Bringing managers and investors together to set standards for the alternative investment industry

Newsletter – May 2020

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New Stakeholders

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

Signatories

- Frost Asset Management (Sweden)
- Hudson Structured Capital Management (Bermuda)
- LFIS (France)
- Sylebra Capital Management (Hong Kong)

Alternative Credit Memos: New Toolbox Guidance Published

The Standards Board 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 and a framework of questions investors may wish to ask managers when conducting operational due diligence.

The memos were developed by the Standards Board's Alternative Credit Working Group which consists of 45 leading industry practitioners, including managers such as Angelo Gordon, HPS Investment Partners, Magnetar Capital, Orchard Global Asset Management and PIMCO and institutional investors including CPPIB, New Zealand Superannuation Fund and Teacher Retirement System of Texas. To read the press release in full, please click here.

The Valuation Memo reaffirms the standards and guidance included in SBAI's Alternative Investment Standards, reviews other industry guidance specific to the valuation of illiquid credit, clarifies areas where there is no industry wide consensus around the valuation of these assets, (and proposes questions that investors may wish to ask when assessing a manager).

The Choice of Fund Structure Memo reaffirms the standards and guidance included in SBAI's Alternative Investment Standards relating to the fund's structure and commercial terms. It also outlines advantages, disadvantages and other considerations for the two most common fund models employed by alternative credit managers: 1) the private equity model and 2) the hedge fund model.

The Conflicts of Interest Memo reaffirms the standards and guidance included in SBAI's Alternative Investment Standards (section 2), identifies specific conflicts of interest that can arise in the context of funds investing in (alternative) credit (section 3. It also proposes questions that investors may wish to ask when assessing a manager.

To read all the memos, please visit our Toolbox webpage.

SBAI: "Navigating Through COVID-19" Series of Virtual Roundtables

Over 500 investors and managers participated in the SBAI's COVID-19 series of virtual roundtables, which facilitate a candid dialogue between institutional investors and fund managers about how to navigate the current challenges posed by the global pandemic.

Sessions held in May:

- **Implications for ODD and Monitoring** (Albourne, Caisse de dépôt et placement du Québec (CDPQ), Cerberus Capital Management, Ionic Capital Management, Man FRM)
- **Superfunds' Perspective** (Dymon Asia Capital, New Zealand Superannuation Fund, Sunsuper)
- **Were You Prepared?** (Angelo Gordon, J Paul Getty Trust, Utah Retirement Systems)
- **Looking Beyond the Lockdown** (China Investment Corporation, CQS Hong Kong, Hong Kong Monetary Authority)
- **Managing Risk & Strategic Partnerships** (Citadel, State of Wisconsin Investment Board, Teacher Retirement System of Texas)

Key points made and questions raised:

- Investor perspective:
  - Strong governance arrangements enabled investment organisations to act throughout the crisis (e.g. to deploy capital), but limitations for large allocators to be very tactical: diversification and disciplined execution of long-term strategy more important.
  - Deploying capital to new / emerging managers difficult in current environment (inability to conduct onsite due diligence), hence, more focus on existing manager relationships and strategic partnerships (some investors maintain a "bench" of pre-approved managers to be able to quickly deploy capital to specifically in times of distress)
  - Government bailouts: incentive for corporates and investors to take more risk going forward?

  - COVID-19: "Black Swan" event (rare, extreme impact and retrospective predictability) or a "Grey Rhino" (highly probable but neglected threat with an enormous impact)?
  - Risk management lessons: risk of underestimating the effect of illiquidity and leverage, reliance on too few risk metrics, … do we need to become more creative in "stress testing" and scenario analysis?
  - Mixed perspective on the performance of alternative investments – overall large dispersion within strategy buckets
- Manager perspective:
  - Market dislocations provide opportunity for active management (bottom up analyses, identifying winners and losers), importance of understanding impact of government intervention
  - "Ubiquity of compliance": how to ensure a culture of compliance persist in a remote working environment?
  - Given the success of remote working - do firms still need disaster recovery / back up office space?

The SBAI would like to thank all the speakers for their invaluable contribution to the discussions.

SBAI Toolbox Webinar Series: Co-Investments (APAC)

The **SBAI Toolbox** complements the Alternative Investment Standards and provides guidance on a wide range of industry topics, including governance, transparency and valuations. The SBAI has held its second SBAI Toolbox Webinar series with an expert session on Co-Investments, covering operational due diligence considerations when allocating to co-investments, how to structure a co-investment process, considerations about handling of fees and expenses, and structuring. The SBAI would like to thank the speakers from Albourne Partners, HealthCor Management and Ionic Capital Management for their contributions. The SBAI Co-Investment Memo is available here.

SBAI: New Risk Reporting Working Group

Better risk disclosure in financial markets has been a priority for both institutional investors and regulators over recent years. Investors are seeking increasingly to aggregate risk information about their investments to improve overall portfolio risk management (e.g. by using Open Protocol Risk Reports), while regulators have started to collect data to inform their regulatory activities and assess potential systemic risk concerns.

The existing regulatory data reporting templates (e.g. SEC Form PF, AIFM-D Annex IV) enable authorities to better understand the investment activities and risk-taking in (alternative) investment funds. While these regulatory risk reporting frameworks cover similar areas of interest, the underlying data structures and definitions differ, which introduce operational challenges for firms reporting across multiple jurisdictions. Also, these inconsistencies make it more difficult to aggregate data across jurisdictions. The SBAI has engaged actively in the global regulatory dialogue about risk aggregation in recent years (see https://www.sbai.org/regulatory-engagement/financial-stability), including participation in the IOSCO

Affiliate Member Consultative Committee (AMCC), Open Protocol workshops and engaging directly with regulators to work towards a more consistent data structure.

While the various reporting templates are now in place and are unlikely to undergo significant changes in the short term, it is important to develop sound understanding of the status quo, develop a perspective on how these templates could evolve in the medium term and assess what role Open Protocol can play in an effort to harmonise this process. Given the SBAI is well positioned to help facilitate this process through a dialogue with key regulators around the globe, it has set up a Risk Reporting Working Group which will focus on:

- Mapping of data fields: commonalities and discrepancies between regulatory templates (gap analysis)
- Perspective on relevant "systemic risk" analyses
- Developing perspective on harmonisation
- Engagement with regulators

Managers (who report monthly Open Protocol data) and institutional investors are invited to join this new working group. If you like to be considered for the working group, please contact us at info@sbai.org.

Upcoming Events

- 2 Jun 2020: Navigating through COVID-19: Looking at the Post-Pandemic World (virtual event)
- Jun 2020 (TBC): Alternative Credit (APAC time zones) (virtual event)
- Jun 2020 (TBC): Navigating Through COVID-19: Responsible Investment Implications
- 24 August 2020: San Francisco: Culture & Diversity and Responsible Investment Roundtable
- 9 September 2020: London, Annual General Assembly
- 2 December 2020: Montreal: Annual Institutional Investor Roundtable

The full event schedule is available here.

APPENDIX I

Frost Asset Management	Frost Asset Management AB is a Swedish alternative investment fund manager. The firm is the responsible manager of Frost, a Swedish special fund with a primary focus on fixed income relative value in the Scandinavian markets. Frost was launched on 2 January 2020. Frost's investment process is discretionary and qualitative supported by an extensive quantitative analysis. Frost's individual positions are balanced against each other so that the fund achieves a sustainable high risk-adjusted return with low systematic correlation with equity and bond markets.

Hudson Structured Capital Management (HSCM)	HSCM is an asset manager focused on Re/Insurance and Transportation investments HSCM was launched in 2016 and as of April 2020, has more than $2.3bn in AUM. HSCM focuses on core economic sectors that are likely to outgrow global GDP, offer low correlations with broader markets, and are experiencing a shift from balance sheet and to market financing.
LFIS	LFIS was established in 2013 and is headquartered in Paris, France. LFIS combines a quantitative approach with expertise in the range of assets and instruments, to identify, capture and risk manage opportunities across markets. LFIS' team believes in man and machine working together for an investment process that delivers and which clients can understand and trust. LFIS' funds include alternative strategies focused on risk premia, credit and managed futures, as well as multi-asset funds and dedicated solutions. The firm's global client base ranges from institutional to retail investors and extends across Europe, Canada and Australasia. As of May 2020, LFIS has $7.7bn in AUM.
Sylebra Capital Management	Founded in 2011, Sylebra Capital is a global TMT hedge fund manager based in Hong Kong and led by Dan Gibson, former Partner at Coatue Management. Sylebra currently manages ~$2.5bn in AUM on behalf of its clients – from endowments, foundations and pensions to family offices. Sylebra is driven by the intellectual challenge of understanding companies and identifying their potential. Focusing on mid-sized technology, media and telecommunications (TMT) companies, Sylebra identifies opportunities through an independent process driven by deep, fact-based fundamental research. This translates into relatively long holding periods and a concentration towards high conviction ideas in uncrowded positions. Portfolios are constructed bottom-up with long positions balanced against shorts to achieve a very low net market exposure.