

## THE STANDARDS BOARD PUBLISHES A MEMO ON CONFLICTS OF INTEREST BETWEEN PARALLEL FUNDS

6 March 2020

The Standards Board for Alternative Investments (SBAI) has published a memo on addressing potential conflicts of interest between parallel funds, 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.

This new memo sets out a case study about potential conflicts of interest arising between parallel funds, highlights how the Alternative Investment Standards address these issues and provides examples for additional measures managers can take to strengthen their approach. It also provides an overview of areas investors should assess as part of their due diligence on how a manager addresses potential conflicts of interest.

The Standards Board previously addressed the topic of conflicts of interest through its consultation paper in 2015 ([CP4](#)) and introduced new [Standards](#) which focused on conflicts of interest arising between parallel funds, as well between external funds and partner/employee only funds, and in each case the funds pursue similar (but not necessarily identical) investment strategies.

Jamie Wise, CEO of Periscope Capital and a member of the Standards Board's Governance Working Group, said: "Parallel funds with similar investment strategies can give rise to conflicts of interest among different investors and it is important that managers have a robust approach. The memo sets out additional measures managers can take specifically to address conflicts of interest between parallel funds, including documenting allocation decisions in trading/compliance reporting systems, audit of allocations by the chief compliance officer or conflicts of interest committee, review by an independent third party and reporting to fund governing body."

Kai Rimpi, Head of Hedge Funds at Varma Mutual Pension Insurance Company and a member of the Standards Board's Governance Working Group, stated: "This topic of conflicts of interest remains important to investors. A robust approach to mitigating these conflicts properly plays an important role in improving investor confidence. This memo provides a real-life case study with practical solutions to addressing conflicts of interest. We are very pleased that the Standards Board continues to demonstrate its commitment to improving practices in various areas, including fund governance and management of conflicts of interest."

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 and supporters: Aalto University Foundation, Aktia Asset Management, Albourne Partners, Avanda Investment Management, BlueBay Asset Management, CERN Pension Fund, CQS, Elo Mutual Pension Insurance Company, Finisterre Capital, Employees Retirement System of Texas, HealthCor Group LLC, Ionic Capital Management, 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 Plan, Taconic Capital, The State Pension Fund of Finland (VER), Transtrend, Unigestion and Varma Mutual Pension 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](http://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:
  - Dame Amelia Fawcett, Chairman, Standards Board for Alternative Investments (SBAI)
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3. The Founders of the SBAI are:

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- Samantha Foster, University of Southern California
- John Richardson, Ionic Capital Management
- Priti Singh, Canada Pension Plan Investment Board
- Karl Wachter, Magnetar Capital