



Newsletter – January 2020

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New Stakeholders

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

Investor Chapter

- Avanda Investment Management (Singapore)

Signatories

- Cairn Capital (UK)

Core Supporter

- Whitebox Advisors LLC (US)

Important Notice: APAC Events in March Cancelled

Due to the coronavirus outbreak, the Standards Board has cancelled its March events in Hong Kong, Beijing, Singapore and Tokyo. These events will be held at a later date.



Initiatives and Priorities for 2020

As a collaborative platform, bringing together institutional investors with over USD 4 trillion in assets with investment managers (which account for over USD 1 trillion in AUM), the Standards Board closely follows the current and emerging issues investors and investment managers face.

Over the last 10 years, the Standards Board has broken new ground in the way in which an industry organisation can operate as a standard-setting body, driving robust manager conduct and transparency, as well as helping institutional investors make better-informed investment decisions. All this contributes to creating fair, efficient and transparent markets, where laws and rules are less likely to be breached, in line with the Standards Board's ethos to provide a powerful mechanism for creating a framework of transparency, integrity and good governance to simplify the investment process for managers and investors.

Please [click here](#) to read the overview of current initiatives and priorities.

Events in Australia and Europe

The Standards Board kicked off its 2020 series of Institutional Investor Roundtables with events in Geneva, Helsinki, Melbourne and Sydney. Areas of focus in all these Roundtables included:

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
- Allocator perspective: How to measure risk? Does the illiquidity premium exist? Are there mis-incentives for allocators (reducing reported volatility, but not actual risk)? What will happen during the next drawdown / liquidity stress?

Responsible investments (RI): How does it apply to alternative investments?

- Spectrum of investor philosophies, ranging from RI integration to screening/exclusions to active engagement
- Varying degrees of applicability to different alternative strategies as a function of underlying assets, investment rationale, holding period etc.
- ESG as a risk management tool, i.e. to assess refinancing risk in alternative credit
- Examples for how active ownership/dialogue can be a value creator

The **Melbourne roundtable** concluded with a fireside chat with James Shipton, Chair of the Australian Securities and Investments Commission (ASIC), who provided an update on the latest regulatory developments, as well as ASIC's current work in the investment management sector.



The **Nordic Roundtable** was opened by Ilkka Harju, Director of the Tax Department, Finnish Ministry of Finance. The event also included dedicated Working Group sessions: Factor Investing, ILS Fund and Alternative Credit (see separate summaries below).

The SBAI would like to thank the hosts JP Morgan Australia (Sydney), Future Fund (Melbourne), Varma (Helsinki) and Unigestion (Geneva) and all the panellists for their contribution: Aalto University Foundation, Aktia Asset Management, Aktia Bank Plc, Albourne, Angelo Gordon, Aspect Capital, Bluebay Asset Management, Brummer & Partners, Canada Pension Plan Investment Board, Capital Fund Management, Cerberus Capital Management, CEN Pension Fund, Elo Mutual Pension Insurance Company, Fiera Capital, Future Fund, Graham Capital London, Hiscox Re Insurance Linked Strategies, HPS Investment Partners, Ionic Capital Management, JP Morgan, Leadenhall Capital Partners, Magnetar Capital, Mirabaud Asset Management, Nephila, NSW Treasury Corporation, Orchard Global Asset Management, PIMCO, Quantica Capital AG, Securis Investment Partners, Transtrend, Varma Mutual Pension Insurance Company, Unigestion and Veritas Pension Insurance Company.

Working Group Sessions

As part of the Nordic Institutional Investor Roundtable in Helsinki, the Standards Board held three dedicated Working Group sessions:

Factor investing

The Standards Board Factor Investing breakfast focused on the following topics:

- Key characteristics of risk factors, including
 - systematic, persistent and investable nature
 - can be isolated through analysis
 - robustness (out of sample)
 - plausibility (risk based or behavioural explanation)
- Understanding of sources of return for different factors:
 - Compensation for genuine risk versus
 - “Harvesting” anomalies created by behavioural biases of investors (e.g. over- or under reaction to information, structural issues such as investment restrictions), and sources for such anomalies, including “anchoring”, “herding”, etc.
- Implications for capacity/fragility of factors, i.e., has the factor limited capacity (e.g., too many investors selling options reduces the volatility risk premium) versus self-re-enforcing factors (such as trend following strategies)
- Market perspective: understanding how different factors have performed in the context of broader economic/market environment (quantitative easing, low interest rates, etc.)



- Investor perspective:
 - What constitutes a realistic Sharpe Ratio for factor strategies?
 - Assessment of allocator portfolio through the “risk factor lens” to determine “completion approach”
 - Considerations for choosing between managed fund (asset managers have fiduciary responsibility) versus broker dealer product (broker dealers trade on a principal basis with their clients)
- Innovation
 - Emergence of Fixed Income strategies; however, there still are liquidity constraints/inability to short in many segments
 - Responsible investment: ESG as a tool (rather than an explicit factor, for now?), applying exclusion lists, investor reporting of ESG metrics

The Factor Investing Working Group will publish the results of its work in the areas of Back-testing and Broker Dealer practices in Q1 2020.

Insurance Linked Strategies Roundtable

- ILS Fund basics: How to access catastrophe risk – contractual forms (catastrophe bonds vs. private collateralised (re)insurance structures), collateralisation, risk types (e.g. hurricanes/typhoons, wildfires, earthquakes, ...) and renewals
- Market perspective:
 - Catastrophes in recent years and key lessons learned (e.g. addressing loss creep) – is the accumulation of events an exception or the new normal?
 - Role of climate change: has there been a shift in baseline risk for some perils – how big is the impact? How does the industry factor in these changes?
 - How to articulate a “responsible investment” approach in ILS Funds: “pricing risk accurately to make people adapt to climate change”, “increasing economic resilience to catastrophes”, is there a role for “exclusions”? (more difficult in re-insurance where there is less control over individual underlying insurance contracts)
- ILS Fund Valuation/Fair Value:
 - How to determine the “uncertainty discount” following a catastrophe event?
 - What questions should investors ask when conducting due diligence? (see [SBAI ILS Valuation memo](#))
- Side Pocketing to prevent risk of value transfer between investors: approach to timing, methodology (side pocketing by contract vs. by event), calculation of fees, unwinding of side pockets, due diligence questions for investors and disclosure



The ILS Working Group will continue to explore side pocketing and will publish an SBAI Toolbox Memo later in 2020.

Alternative Credit

The Standards Board Alternative Credit Lunch brought together institutional investors and managers to explore current industry topics in alternative credit, including the outputs from the Standards Board Alternative Credit and Governance Working Groups.

- State of play: Perspective on different market segments including liquid markets vs. private markets, bank loans, private equity sponsor finance, distressed credit (and “solutions”), specialty finance, synthetic securitisations, APAC/emerging markets, etc.
- Current investor (allocation) preferences and areas of concerns (e.g., weakening of covenants, leverage, conflicts of interest)
- Areas of focus of the SBAI Alternative Credit and Governance Working Groups:
 - Co-investments (SBAI Toolbox memo): Key governance and compliance challenges that co-investments can create, illustrative co-investment process, an indicative structure for a co-investment policy and considerations in relation to structuring, handling of fees/expenses and investor disclosure.
 - Fund Governance – Standardised Board Agenda (SBAI Toolbox memo): To strengthen the fund governance arrangements, the Standards Board has published an updated Standardised Board Agenda, which provides an overview on the areas and questions that are covered in a fund board meeting in the ordinary course of business.
 - Conflicts of Interest ([Consultation Paper CP4](#)): In 2015, the SBAI consulted on the handling of conflicts of interest in parallel funds and subsequently published updated Standards to strengthen practices in the following areas: disclosure of similar funds/accounts and trade allocation policy to investors, internal arrangements to mitigate conflicts of interest (e.g. documented compliance policies and procedures, recording/reporting of conflicts of interest etc). The Standards Board will publish additional Toolbox guidance on the topic of conflicts of interest in parallel funds in Q1 2020.

The Standards Board Alternative Credit Working Group will publish its Toolbox memo covering the topics of valuations, conflicts of interest and choice of fund structure in H1 2020.

SEC OCIE’s Examination Priorities 2020

Cyber Security – Manager due diligence of third-party IT service providers



The Office of Compliance Inspections and Examinations (OCIE) of the U.S. Securities and Exchange Commission (SEC) published its Examination Priorities for 2020, which highlight the continuing focus on information security and cyber-security risks. The OCIE notes that it also will look at oversight practices related to service providers and network solutions as part of its examination of third-party and vendor risk management. The latest [SBAI Cyber Security Memo](#) (published in 2019), which is specifically targeted at small- to medium-sized investment managers, covers manager due diligence of managed IT-Service Providers (MSPs) (Section 4) and includes a checklist of key requirements for Managed Service Provider (MSP) contracts (Appendix V). Managers are encouraged to review this [SBAI Toolbox guidance](#).

Upcoming Events

- 26 March 2020, London: Responsible Investment Roundtable
- 1 April 2020: New York: Alternative Credit
- 1 April 2020: New York: Responsible Investment Roundtable
- 13 April 2020: San Francisco: Culture & Diversity Workshop
- 13 April 2020: San Francisco: Responsible Investment Roundtable
- 30 April 2020, Boston: Responsible Investment Roundtable
- 14 May 2020, New York: Annual North American Stakeholders Forum
- 14 May 202, New York: Emerging Manager Roundtable
- 9 September 2020, London, Annual General Assembly
- 2 December 2020, Montreal: Annual Institutional Investor Roundtable

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

APPENDIX

Avanda Investment Management

Avanda Investment Management is a global asset management company founded by Ng Kok Song, Quah Wee Ghee and Sung Cheng Chih who, over a period of more than 25 years, played a key role in building up and running one of the foremost sovereign investors in the world.

They established Avanda, a private limited company based in Singapore, to serve the investment needs of long-term asset owners in Asia and elsewhere. Avanda's clientele comprises institutional



asset owners with long investment horizons. These include endowments, foundations, central banks, sovereign wealth funds, pension funds, life insurance companies and family offices

Cairn Capital

Cairn Capital Limited (“Cairn Capital”) is a London-based alternative credit specialist with a 15+ year history. The firm was founded in 2004 and has AUM of approximately \$5 billion as at 31 December 2019 across multi strategy and single strategy commingled funds, single investor segregated accounts, advisory mandates and CLO vehiclesⁱ. The firm invests across the capital structure and liquidity spectrum and specialise in combining deep fundamental credit research with rigorous quantitative analysis. Within public credit, the firm currently invests in investment grade and sub-investment grade bonds, single name and index CDS, leveraged loans and structured credit. Within private credit, the firm currently invests in risk transfer transactions with financial institutions, speciality finance, commercial real estate debt and other forms of private securitisations. Since 2015, Cairn Capital has been majority owned by Mediobanca S.p.A., a publicly listed Italian bank.

Whitebox Advisors LLC

Whitebox Advisors LLC (“Whitebox”) is a multi-strategy alternative asset manager that seeks to generate optimal risk-adjusted returns for a diversified base of public institutions, private entities and qualified individuals. Founded in 1999, Whitebox invests across asset classes, geographies, and markets through the hedge fund vehicles and institutional accounts we advise. The firm maintains offices in Minneapolis, Austin, New York, London and Sydney.



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ⁱ *CLOs are managed by Cairn Loan Investments LLP (“CLI”) and Cairn Loan Investments II LLP (“CLI II”). CLI and CLI II are not affiliates of each other nor of Cairn Capital but Cairn Capital established them and provides them with support services.