

## THE STANDARDS BOARD PUBLISHES ALTERNATIVE RISK PREMIA GUIDANCE

15 July 2020

The Standards Board for Alternative Investments (SBAI) has published [two memos](#) on alternative risk premia (aka dynamic beta) investing focusing on Backtesting and Broker Dealer Practices. The memos, which were developed by the SBAI's Alternative Risk Premia Working Group, provide guidance to institutional investors, managers and broker dealers, as well as a framework of questions investors may wish to ask managers and broker dealers when conducting investment and operational due diligence.

Alternative risk premia strategies follow a mechanistic, rule-based implementation based on well understood (and academically documented) underlying factors. Matt Talbert, Senior Investment Manager at the Teacher Retirement System of Texas and a member of the Working Group said: "The systematic nature of these strategies requires that institutional investors conduct dedicated due diligence on the robustness of the strategy implementation. The new SBAI Toolbox memos provide a powerful toolkit that will help institutional investors properly scrutinise the strategy implementations and enable them to make well-informed investment decisions."

The Backtesting Memo focuses on the assessment of the strategy development process, identifying the key areas investors need to assess in their due diligence, including statistical overfitting bias, accuracy of assumptions and length of backtesting time series.

Steven Desmyter, Global Co-Head of Sales & Marketing at Man Group and a member of the Working Group said: "Today, computers can test millions of different strategy configurations on a given historic sample dataset to find the optimum approach that should deliver the highest risk adjusted return. However, it is very likely that the chosen strategy configuration will be overfitted, with no superior predictive power in the future. I think it's very important that managers and broker dealers, who use backtesting in strategy development, have frameworks and methods in place to vet strategies to prevent overfitting, and that investors know how to assess the validity of backtesting results."

The Broker Dealer Practices Memo sets out the key distinctions between managed funds and broker dealer products as ways to access risk premia strategies and provides a due diligence questionnaire institutional investors and managers can use to assess broker dealer products. The questionnaire focuses on topics, such as governance arrangements, execution, operational and trading aspects, cost analysis and index design.

Tom Leake, Head of Systematic Trading Strategies and Partner at Goldman Sachs Securities Division said: "The SBAI Broker Dealer Memo provides investors with a robust due diligence framework to assess systematic index products. It helps investors gain a thorough understanding of different strategy implementations and helps improve overall practices in the marketplace."

The Standards Board’s Alternative Risk Premia Working Group consists of over 20 leading industry practitioners, including Aberdeen Standard Investments, Albourne Partners, Aspect Capital, Capital Fund Management, Man Group Plc, Teacher Retirement System of Texas, Unigestion and University of Southern California. Leading broker dealers also have provided input for the memos. Thomas Deinet, Executive Director of the SBAI said: “The Working Group exemplifies the value of the Standards Board as a collaborative platform for investors and managers to develop practical guidance and standards for the industry.”

The Alternative Risk Premia memos form part of the [SBAI Toolbox](#), which provides guidance to institutional investors and managers on a broad range of topics, including addressing conflicts of interest, risk and fee transparency, cyber security, etc. The SBAI Toolbox complements the [Alternative Investment Standards](#), to which investment managers formally sign up.

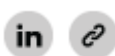
The SBAI Alternative Risk Premia Working Group will continue to review other areas of relevance, including applicability of Responsible Investment considerations to risk premia strategies. In addition to the SBAI’s work in Alternative Risk Premia, currently, the SBAI is running a number of working groups focusing on the following areas: Governance, Responsible Investment, Alternative Credit, Insurance Linked Funds, 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](http://www.sbai.org).

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## Notes to editors:

1. List of members of the Alternative Risk Premia Working Group:
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  - Aberdeen Asset Managers Limited
  - Albourne Partners
  - Arch Ventures
  - ARP Americas
  - Aspect Capital
  - Capital Fund Management
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7. Investor Chapter Members include (please [click](#) to see the full list):
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  - Teacher Retirement System of Texas
  - University of Toronto Asset Management
  - 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").