospitality.

Summary of 2019

It has been another eventful and ground-breaking year for the SBAI in a number of areas, including content development, standard-setting, global events and stakeholder and regulatory interaction.

Governance and Committees

- In September, the SBAI elected Leda Braga, CEO of Systematica Investments, to its Board of Trustees.



- In October, the SBAI APAC Committee welcomed two new members to the Committee: William Ma, CIO of Noah Holdings (HK) Limited, and Brian Pohli, Executive Director of CQS (HK) Limited. Noah Holdings (HK) Ltd is both a Signatory to the Standards and a member of the SBAI Investor Chapter. CQS is one of the founding members of the SBAI and has been a Signatory to the Standards since 2008.

Additions to the SBAI Toolbox

During the last 12 months, the Standards Board has published industry guidance via its [Toolbox](#) in a wide range of areas. This guidance complements the Alternative Investment Standards:

- [Cyber Security](#): Practical guidance for small- and medium-sized managers.
- [Fund Governance](#): Updated Standardised Board Agenda with a particular focus on strengthening the independent oversight of funds. This guidance followed an extensive review of fund governance frameworks in key investment fund jurisdictions, including the Cayman Islands, Ireland and Luxembourg.
- [Standardised Trial Data License Agreement](#): Streamlining subscription, redemption and anti-money laundering processes by creating a Standard Investor Profile Template for hedge funds and private market funds. This template captures the essential elements necessary in the most common jurisdictions.
- [Insurance-Linked Fund Valuation](#): Guidance for developing a robust valuation framework for ILS Fund managers to address conflicts of interest and suggest key questions for investors to ask.
- [Co-Investments](#): Focus on addressing conflicts of interest and ensuring fair treatment of investors.

New and Ongoing Initiatives and Working Groups

- In January, the SBAI APAC Committee formed its Japan Working Group consisting of legal and compliance specialists from Albourne, CPPIB, Dymon Asia and Tasku Advisers This Working Group is exploring current issues institutional investors and managers face in Japan today.
- **Launch of the Alternative Credit Working Group**: The report of the working group is expected to be published in Q1 2020 and focuses on “conflicts of interest”, “valuations” and “choice of fund structure”.
- **Launch of the Standard Investor Profile Template (SIPT) Working Group**: The SIPT will reduce the administrative workload for investors by standardising the collection of data required in the Know-Your-Customer (KYC) and Anti-Money Laundering (AML) processes.
- **Formation of the Responsible Investment (RI) Working Group**: Helping investors and managers better understand how RI applies to different strategies.
- **ILS Fund Working Group**: Following publication of the [ILS Fund Valuation Memo](#), the ILS Working Group has moved to its second phase and is exploring side-pocketing in insurance-linked funds.



- **Factor Investing Working Group:** Improving investor transparency in the areas of back-testing and broker dealer practices, results to be published in Q1 2020.
- **Governance Working Group:**
 - Review of conflicts of interest in parallel funds (following on from Standards Board’s public consultation on the topic in 2015 – how have practices evolved?)
 - Review of conflicts of interest of fund directors (and required disclosures)
 - Fund manager organisational arrangements – what functions do firms need? (mapping of investor expectations, regulatory expectations, etc.)
- **Culture & Diversity in Asset Management:** Roundtable series exploring the linkages between culture (or the lack thereof) and compliance failures as well as best practices (what works, what doesn't and why) to foster a “good” and inclusive corporate culture, including a diverse workforce.
- **Liquidity Risk Management:** Review of SBAI Standards and Toolbox Guidance addressing the [handling of situations of liquidity distress](#) in commingled funds and how [Open Protocol enables better understanding of liquidity risk](#)
- **China Working Group:** [Comparison of China onshore regulation and standards with international practice.](#)

Standards Board events

Between January and December 2019, the Standards Board held 28 events attended by over 500 representatives from major investors and managers to discuss industry issues. The events were held in the following cities:

- **APAC:** Hong Kong, Singapore, Shanghai, Tokyo
- **Europe:** Geneva, Helsinki, London
- **North America:** Boston, Chicago, Los Angeles, Montreal, New York, San Francisco, Toronto, Washington, D.C.

The Standards Board also participated in, and hosted panels at, industry conferences, including Albourne’s Annual Conference (Philadelphia) and the ILS Convergence Conference (Bermuda).

New Stakeholders in 2019

In 2019, the Standards Board also welcomed 14 new [Investor Chapter members](#) and 17 new [Signatories](#).

New Investor Chapter Members

Aalto University
AMOAI
Andrew W. Mellon Foundation

New Signatories

AlphaCrest Capital Management
Angelo Gordon
Brilliance Capital Management



CERN Pension Fund	CdR Capital
Employees Retirement System of Texas	Crabel Capital Management
J Paul Getty Trust	Graham Capital
LGT Capital	HPS Investment
Office of NYC Comptroller	Inherent Group
Ontario Teachers' Pension Plan	Leadenhall Capital Partners
OPTEU Pension Trust	Martlet Asset Management
PSP Investments	Maverick Capital
Regents of the University of California	Quest Partners
State of Wisconsin Investment Board	Sandbar Asset Management
VER (The State Pension of Finland)	Securis Investment Partners
	Telligent Capital Management
	Transtrend
	Whitebox Advisors

Signatories that became Core Supporters in 2019

Angelo Gordon	Fiera Capital
BlackRock	HPS Investment Partners
Bridgewater Associates	Magnetar Capital
BlueBay Asset Management	PIMCO
Capital Fund Management	

Upcoming Events

- 3 February 2020, Sydney: SBAI Institutional Investor Roundtable
- 4 February 2020, Helsinki: SBAI Nordic Institutional Investor Day
- 5 February 2020, Melbourne: SBAI Institutional Investor Roundtable
- 6 Feb 2020: Women in Finance Leadership Breakfast to be hosted by the Texas Alternative Investment Association in collaboration with the Teacher Retirement System of Texas and SBAI (by invitation only)
- 6 February 2020, London: New Frontiers in Investment Research: Machine Learning in Risk Premia and ESG Investing
- 7 February 2020, Geneva: SBAI Swiss Institutional Investor Roundtable
- 4 March 2020, Hong Kong: SBAI Annual Institutional Investor Roundtable



- 26 March 2020, London: SBAI ESG Workshop
- 1-2 April 2020: New York: SBAI Private Credit Workshop
- 1-2 April 2020: New York: SBAI ESG Workshop
- 30 April 2020, Boston: SBAI ESG Workshop
- 14 May 2020, New York: SBAI Annual North American Stakeholders Forum
- 9 September 2020, London, SBAI Annual General Assembly
- 2 December 2020, Montreal: SBAI Annual Institutional Investor Roundtable

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

Finally

The Standards Board would like to express its immense gratitude to the over 200 managers and investors who support the Standards as Signatories and Investor Chapter members. We also would like to thank our Founders, Core Supporters and Trustees for their continued guidance, contribution and support for the Standards Board’s mission to promote better practices in the industry. We look forward to continuing our collaboration in 2020, leveraging our unique platform to bring investors and managers together to discuss the critical issues of the day and to develop solutions that improve, and work for, the entire industry. In the meantime, from all of us here at the Standards Board, this, our last newsletter of the year, comes with our best wishes for the holiday season and a successful and collaborative New Year.

SBAI Founders and Core Supporters





APPENDIX

The Andrew W. Mellon Foundation

Founded in 1969, The Andrew W. Mellon Foundation is the nation's largest funder in arts and culture, and humanities in higher education. The Foundation seeks to strengthen, promote, and defend the centrality of the humanities and the arts to human flourishing and to the well-being of diverse, fair, and democratic societies. To this end, its core programs support exemplary and inspiring institutions of higher education and culture. Additional information is available at www.mellon.org.

Fiera Capital Corporation

Fiera Capital Corporation is a global independent asset management firm with over \$145 billion in AUM as at September 30, 2019. The company deliver customized multi-asset solutions across traditional and alternative asset classes to institutional, retail and private wealth clients across North America, Europe and key markets in Asia.

Today, Fiera has over 800 employees across 17 global locations.



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