



Newsletter – July 2020

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SBAI Publishes Alternative Risk Premia Guidance and DDQ

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.

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

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.



To read the press release in full, please [click here](#). Both memos are available in the [SBAI Toolbox](#).

Governance Working Group's New Workstream: Cash Handling and Cyber Security

The assessment of cash controls is an important part of the broader operational due diligence of (alternative) Investment managers. Whilst managers may have safeguards to prevent internal fraud/misappropriation of funds, there is growing evidence that these are not sufficient to protect funds from cyber-attacks designed to re-direct payments or conduct invoice related fraud. Also, changes to cash handling processes due to home working can contribute to increased risk.

Following on from last year's publication of the SBAI's updated [Cyber Security Memo](#), which provides a series of practical tools to address cyber security risks, the SBAI's Governance Working Group has launched a new workstream. This workstream will explore the safeguards firms can put in place to address (cyber security) weaknesses in the cash handling process, as well as we identify key questions investors need to ask in their operational due diligence. Signatories and institutional investors are invited to join this new working group. To find out more, please contact us at info@sbai.org.

Fireside Chat with Hong Kong Monetary Authority (HKMA)

Earlier this month, the SBAI hosted a fireside chat with HKMA's Deputy Chief Executive, Mr. Howard Lee, followed by a panel discussion on "Facts & Perspectives: Hong Kong as a Hub for Alternative Investments". The fireside chat focussed on Hong Kong's current status as a financial centre (e.g. stable deposit levels, orderly stock market operation) and addressed concerns that have been raised in relation to the new National Security Law.

The panel discussion explored the key success factors for financial centres, including free flow of capital, freedom of speech (and access to information), financial stability, access to quality talent, predictable common law system and a simple tax regime, as well as the unique features offered by Hong Kong, such as being the gateway to China through initiatives such as Stock Connect, Wealth Management Connect, etc.

The SBAI would like to thank Mr Howard Lee and the panellists Derek Crane (PAG), Albert Goh (HKMA), Richard Johnston (Albourne Partners), William Ma (Noah Holdings Ltd) for their contribution to the discussion and Ted Lee (CPPIB) for moderating the panel.

Alternative Credit Event for the APAC Region



This month, the SBAI also hosted another virtual event on Alternative Credit but this time the focus was the APAC region.

Alternative credit investing has increased significantly in relevance in recent years due to the reduction in bank lending following the financial crisis. This is a welcome development, as it provides more investment choices for investors and a broader range of funding sources for users of capital (e.g. corporates, etc.).

The panel discussion focused on the following topics:

- Investment opportunities due to more constrained bank lending in APAC compared to Western markets, capital controls and less market liquidity
- COVID-19 perspective: Potentially faster recovery in parts of the region due to better health care results in dealing with the pandemic
- The speakers also focussed on Standards and practices:
 - o A good crisis should never go wasted: opportunity for all to revisit their valuation policies and review the recently published [SBAI Toolbox Memo on Alt Credit Valuations](#)
 - o Conflicts of interest can arise in open-end and closed-end structures – including in situations where funds invest in different parts of a company’s capital structure and in the relationship between credit managers and PE sponsors ([see SBAI Toolbox Memos on Choice of Fund Structure and Conflicts of Interest](#)).

The SBAI would like to thank Domien Beckers (Victorian Funds Management Corporation (VFMC)), Kenichi Ota (Mitsui Pension & Co.), Susan (Seokyong) Lee (Albourne Partners) and Rob Petty (Clearwater Capital Partners) for their contribution to the discussion.

SBAI and CFA Institute Collaborate on GIPS Events

The CFA Institute recently released a new version of the Global Investment Performance Standards (2020 GIPS®). The GIPS standards have been adopted by over 1,800 organisations across 48 markets around the world and have been updated to enhance their application to all asset classes, including alternative investments. The SBAI in partnership with the CFA Institute hosted two joint virtual events this month: one for the North American/European audience and the second one for the APAC region.

Key takeaways:

- The GIPS Standards provide a standard for calculating and presenting historic performance to enable investors to compare past performance of asset managers
- The updated 2020 GIPS increase the relevance of the framework for alternative investment strategies, including closed-end funds (where the firm has control over external cash flows), and commingled funds that do not fit neatly into the GIPS composite construction of the GIPS reporting framework



- The new 2020 GIPS better address the applicability to asset owners (reporting to beneficiaries, oversight bodies, sponsors)

More information on the GIPS Standards is available [here](#).

The SBAI would like to thank the CFA Institute for this opportunity to collaborate on this important project. A special thank you goes to all the panellists Daryl Bradford (Acadian Asset Management), Simon Filteau (CDPQ), Kate Mistic (Telstra Super Pty Ltd), Kristen Murray (Wellington Management Company) and Kenneth Robinson (CFA Institute).

SBAI Vacancy: Marketing, PR and Events Director

The Standards Board is looking to hire a Marketing, PR and Events Director to lead and execute the SBAI's marketing, PR and events efforts.

Key role requirements and pre-requisite experience:

Marketing / PR:

- Website and social media management
- Corporate Communications (copy writing, press releases, developing media relationships)

Events:

- Coordinate and execute all SBAI virtual and physical events (globally)
- Managing the administrative functions (event invitations, sign up, follow up) around events, lead proactive use of CRM for event management
- Communicating with stakeholders (event speakers) and attendees
- Event analytics

The position requires someone with knowledge of the alternative investment industry, and prior experience in marketing (with focus on a sophisticated specialised audience) and events.

The successful candidate will work closely with the Standards Board's small and dynamic global team (including Executive Director, regional consultants, Stakeholder Relations/Operations Manager) in executing the SBAI's marketing/PR strategy and event schedule and report to the Executive Director.

The position is full time but candidates wishing to work part-time also will be considered. The location is flexible, preferably in UK/EU/North America, however remote working can be



considered. It is anticipated that the successful candidate will take up appointment as soon as possible.

A more detailed job description is available upon request at info@sbai.org.

Upcoming Events

- **24 August 2020:** Culture & Diversity and Responsible Investment (virtual roundtable)
- **10 September 2020:** Operational Due Diligence in times COVID-19: How to deploy capital to new managers? (virtual roundtable)
- **22 September 2020:** Alternative Credit & Responsible Investment (virtual event)
- **October 2020:** London, Annual General Assembly (postponed, more information to follow)
- **October 2020:** Performance Benchmarking (TBC) (virtual roundtable)
- **October 2020:** Systematic Strategies and Responsible Investment (virtual event)
- **2 December 2020:** Montreal: Annual Institutional Investor Roundtable (TBC)

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



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