



Standards Board for Alternative Investments

Standards Board for Alternative Investments (SBAI)

November 2020

SBAI Role & Purpose

1	Platform to set standards	<ul style="list-style-type: none"> • Custodian of the Standards • Bring together investors, managers and regulators • Collaborative process for improving Standards
2	Addressing investor concerns	<ul style="list-style-type: none"> • Set levels of quality in behaviour and working practice • Focus on disclosure, valuation, risk management and governance • Investor education to improve due diligence practices
3	Benchmark for hedge fund manager practice	<ul style="list-style-type: none"> • Formal sign up mechanism with annual re-confirmation • Comply or explain approach provides flexibility • Standards complementary to regulation
4	Engagement with regulators	<ul style="list-style-type: none"> • Promotion of high standards in the interest of regulators • Mobilisation of investors to drive better industry practices • Advise on regulatory initiatives

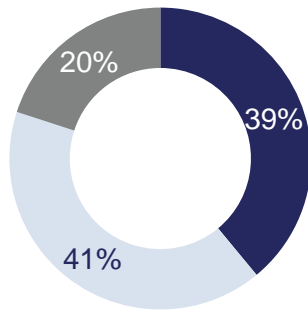
SBai establishes a collaborative framework of discipline to improve market practices and transparency

SBAI Stakeholders

Signatories

- Signatory managers are formally signed up to the Standards
- Broad representation of strategies, including long short equity, macro, credit, CTA, ILS, alternative credit ...
- >130 signatories, > \$ 1tn in AUM

Signatory break down by region

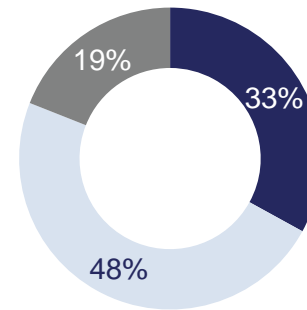


■ Europe ■ North America ■ Asia / Pacific

Investor Chapter

- Investors support the adoption of the Standards
- Includes sovereign wealth funds, endowments, pension funds, fund of funds, private banks, investment consultants
- >85 major investors, > \$ 3.5tn in assets

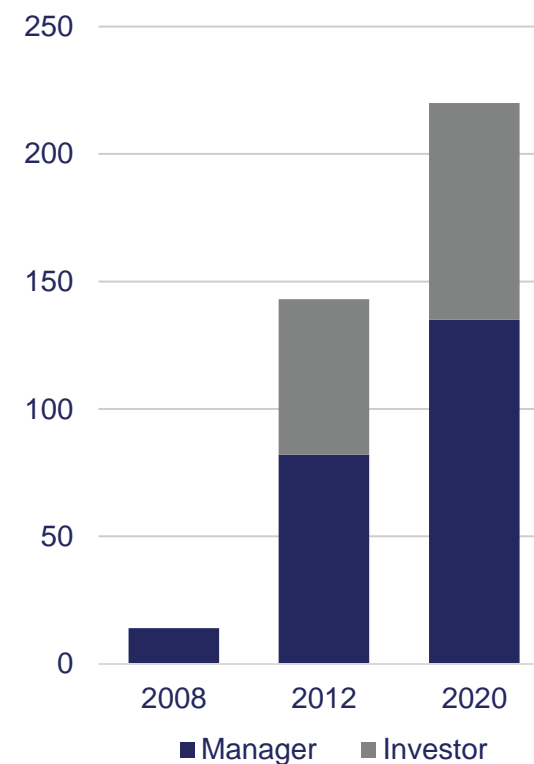
Investor Chapter Members by region



SBAI History

2007	G820 policy leaders voice concerns over financial stability in relation to hedge funds
2007	14 leading hedge fund managers under chairmanship of Sir Andrew Large develop practice standards to be adopted by fund managers
2008	The Standards are published followed by the establishment of the Hedge Fund Standards Board (HFSB)with strong investor representation
2008	The UK FSA (the FCA predecessor) lends strong support to HFSB: "... takes compliance with these Standards into account when making supervisory judgements"
2010	Investor Chapter (IC) launched: 30 top global investors, including sovereign wealth funds, pension funds join IC
2014	HFSB becomes affiliate member of IOSCO
2016	International Forum of Sovereign Wealth Funds (IFSWF) and HFSB establish Mutual Observer Relationship
2016	HFSB establishes Asia-Pacific (APAC) Committee
2017	Open Protocol added to SBAI Toolbox HFSB rebranded to Standards Board for Alternative Investments (SBAI)
2017	HFSB renamed Standards Board for Alternative Investments (SBAI)
2018	SBAI establishes North American Committee
2020	Over 130 fund managers signed up to the Standards accounting for more than USD 1tn in AUM
2020	SBAI establishes EMEA Committee

Stakeholder Evolution



Board of Trustees

Chairman

Mario Therrien, Head of Investment Funds and External Management, Caisse de dépôt et placement du Québec

Deputy Chairman

Luke Ellis, CEO, Man Group Plc

Managers

Leda Braga, CEO, Systematica Investments

Jane Buchan, CEO, Martlet Asset Management

Clint Carlson, President & CIO, Carlson Capital

Stuart Fiertz, President, Cheyne Capital

Chris Gradel, Founder, PAG

Richard Lightburn, CEO, MKP Capital Management

Dan H. Stern, Co-Founder & Co-CEO, Reservoir Capital Group

Investors

Bruce Cundick, CIO, Utah Retirement Systems (URS)

David George, Deputy Chief Investment Officer, Future Fund Australia

Betty Tay, MD, Head of the External Managers Department, GIC

Dale West, Sr. MD, Teacher Retirement System of Texas (TRS)

Poul Winslow, Senior Managing Director, Global Head of Capital Markets and Factor Investing, Canada Pension Plan Investment Board

Investment Consultant

John Claisse, CEO, Albourne Group

Chairman Emeritus

Sir Andrew Large

Founding Firms

Brummer and Partners

Cheyne Capital

CQS

Man Group

Marshall Wace Asset Management

Sculptor Capital Management

Winton

Overview of the Standards

Areas addressed

Overview of the Standards

Disclosure	<ul style="list-style-type: none">• Investors need to be adequately informed about investment policy, commercial terms and performance• Disclosure to lenders/prime brokers; counterparties likewise need to be informed to make sound credit decisions
Valuation	<ul style="list-style-type: none">• Conflicts of interest need to be adequately mitigated by segregating portfolio management and valuation function• Clear rules for valuing illiquid or other difficult to value assets are required.
Risk management	<ul style="list-style-type: none">• Fund managers need to put in place a risk management framework to adequately deal with risk taking• Areas including portfolio risk, operational risk, outsourcing risk and liquidity are covered by the Standards
Fund governance	Adequate governance mechanisms and oversight are required to mitigate conflicts of interest inherent to a funds organisational and governance structure
Shareholder conduct	All fund managers have to comply with applicable law and regulation; best practices include measures to prevent market abuse and restriction on voting on borrowed stock

Evolution of the Standards

In line with its mandate to update the Standards, the SBAI has made the following amendments since 2008 after consulting with managers, investors and regulators:

Consultation Paper **CP1**: Handling of Redemptions

- Improved disclosure requirements regarding the handling of redemptions and to ensure fair treatment of investors, including disclosure of
 - Circumstances in which redemptions can be revoked
 - Redemption penalties and details of lock up periods

Came into force on 1 Aug 2010

CP2: Administration and Safekeeping

- Appointment of a third party (independent of manager) for safe-keeping of the property of the fund and fund administration
- Nature, structure and governance of the above arrangements

Came into force on 1 Aug 2010

CP3: Globalisation of the Standards

- Governance: mechanism to accommodate firms with “non-independent” boards, and handling of changes to investment policy/ commercial terms
- Disclosure
 - Material developments in the strategy or manager’s business
 - Litigation against the manager
 - Valuation disclosure (% level 2/3 assets)
- Controls to prevent misappropriation of client monies

Came into force on 1 Sep 2012

CP4: Managing Conflicts of Interest

- Disclosure
 - Existence of funds/ accounts managed by the firm using the same or similar strategy and any material adverse effect they may have on the investors in the fund
 - Manager co-investment
 - Employee/partner funds
 - Trade allocation policy
- Arrangements to mitigate conflicts of interest, including documentation of compliance policies and procedures

Came into force on 2 May 2016

SBAI Toolbox: Industry Guidance for Investors and Managers

Transparency Reporting Tools		Guidance		Templates
 Open Protocol Enabling Risk Aggregation	Alternative Credit	Responsible Investment	Alternative Risk Premia	Standardised Board Agenda
Administrator Transparency Reporting	Co-Investments	Governance	ILS Valuation	Standard Trial Data License Agreement
Standard Total Expense Ratio (STER)	Cyber Security	Culture & Diversity (coming soon)		

Toolbox complements the Alternative Investment Standards
 No formal sign up required
 Please click on each box to see the relevant information

SBAI Working Groups and Initiatives

SBAI Working Groups cover a wide range of relevant industry topics to provide practical guidance to both managers and investors.

Strategy related	Regional	General
Alternative Credit	Japan Working Group	Governance
Insurance Linked Funds		Culture & Diversity
Alternative Risk Premia	China Working Group	Standard Investor Profile (SIP) Template
		Responsible Investment Working Group

Working Groups with Active Work in Progress: Insurance Linked Funds, Japan, China, Governance, Responsible Investment.

Working Groups with New Topics about to Start: Alternative Credit, Governance, Responsible Investment

Working Groups to Launch: Culture & Diversity

SBAI Working Groups and Initiatives

Recently completed work

Responsible Investment Regulatory Overview 2020	Alternative Credit Fund Structures 2020	Alternative Credit Valuation 2020	Alternative Credit Conflicts of Interest 2020	Governance Standardised Board Agenda (updated) 2019
Governance Conflicts of Interest in Parallel Funds 2020	Governance Cash Handling & Cyber Security 2020	ILS Valuation 2019	Alternative Risk Premia Back-Testing 2020	Alternative Risk Premia Broker Dealer Practices 2020

Toolbox complements the Alternative Investment Standards
No formal sign up required
Please click on each box to see the relevant information

SBAI Institutional Investor Roundtable Series

Attendance usually restricted to investors and SBAI signatories.

Key developments

- Broader topic coverage, including “investment themes”
- Usually senior regulatory involvement/speakers
- Collaboration with CFA Institute, etc.
- Events stretching from US West Coast to Far East



Examples of topics covered

- Using the Standards in regulatory interaction (e.g. SEC compliance inspections)
- Conflicts of interest
- Risk of “tick box approach” to manager due diligence & compliance
- Navigating through COVID-19 series
- Cybersecurity
- Running a board meeting (board agenda)
- Investor risk monitoring
- Investor Due Diligence Case studies
- Harmonising market risk reporting
- An insurance company perspective on alternative investment fund investing
- Loan investments
- Responsible investments
- Long term investment structures
- Portfolio construction
- Background checks
- ODD: redemptions and gating

Current Areas of Focus

Standard setting

Conflicts of interest / fair treatment of investors (see consultation CP4)

Toolbox guidance

- Alternative Credit
- Co-Investments
- Factor-based investing
- Cyber Security
- Administrator Transparency Reporting (standardisation)
- Fee calculation methodology
- Standardisation of risk disclosure
- Responsible investing / ESG

Financial Stability

Role of Standards in addressing shadow banking concerns (workshops with regulators)

Other regulatory interaction

Using the Standards in regulatory interaction (e.g. SEC compliance inspections)

Appendix

SBAI Signatories

400 Capital Management LLC

Acadian Asset Management

Addenda Capital

AlphaCat Managers Ltd

AlphaCrest Capital Management

Alyeska Investment Group

Angelo Gordon & Co., L.P.

Arcus Investment Ltd

Arete Capital Partners

ARP Americas LP

Aspect Capital

Black-and-White Capital

BlackRock Investment Management

BlueBay Asset Management

BlueMountain Capital Management

Boussard & Gavaudan

Bridgewater Associates

Brilliance Capital Management

Brummer & Partners*

Brummer Multi-Strategy AB

Cairn Capital

Capital Fund Management

Carlson Capital, L.P.

Carve Capital

CDAM Ltd

CdR Capital Ltd

Cerberus Capital Management

Cheyne Capital Management*

Citadel

Contour Asset Management AB

CQS*

Crabel Capital Management

Dorsal Capital Management LLC

Dymon Asia Capital Ltd

Effissimo Capital Management

Elementum Advisors, LLC

Fiera Capital

Florin Court Capital

Formula Growth Ltd

Fort LP

Frost Asset Management

Galliant Advisors

GLG Partners*

GoldenTree Asset Management

Goldman Sachs Asset Management

Gopher Redwoods Asset Management

Graham Capital

Graticule Asset Management Asia

HealthCor Management

Hillhouse Capital

Hiscox Re Insurance Linked Strategies

SBAI Signatories (cont'd)

HPS Investment Partners
HSCM
Inherent Group
Ichigo Asset Management
International, Pte. Ltd
IKOS CIF Limited
Ionic Capital Management
IXI Fund Managers
Jasper Capital International
Jupiter Research Capital
Lakefront Asset Management
Leadenhall Capital Partners
LFIS
Luxor Capital Group LP
Lynx Asset Management AB
Magnetar Financial LLC
Man Investments Ltd (AHL)*
Marshall Wace

Martlet Asset Management
Maverick Capital
Merian Global Investors (UK) Ltd
Minority Asset Management
Misaki Capital
Monarch Alternative Capital LP
MKP Capital Management LLC
Myriad Asset Management Ltd
Napier Park Global Capital
Nephila Capital Ltd
Noah Holdings (Hong Kong) Ltd
Nordkinn Asset Management
Northwest Investment Management (HK)
Noviscent
Numeric Investors LLC
Oasis Management Company Ltd
Observatory Capital Management

One William Street Capital Management
Orchard Global Asset Management
Otus Capital Management
PAG
Periscope Capital Inc
Perseverance Asset Management
Pictet Asset Management
PIMCO
Platinum Asset Management
Polar Asset Management Partners
Polygon Global Partners
Polymer Capital Management
Quantica Capital
Quest Partners LLC
Renaissance Technologies LLC
Rockhampton Management
ROW Asset Management

SBAI Signatories (cont'd)

Sandbar Asset Management
Schroders Investment
Management AG
Scopia Capital Management LP
Sculptor Capital Management*
Securis Investment Partners LLP
Shanghai Topfund Investment
Management
Simplex Asset Management
Sloane Robinson
Solaise Capital Management
Springs Capital
Steadfast Capital Management
Strategic Capital
Strategic Value Partners LLC
Sussex Capital Management
Sylebra Capital Management (HK)

Systematica Investments Limited
Taconic Capital Advisors
Telligent Capital Management
Tolis Advisors LP
Transtrend
Trium Capital LLP
Trustbridge Partners
Voss Capital
Waterfall Asset Management
Welton Investment Partners
Wellington Alternative Investments
Winton Capital Management*
Whitebox Advisors LLC
Zebedee Capital Management

Managed Account Platforms
InfraHedge
Innocap Investment
Management Inc.
Innocap Global Investment
Management Ltd

SBAI Investor Chapter

Aalto University Foundation	Caisse de dépôt et placement du Québec	Fullerton Fund Management
Aberdeen Standard Investments	Canada Pension Plan Investment Board	Future Fund Australia
Aktia Asset Management	CERN Pension Fund	GCM Grosvenor
Alaska Permanent Fund Corporation	Champalimaud Foundation	GIC
Alberta Investment Management Corporation	Church Commissioners for England	Goldman Sachs Asset Management
Allianz Global Investors	Clocktower Group LP	Gulf Investment Corporation
Andrew W. Mellon Foundation	CN Pension Fund	Howard Hughes Medical Institute
Annuitas Management Limited	Elo Mutual Pension Insurance Company	HSBC Alternative Investments Ltd
APG Asset Management	Employees Retirement System of Texas	Ilmarinen Mutual Pension Insurance Company
Asset Management One Alternative Investments, Ltd.	EnTrustGlobal	Japan Post Bank
Avanda Investment Management	Ferd AS	J Paul Getty Trust
BA Pension Investment Mngmt Ltd	Fire and Police Pension Association of Colorado	Keva
Blackstone Alternative Asset Management	Florida State Board of Administration	LAB Limited
BT Pension Scheme (BTPS)	Fondaction CSN	LGT Capital Partners
	Fonds de solidarité FTQ	Mitsui & Co. Pension Fund
	FRM	

SBAI Investor Chapter (cont'd)

Morgan Stanley Investment Management

New Holland Capital

New Jersey Division of Investment

New Zealand Superannuation Fund

Noah Holdings (Hong Kong) Limited

Office of the New York City Comptroller

OMERS

Ontario Teachers' Pension Plan

OP Asset Management

OPSEU Pension Trust

PAAMCO Prisma

Pennsylvania Public School Employees' Retirement System

Persistent Asset Management

Pictet Alternative Investments

PRI Pensionsgaranti

PSP Investments

QIC

Regents of the University of California

Reservoir Capital

Rock Creek Group

Royal Mail Pension Plan

Silver Creek Capital Management LLC

State of Wisconsin Investment Board

Sunsuper

Teacher Retirement System of Texas

Telstra

The Regents of the University of California

The State Pension Fund of Finland (VER)

Trans-Canada Capital (TCC)

Unigestion

Union Bancaire Privée

Universities Superannuation Scheme Limited

University of Toronto Asset Management Corporation

University of Southern California

University of Toronto Asset Management

Utah Retirement Systems

UTIMCO

Varma Mutual Pension Insurance Company

Veritas Pension Insurance

Victorian Funds Management Corporation

West Virginia Investment Management

Investment Consultants

Albourne Partners

SBAI Founders



SBAI Core Supporters



SBAI Signatory Process

Step
1

Complete and submit to the SBAI:

- Application Form (by email)
- Information Form (by email)



SBAI reviews the application and upon approval countersigns a copy.

Step
2

- Conduct due diligence using the Excel template
- Adopt the “comply or explain” approach
- Prepare Disclosure Statement providing explanations in those cases where the manager chooses not to comply

Step
3

- Send your signed Conformity Statement & completed Disclosure Statements to the SBAI
- Provide the required funding to the SBAI
- The Disclosure Statement should also be made available to investors upon request
- Signatories are encouraged to display the SBAI kite mark on their website and marketing materials



The SBAI issues a kite mark valid for 12 months.



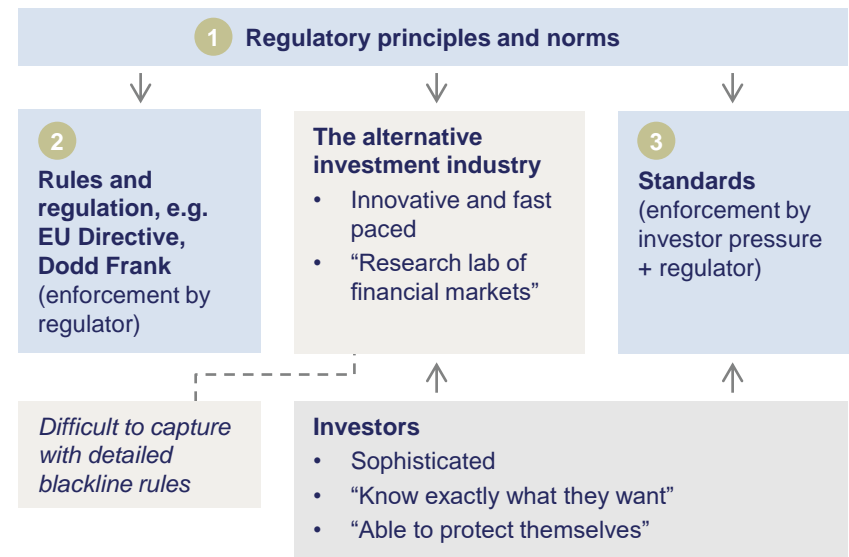
Conformity with the Standards should be renewed annually along with the required funding.

The Standards Complement Regulation...

The regulator's conundrum: Principles lack specificity, so rules are needed; rules create loopholes, so principles are needed.

The solution

- 1 Legislative definition of key principles and fundamental norms
- 2 Detailed rules and regulation (where needed)
- 3 A set of Standards of the highest level
 - Delivery through commitment of market participants
 - Enforcement mechanism through constant investor pressure and regulatory scrutiny



... and help to achieve the desired public policy objectives without the need for prescriptive regulation

Regulatory “Endorsements”¹

When the industry evolves its own robust conduct standards, particularly through an organisation like the HFSB, where funds and investors come together, laws and regulations we enforce are less likely to be breached. There is no reason why the Standards should only apply to hedge fund managers, and we would like to encourage the HFSB to explore widening its remit.

Ashley Alder

CEO of the Securities and Futures Commission of Hong Kong, April 2017

We commend the SBAI’s activities in cyber security, specifically its series of table-top cyber-attack simulation exercises, as well as its helpful guidance on basic measures to prevent cyber-attacks. These initiatives help market participants understand key risks and develop practical approaches to address them.” The SBAI’s collaborative approach is unique in that it gives managers and institutional investors an equal voice in the development of industry practices and proactively addresses emerging issues.

Christina Choi

Executive Director of Investment Products, Securities and Futures Commission of Hong Kong, May 2018

I commend the HFSB for identifying the importance of adequate risk disclosure and its ongoing transparency initiatives, including the launch of the standardised Administrator Transparency Report last year and the Open Protocol risk reporting standard later this month. These initiatives are not just relevant to hedge fund managers, but to all alternative investment funds and beyond.

Gerard Fitzpatrick

Senior Leader, Investment Managers and Superannuation, Australian Securities and Investment Commission (ASIC), May 2017

1. Regulatory endorsements were made prior to 09/2017 and thus referred the SBAI as the HFSB.

Regulatory “Endorsements”¹ (cont’d)

I commend the HFSB’s efforts to improve cyber security practices in the asset management industry. The cyber-attack scenarios explored during the event were useful in raising awareness of the participants about different safeguards and actions to consider when responding to a cyber-attack incident.

Tan Yeow Seng

Director & Head of the Technology Risk and Payments Department of the Monetary Authority of Singapore, April 2017

I would like to recognise the fact that in its short existence, the HFSB has, in my view, broken new ground in the way in which industry associations can operate as standard setters.... The HFSB is one of the first of a new brand of industry associations which bridges the gap between the old self-regulatory organisation model and conduct regulation by the likes of the SFC. It is significant that the HFSB was the model for the FICC Markets Standards Board set up in the UK last year as a result of the Fair and Effective Markets Review recommendations...

Ashley Alder

CEO, Security and Futures Commission of Hong Kong, Jun 2016

Investors play a critical role in improving the industry and the HFSB created a helpful platform for collaboration between managers and investors.

Drew Bowden

US SEC’s Office of Compliance Inspections and Examinations, Sep 2014

We are pleased to welcome the Hedge Fund Standards Board as an affiliate member of IOSCO. There is an important role for industry standards to play alongside statutory regulation in promoting transparency and good governance in the financial markets. The HFSB can play a valuable role working with regulators and supervisors.

David Wright

Secretary General, IOSCO, Jul 2014

1. Regulatory endorsements were made prior to 09/2017 and thus referred the SBAI as the HFSB.

Regulatory “Endorsements”¹ (cont’d)

Investors play an important role in driving better standards in the industry and the HFSB created a helpful mechanism for collaboration between managers and investors.

Marc Wyatt

US SEC’s Office of Compliance Inspections and Examinations, Nov 2013

The trend towards greater market-based finance should be welcomed, but it is important that accompanying risks to financial stability are well understood and managed. The HFSB provides a powerful platform for the market participants, specifically institutional investors and managers, to contribute to this effort to strengthen the resilience of capital markets.

Andrew Bailey

Deputy Governor, Bank of England and CEO, Prudential Regulatory Authority, May 2015

FSA sees the HFSB Standards as a very constructive addition to the wider regulatory architecture. It should be noted that the FSA will take compliance with these standards into account when making supervisory judgements.

Hector Sants

Former CEO, FSA, Oct 2008

I welcome investors and managers collaborating to improve industry standards and the HFSB has created an important framework to allow such collaboration to occur.

Drew Weilbacher

US SEC’s Office of Compliance Inspections and Examinations, Sep 2015

The Hedge Fund Standards can help the Chinese hedge fund industry improve risk management, investor disclosure and governance.

Tang JinXi

Vice Chairman, Asset Management Association of China (AMAC), the self-regulatory organisation for the mutual fund industry, Apr 2015

1. Regulatory endorsements were made prior to 09/2017 and thus referred the SBAI as the HFSB.

Regulatory “Endorsements”¹ (cont’d)

Improvements in culture cannot be achieved through rules alone, and that the industry needs to take a proactive approach in addressing emerging issues. This is why what the HFSB does is so important.

James Shipton

Exec Director, Member of the Securities and Futures Commission of Hong Kong, Mar 2015

As part of its support to the development of financial markets in emerging markets and developing countries (EMDEs), the World Bank places a great emphasis on the development of broad and well-regulated capital markets... It welcomes the work done by the HFSB and looks forward to collaborating with the HFSB to contribute to the development of transparent capital markets across EMDEs.

Michel Noel

Head of Investment Funds, Finance & Markets Global Practice, World Bank, Sep 2015

The application of industry standards that are aligned with the securities regulatory framework and IOSCO principles are encouraged”. He also gave examples where the Hedge Fund Standards align with the Quebec/Canada investment funds regulatory framework and IOSCO principles.

Mathieu Simard

Director, Investment Funds Dept of Quebec’s Autorité des marchés financiers, Jun 2014

The FCA encourages the asset management industry to challenge itself constantly. We need a change of culture, not just a change of rules or systems. Initiatives like the Hedge Fund Standards Board can be an important driver for that.

Esther Wandel

Head of Investment Funds Policy, UK FCA, May 2014

The work of the HFSB is incredibly important at a time when we see the limitations of conventional regulation.

Arminio Fraga

Former Governor of the Central Bank of Brazil, Sep 2014

1. Regulatory endorsements were made prior to 09/2017 and thus referred the SBAI as the HFSB.

How does the SBAI Mechanism work, and does it have “Teeth”?

How does the SBAI regime work?

- Managers formally commit to the Standards
- Regime works on a “comply or explain” basis
- Explanation needs to be given to investors where a manager does not comply with a given Standard



Why does it have “teeth”?

- Regime relies on investors to apply and use the Standards
- Investors are best positioned to scrutinise managers
- Investors’ interests are fully aligned, they “vote” with their allocations
- Formal sign-up to the regime implies an element of soft law



Benefits

- Regime enhances transparency to investors across all areas covered
- Comply or explain avoids need for very detailed and complex standards, and ensures global applicability
- Regime accounts for the breadth and diversity of the industry, and allows for innovation

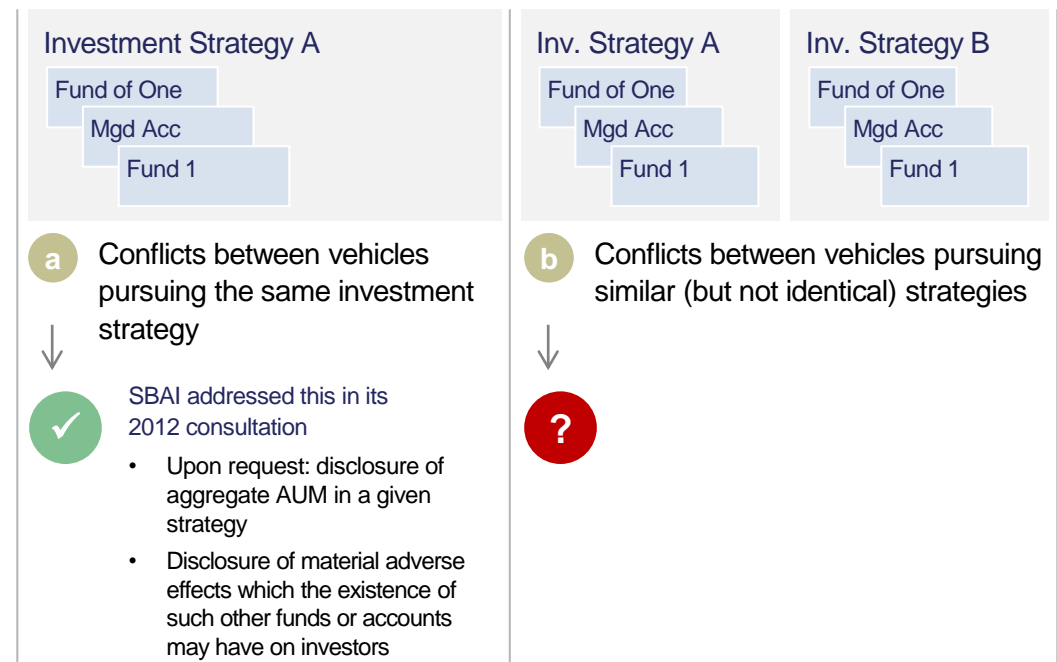
Consultation on Conflicts of Interest

How it started: Investors expressed their concern about conflicts of interest in relation to “parallel / competing funds” and “employee funds”

What SBAI did

- Covered topic in Institutional Investor Roundtables and via newsletter
- Put together a working group (signatories & investors)¹ to assess issues in Q4 2014
- Published consultation paper CP4 in March 2015
- Completed consultation in June 2015
- Assessed feedback over 2015
- Published amendments to the Standards in Nov 2015
- Signatories were given six months to achieve conformity, i.e. by May 2016

Illustration of conflicts of interest



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