Standards Board for Alternative Investments

THE STANDARDS BOARD PUBLISHES A MEMO ON CO-INVESTMENTS

18 December 2019

The Standards Board for Alternative Investments (SBAI) has published a memo on co-investments which was developed by the Standards Board's Governance Working Group. The Standards Board is the global standard-setting body for the alternative investment industry, providing a collaborative platform for institutional investors and alternative investment managers to standardise and improve industry practices and streamline investor due diligence. It is supported by over 200 alternative investment managers and institutional investors who collectively manage $4.5 trillion.

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.

John Richardson, Chief Operating Officer and General Counsel of Ionic Capital Management, and member of the working group, said: "Co-investments can give rise to conflicts of interest among different co-investors, as well as between the co-investors and the investors in the main fund. It is important that investors conduct due diligence on such conflicts of interest, including in areas such as the allocation approach to existing investors in the main fund versus other third-parties, the ability to exit co-investments, and the allocation of expenses."

Jessica Ross, Head of Customized Investments at Albourne Partners, said: "The best way for managers to address conflicts of interest and risks that can arise through co-investments is to adopt a co-investment policy which establishes procedures addressing the entire process from the allocation decision all the way through to the liquidation of the co-investment. The memo sets out these process steps, including suitability assessment of the co-investments opportunity, an investor eligibility framework, structuring considerations and the allocation/disposal approach."

Currently, the Governance Working Group is reviewing a number of other topics, including investment manager committee structures and fund Director conflicts of interest. The findings of these reviews will be published in the coming months as part of the SBAI Toolbox.

The Governance Working Group consists of Standards Board stakeholders: Aalto University Foundation, Aktia Asset Management, Albourne Partners, APG, Bluebay Asset Management, CERN Pension Fund, CQS, Elo Mutual Insurance Company, HealthCor Group LLC, Ionic Capital Management, Lansdowne Partners, Martlet Asset Management, New Holland Capital, Nordkinn Asset Management, Northpeak Governance, Orchard Global Asset Management, Ontario Teachers' Pension Plan, Periscope Capital, Pictet Asset Management, PIMCO, PSP Investments, Royal Mail Pension, The State Pension Fund of Finland (VER), Transtrend, Unigestion and Varma Mutual Insurance Company.

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Notes to editors:

1. The Standards Board (formerly known as the Hedge Fund Standards Board (HFSB)) is a collaborative platform bringing together institutional investors and alternative investment managers to standardise and improve industry practices and disclosure. The SBAI's resources, including the Alternative Investment Standards and the Toolbox, facilitate better investor due diligence and simplify the interaction between managers and investors. The Alternative Investment Standards provide a powerful framework of transparency, integrity and good governance for the industry and complement public policy. The SBAI Toolbox offers practical guidance to investors and managers, in areas such as fund governance, transparency, risk and expense reporting and cyber security. The SBAI is supported by more than 130 alternative investment managers with approximately $1 trillion in aggregate assets and by more than 80 institutional investors overseeing $3.5 trillion in assets. The Standards and the full list of signatories and supporters are available at www.sbai.org. In July 2014, the SBAI became an affiliate member of the International Organization of Securities Commissions ("IOSCO").

2. The Trustees of the SBAI are:

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