SBai
Standards Board for Alternative Investments

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

Newsletter – September 2020

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New Stakeholders

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

Investor Chapter

- PRI Pensionsgaranti (Sweden)

Core Supporter

- 400 Capital Management LLC (USA) (has been a Signatory since 2017)

New SBAI Trustee

The Standards Board is delighted to welcome John Claisse, CEO of Albourne Group, to its Board of Trustees. John Claisse joined Albourne in July 1996, relocated from London to San Francisco in July 2003 and became Albourne Group CEO in August 2015. John is an equity partner and member of Albourne's Executive Committee and also chairs the firm's Corporate Planning Council, which comprises Albourne's function and region heads. John helped develop the firm's proprietary risk analytics and was formerly the Senior Analyst for quantitative equity strategies and multi-strategy hedge funds. John remains a Portfolio Analyst working with several public and corporate plans, large endowments and foundations. John holds a first-class Mathematics Degree and a PhD from Sussex University.

John Claisse replaces Simon Ruddick, Co-Founder and Chairman of Albourne Group, who stepped down from the SBAI Board of Trustees, having served on it since 2008.

Mario Therrien, Chairman of the SBAI said: “The Board of Trustees and the Standards Board’s Team would like to express our gratitude to Simon Ruddick for his immeasurable contribution to the mission of the SBAI, his thoughtful guidance and counsel over the last 12 years. “

SBAI publishes a Toolbox Memo on Cash Handling and Cyber Security

The Standards Board has published its latest Toolbox memo on Cash Handling and Cyber Security. This memo, produced by the SBAI’s Governance Working Group, provides guidance on key controls that help protect managers’ payment processes. It also can be used as a tool for investors to evaluate these controls during due diligence.

Betty Martin, Director of Investment Services at Employee Retirement System of Texas said: “Cash controls and cyber-security programmes are core focus areas in operational due diligence on investment managers. Whilst this memo provides guidance for the managers, it also can be a useful tool for investors conducting operational due diligence of a manager’s protections against external fraud and cyber-attacks. It also serves as a strong reminder that institutional investors need to ensure that their own controls and process around financial transactions are robust.”

The memo also includes mini case studies and specific illustrations of payment controls for electronic payments, non-electronic payments as well as specific considerations for investor subscription payments, redemptions and capital calls.

To read the press release in full, please click here.

Roundtable: Manager Due Diligence in Times of COVID-19: How to Deploy Capital to New Managers?

This month the SBAI continued its “Navigating through COVID-19” series. The panellists Nathalie Bouchard (PSP Investments), Bart C. (BlackRock), Chris Merlini (400 Capital Management LLC) and Bram Vennegoor, (PGGM) focused on how the due diligence process needs to be adapted to a virtual environment. Key points:

- Virtual ODD is taking longer and requires more (virtual) meetings

- Frontloading of analysis (including review of any previous onsite history) to develop stronger hypothesis of overall organisation risk profile and maturity
- Testing of controls is more challenging overall, including lacking element of surprise that exists in onsite setting (managers have time to prepare the response in virtual set-up): Ways to overcome this include increased reference checking via trusted ODD networks or by using consultants, increased reliance on third-party control reports and audits, more in-depth background checks.
- Soft skills assessment is harder in a virtual environment, but higher number of interactions can go some way to mitigate this. Overall, access to staff responsible for the control process and access to senior leaders has improved in virtual environment. Also, increased intimacy of video conference calls (conducted from home) can result in higher levels of authenticity.
- Access to certain documents remains a challenge (e.g. those that can usually only be seen onsite, such as compliance manuals, regulatory exit letters). Data-rooms, watermarking techniques, etc. crucial to enable investors to evidence that they have undertaken verification.
- But certain things only can be spotted onsite (e.g. server housing under desk rather than locked server room), therefore, further maturing of the overall control environment is crucial to building investor comfort – managers are encouraged to sign up to the Alternative Investment Standards to strengthen operations and streamline due diligence.

This webinar attracted a record number of registrants and the SBAI will continue this series in the coming months. The SBAI would like to thank the panellists for their contributions to the discussions.

Roundtable: Responsible Investment in Alternative Credit

SBAI hosted a roundtable on Responsible Investment (RI) in Alternative Credit. Key points:

- Investor expectations regarding degree of RI integration by managers differed depending on asset class, manager size and relevance of ESG considerations to strategy
- Materiality of E, S and G risk factors can vary depending on maturity and seniority of debt of the same issuer. “G” often found to be material in high-yield issuance
- High Yield vs Investment Grade - High yield issuers are more sensitive to all risks, including ESG risk
- Carbon footprint reporting: questions raised regarding methodology to assign carbon footprint to equity vs. debt
- Incorporation of ESG risk assessment in investment process often seen as a core pillar; a spectrum of approaches for incorporation of ethical considerations, including positive/negative screening
- Managers are under pressure to subscribe to certain data providers – but it is important to check if the data is relevant and appropriate to a given strategy
- Implications and trade-offs in real estate e.g. foregoing rent during Covid-19 to protect renters vs reduction in returns for pension investors – someone always pays the bill.

The SBAI would like to thank Bradley Belt (Orchard Global Asset Management), Stuart Fiertz (Cheyne Capital Management (UK) LLP), Helen Idenstedt (Första AP-fonden (AP1)), and My-Linh Ngo (BlueBay Asset Management) for their contributions to the discussion.

Roundtable: Benchmarking Alternative Fund Performance

Benchmarking is an important tool to hold institutional investors, investment teams and external investment managers accountable and to assess performance. The panellists Gaurav Amin (Albourne Partners), Samantha Foster (University of Southern California), Duncan Moir (Aberdeen Standard Investments), Andrew Palmer (Maryland State Retirement and Pension System) focused on investors' approaches to benchmarking and the evolution of the index landscape. Key points:

- Allocators employ top down approach – starting point is the plan's long-term objective (CPI + x or Cash + x), then further differentiation of benchmark by asset class, strategy, all the way down to individual fund benchmarks
- Short-term vs Long-term distinction. Short-term (five years or less) is usually market-based for public markets and peer-based for private markets. Long-term is usually based on CPI + or Cash + reflecting the overall goal for the asset class or strategy over a market cycle.
- In a fund of fund context, benchmarks play an important role in portfolio construction and to assess quality of fund selection. Approaches include factor-based as well as peer group-based approaches; understanding of biases/data issues in peer group indices important (see "qualities of a good benchmark" set out by CFA Institute (p.7))
- When developing a benchmarking framework, it is important clarify what/who is being evaluated (strategy allocation, fund performance, etc.) and the time horizon for meaningful assessments
- Overall trade-off between ever better accuracy of benchmarking and complexity – key to understand weaknesses of particular benchmarks (including accounting for non-linearity/leverage etc.), and what role better risk data such as Open Protocol can play in improving this knowledge

The SBAI would like to thank the panellists for their contribution to the discussion.

Newly Launched Series for APAC Stakeholders

The SBAI reported last month on launching a new series of for its APAC Stakeholders. The objective of this series is to explore topics specifically relevant to the region and develop content as well as create working groups on the chosen topic. The SBAI already has two active working groups for the APAC region: China Working Group which assessed regulatory developments in China to compare the Chinese regulation and Standards of international practice, and the Japan Working Group which is currently studying how to improve and promote effective communications between its domestic pension investors and foreign alternative investment managers.

Also backed by a strong demand and interest, the SBAI will be launching a new Responsible Investment Working Group and its various sub-stream groups specifically for the APAC region which will study issues relevant to the region and complement the activities of our existing Responsible Investment Working Group.

Annual General Assembly

The SBAI will be hosting its Annual General Assembly, traditionally hosted in London in September, on 17 November in a virtual format. The event will consist of two sessions to cater for stakeholders across all time zones. Speakers include senior representatives of Fiera Capital, Future Fund Australia, Hong Kong Monetary Authority, New Zealand Superannuation Fund and The State Pension Fund of Finland (VER), more to be confirmed.

Annual Canadian Institutional Investor Roundtable

The SBAI is also delighted to confirm that it will be hosting its Annual Canadian Institutional Investor Roundtable on 3 December. The event was historically hosted in Montreal, but this year the event will be in a virtual format, bringing together major Canadian allocators to explore the "Canadian Pension Model" Confirmed speakers include senior representatives from Caisse de dépôt et placement du Québec, Canada Pension Plan Investment Board, Investment Management Corporation of Ontario, New Holland Capital, Ontario Teachers' Pension Plan and PSP Investments.

Upcoming Events

- **19 Oct 2020: Cash & Cyber Security – COVID-19 and Beyond (Virtual Roundtable)**
- **17 Nov 2020: Annual General Assembly (Virtual event)**
- **Nov 2020: State of Play in Risk Premia (Virtual event) TBC**
- **3 Dec 2020: SBAI Canada Institutional Investor Roundtable (Virtual event)**
- **9 Dec 2020: Navigating through COVID-19: What is the Investment Roadmap Ahead? (Virtual event)**

The full event schedule is available here.

APPENDIX I

400 Capital Management LLC

400 Capital Management, founded in 2008 by credit market veteran Chris Hentemann, is an alternative credit asset manager offering qualified investors access to a broad range of investment opportunities and innovative solutions across global structured credit markets. Chris, along with firm's partners Alex Cha, Todd Leih and Bill Sanders, have been investing and trading in structured credit markets for three decades.

400 Capital Management offers global investors access to securitized and structured credit strategies across its fund and separately managed account platform, including multi-sector and single-sector investment strategies, enabling investors to take advantage of the wide range of risk and return profiles available within the credit markets.

Based in New York, with an office in London, 400 Capital Management and its affiliates employ 51 people and manage $4.4 billion. The firm is also registered with the U.S. Securities and Exchange Commission as an investment adviser.

PRI Pensionsgaranti

PRI Pensionsgaranti is a mutual non-life insurance company which guarantees and administers occupational pensions managed using the book reserve method. Through PRI's credit insurance, the employees' pensions are always secured, both when companies keep the pension capital in their business and when they allocate funds to a foundation. PRI was founded in 1961 and today works with most major Swedish companies. In total PRI have close to 1000 companies as customers. The customer companies credit insure their pension commitments with PRI and report this as a liability in the balance sheet. Pensions managed using the book reserve method help Swedish companies to be financially stronger, to invest, grow and further develop their businesses.

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