



## Newsletter – August 2020

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## New Stakeholders

The Standards Board is delighted to welcome the new additions to the SBAI Family:

### **Signatories**

- Hillhouse Capital
- Polymer Capital Management (Hong Kong)

## SBAI Responsible Investment and Culture & Diversity Roundtable

The Standards Board hosted a roundtable which included two panel discussions focusing on responsible investment and culture & diversity.

### **Responsible Investment**

While the “G” in ESG is central to the SBAI’s Alternative Investment Standards, the SBAI also cares about the “E” and the “S”. The SBAI does not set standards outside of “G” but the aim of these discussions on Responsible Investment (RI) is to provide tools to enable investors to make more informed investment decisions and asset managers to determine their own investment approaches.



The panellists, who included Andrew Collins (San Francisco Employees Retirement System), Wendy Cromwell (Wellington Management), Stephen Kennedy (Albourne America LLC), Wendy Pulling (University of California) and Sapna Vir (New Holland Capital), focused on a broad range of topics, including:

- **Analysis of a manager’s RI Integration in investment process:** approaches vary by strategy, investors will typically expect managers to “have a view on RI”, but most will refrain from setting out prescriptive expectations; some focus on if asset managers adhere to the same standards they expect from their underlying portfolio companies (e.g. human capital, corporate governance, employee relations and community relations).
- **Exclusion or Impact:** approaches range from negative screening (to exclude certain investments based on RI factors) to proactively sourcing RI related securities into portfolios (e.g. using the UN Sustainable Development Goals or more bespoke requirements).
- **Environmental and Climate Investing:** While a lot of work has been done on Transition Risk (i.e. on emissions), emerging focus on Physical Climate Risk (e.g. wildfires, hurricanes, floods, access to water etc.) to understand how these risk will impact individual assets within portfolios.

## **Culture & Diversity**

The second panel focused on Culture & Diversity during Covid-19 exploring the unique challenges that have arisen at this time. The panellists who included John Claisse (Albourne America LLC), David Francl (San Francisco Employees Retirement Systems), Erich Gerth (BlueBay Asset Management), Tathata Lohachitkul (Albourne America LLC) and Alyssa Rieder (CommonSpirit Health) discussed:

- **Employee Welfare and Getting Back to the Office:** importance of increased communication and personal “check ins” with individuals, display of compassion for the various challenges staff face (health, child care, lack of home office space, mental health, etc.), enhanced process for new joiners (to increase their exposure and opportunity to learn “on the job”), considerations for planning the return to the office
- **Protecting an Organisation’s Culture:** focus on engagement to replicate “water cooler moments” within the office, driving engagement (learning opportunities, ways to recognise achievements, e.g. virtual “shout outs”)
- **Allocating to New and Emerging Managers during Covid-19:** there is increased reference checking by leaning on peers or using consultants (who may have a long history of onsite visits) to get the level of comfort needed; there are also advantages and disadvantage in conducting virtual due diligence
- **Albourne and AIMA’s new Diversity & Inclusion DDQ:** Albourne and AIMA published a Diversity & Inclusion DDQ last week which asks managers to provide transparency into their Diversity & Inclusion policies and practices, workplace practices and culture of the firm. The aim of the questionnaire is to achieve transparency and help to find a standardised way of comparing items such as diverse ownership.

The SBAI would like to thank all the panellists for their invaluable insight and contribution to the discussion.



## **SBAI Introduces a New Team Member: Maria Long**

The Standards Board is delighted to introduce Maria Long who joined the team in August as Content Director. She will be responsible for content development and co-ordination of the ongoing and future working groups on a wide variety of topics, including governance, insurance linked strategies, standardisation of disclosure, valuation, alternative credit, responsible investment, asset management regulation and compliance as well as new topics to be determined in the future. Maria has 19 years of industry experience most recently at Man FRM in Operational Due Diligence and before that as Head of FRM Middle Office. Prior to this, Maria has worked in Fund Administration in Dublin and in Operations at Investment Managers in London.

The Standards Board wishes Maria well in her new role and looks forward to working with her on the current and future projects.

## **SBAI Launches Additional Workstreams in the Responsible Investment Working Group**

The Standards Board reported in October 2019 on the launch of its Responsible Investment Working Group. The objective of this working group is to help institutional investors and alternative investment managers better understand how RI can be applied in different alternative investment strategies, as well as the specific challenges and questions that arise in these contexts. Key areas of focus are:

- Review existing materials about RI in alternative investments:
  - Review/Summary of Existing Industry Guidance and Basic Policy Framework (*workstream partially completed*)
  - Review of regulatory expectations (*results to be published shortly*)
- Develop a framework to help investors and managers calibrate their approach to RI in alternative investment strategies (*spectrum of approaches*)
  - Drill down into specifics for relevant strategies, including L/S Equity, Fixed Income, Credit, ILS, Systemic/Quantitative (*workstreams currently being launched*)
- Translation of approaches into RI policy and/or investor disclosure:
  - Provide guidance to investors in formulating/calibrating their approach
  - Understanding spectrum of approaches for different strategies

Stakeholders are invited to participate. Please contact us at [info@sbai.org](mailto:info@sbai.org).



## **SBAI Responds to ESMA Consultation on Guidelines to address leverage in Alternative Investment Funds**

The Standards Board has responded to the [ESMA Consultation on guidelines to address leverage risk in Alternative Investment Funds \(AIFs\)](#), highlighting the following points:

- Current regulatory leverage measures are not useful as stand-alone measures of (systemic) risk. In fact, leverage is often not correlated with risk.
- SBAI encourages ESMA to review the [Open Protocol](#) risk reporting framework available in the SBAI Toolbox, which provides more granular (gross/net, long/short) exposure of funds for different asset classes. The framework facilitates meaningful analyses of a fund's exposure in combination with risk measures such as VaR, sensitivity, counterparty exposure, etc, as well as in the context of the overall size of the respective markets (footprint). This is in line with the IOSCO recommendation ([IOSCO Report CR08/2018](#)) to use more granular exposure data to overcome the shortcomings of net and gross leverage metrics.
- The proposed framework for assessment of leverage-related systemic risk should be developed first to assess the extent to which the use of leverage actually contributes to the build-up of systemic risk in the financial system. Depending on the outcomes of this assessment (including materiality assessment of AIFs in the context of size of EU asset management sector), the second phase should be undertaken.
- A clearer distinction is needed between rare market risk events (which are bound to happen from time to time) and actual "systemic risk" events, with widespread disruption of the provision of financial services (bank closures etc.).

The full SBAI Consultation Response is available [here](#).

The SBAI has responded to past consultations on financial stability issues and leverage (see [here](#)) and held financial stability workshops with central banks and securities regulators. The SBAI also actively contributes to the global debate on financial stability through its participation in IOSCO as an Affiliate Member.

### **Annual Report Published**

The Standards Board published its latest annual report. Please [click here](#) to download it.

### **Working Group Update Calls for APAC Stakeholders**



The SBAI Team is launching a new series of update calls for its APAC Stakeholders to brief them on its Working Groups, latest content as well as stakeholder developments. The first call will be hosted on 16 September. These calls will be hosted on a regular basis.

## Upcoming Events

- **10 September 2020:** Manager Due Diligence in Times COVID-19: How to Deploy Capital to New Managers? (virtual event)
- **16 September 2020:** Working Group Update Calls for APAC Stakeholders
- **22 September 2020:** Alternative Credit & Responsible Investment (virtual event)
- **30 September 2020:** Benchmarking Alternative Fund Performance (virtual event)
- **October 2020:** Systematic Strategies and Responsible Investment (virtual event)
- **17 November 2020:** SBAI Annual General Assembly (virtual event)
- **November 2020:** SBAI Institutional Investor Roundtable – Sovereign Wealth Funds’ Perspectives and Priorities
- **2 December 2020:** Montreal: Annual Institutional Investor Roundtable (virtual event)

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

### APPENDIX I

#### **Hillhouse Capital**

Hillhouse Capital was founded by Lei Zhang in 2005. Hillhouse manages capital on behalf of global institutions, including some of the largest endowments and pensions across the United States, Europe and Canada, as well as non-profit foundations that support meaningful causes such as the arts and music, scientific discovery and poverty alleviation.

Hillhouse partners with innovators across the consumer, healthcare, technology and services sectors to grow companies that will revolutionize their industries and invests globally, with a special focus on Asia. Hillhouse works across the equity spectrum, from incubation to buyouts to listed equities.

#### **Polymer Capital Management**

Polymer Capital Management is an equity-focused, market-neutral multi manager hedge fund platform that aims to generate consistent, low volatility returns. Polymer was formed in 2019 in partnership with PAG, an established Asia-focused alternative investment management group. Polymer functions as an independent investment platform that also enjoys the support of PAG’s infrastructure and resources.



Asia-based and Asia-focused, all decision makers are based locally for real-time decision making. Capital is allocated to portfolio managers by employing a dynamic and centralized capital allocation and risk management process. Portfolio managers are located across seven offices in Asia and are selected based on track records of investment performance and risk management. Each portfolio manager has specific risk, exposure and liquidity parameters tailored to their individual mandate.



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