

THE STANDARDS BOARD PUBLISHES ALTERNATIVE CREDIT GUIDANCE

20 May 2020

The Standards Board for Alternative Investments (SBAI) has published [three memos on alternative credit fund management](#) focusing on fund structuring considerations, valuation and conflicts of interest. The memos provide guidance to managers and investors on these topics and a framework of questions investors may wish to ask managers when conducting operational due diligence. The memos reaffirm the SBAI Alternative Investment Standards that were established over a decade ago and have been adopted by many of the largest managers in the alternative investment industry.

The memos were developed by the Standards Board's Alternative Credit Working Group which consists of 45 leading institutional investors and managers. Members of the Working Group include managers such as Angelo Gordon, HPS Investment Partners, Magnetar Capital and PIMCO and institutional investors including CPPIB, New Zealand Superannuation Fund and Teacher Retirement System of Texas. Thomas Deinet, Executive Director of the SBAI said: "The Working Group exemplifies the value of the Standards Board's collaborative platform to develop practical guidance and standards for the industry."

Nicholas Maffeo, Portfolio Manager at the Employees Retirement System of Texas and a member of the Working Group said: "The SBAI memos provide a powerful toolkit that will help institutional investors properly scrutinise alternative credit managers and enable them to make well-informed investment decisions. It is important that managers have a robust approach in all the areas addressed by the memos, and we encourage the adoption of the Alternative Investment Standards by investment managers."

The Fund Structuring Memo focuses on key considerations for the two most common fund models employed by alternative credit managers: the closed-ended private equity model and the open-ended hedge fund model. Laura Lincoln, Senior Portfolio Manager at Utah Retirement Systems and a member of the Working Group said: "The publication of these memos is very timely, given the current economic situation. Investors need to think carefully through the consequences of fund structure in difficult environments, as this is when protections and flexibilities are needed most."

The Valuation Memo highlights the key features of a robust valuation framework and illustrates the fair value process for direct loans. Ryan Teal, Partner and North American Head of Operational Due Diligence at Albourne Partners and a member of the Working Group said: "Fair Value matters to institutional investors, to inform their risk management and investment decision-making, satisfy their accounting requirements, and ensure fair treatment of ultimate beneficiaries."

The Conflicts of Interest Memo identifies the specific conflicts of interest that can arise in funds investing in alternative credit, including in situations where different funds invest in different parts of a company's capital structure and where one fund refinances a loan held by another fund. "Alternative

credit funds present a unique set of conflicts considerations over and above those found in funds focused on liquid investments,” said Karl Wachter, General Counsel at Magnetar Capital and a member of the Working Group. “The guidance in SBAI’s conflicts of interest memo equips investors with a roadmap for exploring these risks with managers during operational due diligence.”

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. It also issued more detailed [Toolbox Guidance](#) on the topic earlier this year.

The SBAI Alternative Credit Working Group will continue to review other areas of relevance in alternative credit, including investor disclosure and applicability of Responsible Investment considerations. In addition to the SBAI’s work in Alternative Credit, the SBAI is currently running a number of working groups focusing on the following areas: Governance, Responsible Investments, Insurance Linked Funds, Factor Investing, Standard Investor Profile Template, as well as regional focus groups (China, Japan).

About the Standards Board for Alternative Investments (SBAI)

Established in 2008, the SBAI is a neutral standard-setting body for the alternative investment industry and custodian of the Alternative Investment Standards (the Standards). The Standards Board is a platform that brings together managers, investors and their peers to share areas of common concern and develop practical, industry-wide solutions. It provides a powerful mechanism for creating a framework of transparency, integrity and good governance, facilitating investor due diligence, providing a benchmark for manager practice, and complementing public policy.

The SBAI and the Standards are supported by more than 130 alternative investment managers with approximately \$1 trillion in aggregate assets and by more than 80 major institutional investors, including sovereign wealth funds, pension funds, endowments/foundations and fund of funds, overseeing \$3.5 trillion in assets. More information about the SBAI can be found at www.sbai.org

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Notes to editors:

1. List of members of the Alternative Credit Working Group:
The Alternative Credit Working Group consists of Standards Board stakeholders and supporters: Aalto University Foundation, Aberdeen Standard Investments, Aktia Asset Management, Albourne Partners, Avanda Investment Management, Angelo Gordon, BIMCOR, BlackRock, BlueBay Asset Management,

Cairn Capital, Cheyne Capital, CN Pension Fund, CPPIB, Duff & Phelps, Dymon Asia, Employees Retirement System of Texas, Finisterre Capital, J P Getty Foundation, GIC, HPS Investment Partners, Innocap, Ionic Capital Management, IXI Fund Managers Ltd, Leadenhall Capital Partners, Magnetar Capital, Mirabaud Asset Management, MKP Capital, Monarch Alternative Capital, Myriad Asset Management, New Holland Capital, New Zealand Superannuation Fund, Orchard Global Asset Management, PAAMCO, PAG, Pictet Asset Management, PIMCO, Pennsylvania Public School Employees' Retirement System, PSP Investments, Strategic Value Partners, Taconic Capital Advisors, Teacher Retirement System of Texas, UBP, Utah Retirement Systems, University of Toronto Asset Management, Varma Mutual Pension Insurance Company and Veritas Pension Insurance.

2. The Trustees of the SBAI are:

- Mario Therrien, Senior Managing Director, Strategic Partnership – Developed Markets, Caisse de dépôt et placement du Québec (Chairman)
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3. The Founders of the SBAI are:

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- CQS
- Man Group plc
- Marshall Wace
- Sculptor Capital Management
- Winton

4. The Core Supporters of the SBAI are:

- Aberdeen Asset Management
- Acadian Asset Management
- Albourne Partners
- Angelo Gordon
- BlackRock
- BlueBay Asset Management
- Bridgewater Associates
- Capital Fund Management
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7. Investor Chapter Members include (please [click](#) to see the full list):
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 - State of Wisconsin Investment Board
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 - University of Southern California
 - Utah Retirement Systems
 - UTIMCO
 - Varma Mutual Pension Insurance Company
8. [Signatories](#) (please click to see the full list)
9. In July 2014, the SBAI became an affiliate member of the International Organization of Securities Commissions ("IOSCO").