Standards Board for Alternative Investments

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

Newsletter – November 2020

In this month's newsletter:

New Stakeholders

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

Investor Chapter
- Investment Management Corporation of Ontario (Canada)

Signatories
- GaoTeng Global Asset Management Limited (Hong Kong)
- Lakefront Asset Management (China)
- Two Sigma Investments (USA)

Core Supporter
- Graham Capital Management, L.P. (USA) (has been a Signatory since 2019)
- Two Sigma Investments (USA)

2020 Annual General Assembly

"We care about good standards because… transparency, integrity and good governance help investors justify allocations to strategies that are more complex" said Mario A. Therrien, Chairman of the SBAI, at the 2020 SBAI's Annual General Assembly hosted earlier this week. For the first time in a virtual format, the event also included panels on "Sovereign Wealth Fund Perspectives" and "Allocating in Times of Covid-19".

The Sovereign Wealth Fund (SWF) panel included senior representatives from Future Fund Australia, Hong Kong Monetary Authority and New Zealand Superannuation Fund. The panellists discussed the implications of investment horizon for allocations, fixed income replacements and responsible investment. Key takeaways included:

- **Time Horizons**: overall higher risk taking (equities, growth stocks) due to long-term investment horizon (i.e. no withdrawals, or contributions to government budgets)
- **Why Hedge Funds**: access a skill or investment that they cannot access internally, usually high bar in defining this skill level.
- **Role of Fixed Income:** low future return expectations and risk profile cause challenge, unclear if it can serve as a diversifier going forward
- **Responsible Investment:** responsible Investing is just part of investing i.e. risk factors that need to be considered are based on their materiality to the investment. As long-term investors, SWF have a vested interest in raising the bar in the industry and investing sustainably; RI approaches are continually reviewed.

The second panel focused on the current macro environment and the challenges as well as creative solutions to allocating virtually. The panellists included senior representatives from Employees Retirement System of Texas, Fiera Infrastructure, The State Pension Fund of Finland (VER) and State of Wisconsin Investment Board. Key takeaways included:

- **Macro Environment**:
    - Alpha - cautious optimism here: low rates, high dispersion catalysts, power transitions etc
    - Beta - low rates pushing investments out on the risk curve and further into equities, as well as levering of overall portfolios (while reducing overall equity exposure).
- **Fund Raising during a Pandemic:** greater reliance on existing relationship, much greater reliance on formal and informal investor networks for reference checks and discussions with managers, creative use of technology to deliver both virtual meetings and the required documentation. Lack of travel for both investors and managers does have an upside - people are generally more available in the current times allowing for more frequent and shorter notice touch points that now reach wider into the firms.
- **Post Pandemic World:** video conferencing for due diligence and relationship building does have some positives in reducing the time (and carbon footprint) spent travelling for meetings; however, it will never replace building personal relationships in person; also new entrants to the industry have not yet had a chance to build a significant amount of the relationships
- **Virtual Due Diligence**: While virtual due diligence may be manageable, it is certainly not preferable; ultimately, allocators will likely always be more comfortable allocating to someone that have met in person and whose place of business has been physically verified.

The Standards Board would like to thank the panellists for their insightful contribution to the discussion.

Roundtable: Alternative Risk Premia – State of Play

Earlier this month, the Standards Board held a roundtable focusing on alternative risk premia (ARP). The panellists included senior representatives from Aspect Capital, CPPIB, LFIS, Teacher Retirement System of Texas and Welton Investment Partners. Key takeaways included:

- 2020 has not been a bad year for all factors, more sophisticated, well-constructed factors have fared better
- ARP managers are looking for ways to innovate, including incorporating Responsible Investment (a topic also being explored by the SBAI's Responsible Investment Working Group)
- "Value" may be acting as a hedge against certain market events (such as the "vaccine reversal")
- Models with a shorter time horizon can serve as a hedge against the reversals, hitting medium to long- term trend-following models
- Examples for "partnership models", where fund managers complement investors' internal ARP implementations (require higher level of manager transparency)

The Standards Board would like to thank the panellists for their insightful contribution to the discussion.

As a reminder, the SBAI published two memos on alternative risk premia, focusing on Backtesting and Broker Dealer Practices. The memos 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.

Roundtable: Responsible Investment - The Global Regulatory Landscape

Following the recent publication of an SBAI Toolbox Memo, providing a multi-jurisdictional review of the current Regulatory Guidance on Responsible Investment, the Standards Board hosted a roundtable to explore the practical implications of these regulations and look to the future regulatory environment.

The panellists included leading industry experts from Herbert Smith Freehills, Magnetar Capital and Man Group. Key takeaways included:

- **What regulations apply**: the initial challenge for any asset manager or investor is to understand which regulations apply to them – the SBAI memo provides the starting point for this assessment
- **Indirect Implications:** the main impact on asset managers is the indirect impact through investor requests as investors become subject to regulations. The EU's regulation will also be indirectly applicable to global managers, if they wish to attract EU asset owners that are caught by these regulations
- **Investor Reporting:** currently most reporting requests are more thematic (and can be biased towards equity style strategies). Investors appear to be looking to aggregate data to understand their investments and to use this data to monitor for improvements

- **Complexity of exclusion requests**: exclusion requests can be quite idiosyncratic or detailed e.g. no holdings with any association with a specific country; assessing the portfolio's exposure to these assets may not be that straight forward and can become an onerous task for asset managers and investors alike
- **US under a new Administration**: what will happen under the new administration is really a wait and see game. Under the previous administration there was discussion that the direction of travel was away from the EU particularly with the adoption of the ERISA DOL rule (although the implications of this may have been overstated in the media).
- **Asia**: is a little further behind on this journey. It currently has regulations in place on corporate governance, i.e. covering "G", but not a lot beyond this. It is likely that Asian jurisdictions will move in the same direction as Europe

The Standards Board would like to thank the panellists for their insightful contribution to the discussion.

Roundtable: Allocating to Chinese Alternatives—Offshore and Onshore Options

Many leading Chinese managers have set up offshore operations to serve global investors. The recently announced new Qualified Foreign Institutional Investors scheme (QFII) also allows qualified global investors to invest in onshore private funds. But to attract international capital, Chinese managers need to meet global investor expectations – the SBAI's Alternative Investment Standards provide the roadmap for building robust organisations that address key investor concerns.

The above topics were discussed at the SBAI's 3rd joint annual event with the Allocate-to-China Initiative. The panellists included senior representatives from CDPQ Asia-Pacific Ltd, GCM Grosvenor, Han Kun Law, Minority Asset Management (Hong Kong), Simmons & Simmons and Springs Capital. Key takeaways:

Regulatory Environment:
- Evolution: The regulatory environment in China continues to evolve, including the New QFII Measures (effective from November 2020). Regulators appear to be committed to giving the market, and the international investor community in particular, increased confidence in long-term investment in China.

New QFII Measures:
- Accessibility: The new measures expand the scope of eligible investments, including Chinese futures and options, Private Funds, and traditional long only funds. The QFII and RMB Qualified Institutional Investors (RQFII) regimes now can be used for a Chinese asset manager to raise capital internationally.

Why and how to allocate to China:
- Allocator Interest: There has been an increased interest in allocating to China by pension funds and endowments. These investors are also starting to consider China not only as a source of potential

alpha but also as a standalone market, as opposed to being historically part of an Emerging Market allocation, reflecting the difference in China's economy versus other emerging markets.

Due Diligence:

- Investment Due Diligence: Conflicts of interest about which track record to provide where there are multiple accounts, transparency via risk reporting, and a focus on performance rather than process, present challenges in IDD.
- Operational Due Diligence: The challenges here include investors holding managers to global standards (incl. the SBAI's Standards), perceived lack of independence in fund structures and presented a formalised institutional control environment.

The SBAI would like to thank all the panellists for their contribution to the discussion. A special thank you goes to the Allocate to China Initiative for their support in co-hosting this event.

Proposed APAC Time-Zone Meetings for SBAI Working Groups

In light of the growing number of the APAC participants in working groups, and the difficulties in identifying one time slot that is suitable globally, the SBAI is proposing to introduce some additional APAC time zone meetings. Two meetings will be held in January (dates tbc) and focus on:

- **Responsible Investment Working Group:** overview of all sub-streams from this working group.
- **All other Working Groups:** overview of all other working groups (Alternative Credit, Alternative Risk Premia, ILS, Governance, Standard Investor Profile Template and Culture and Diversity).

APAC participants will be brought up to speed with discussion points from other regions and provided with the opportunity to make their own contributions. If you are interested in joining these working group meetings, please reach out to us to discuss at info@sbai.org.

Upcoming Events (virtual)

- **3 December 2020: SBAI Canada Institutional Investor Roundtable**
- **9 December 2020: Navigating through COVID-19: What is the Investment Roadmap Ahead?**
- **15 December 2020: SBAI-OPIM Joint Roundtable - Connecting Chinese Fund Managers with Global Investors (the entire event is in Mandarin)**

The full event schedule is available here.

APPENDIX I

GaoTeng Global Asset Management Limited	GaoTeng Global Asset Management Limited ('GaoTeng') is an asset management company strategically invested by Tencent Holdings Limited and Hillhouse Capital Group. The Company is currently licensed for Type 4 (advising on securities) and Type 9 (asset management) regulated activities in Hong Kong for both retail and professional investors. GaoTeng provides comprehensive and diversified asset management services to its clients based upon its extensive China and global asset management expertise and experience, as well as resources from integrated ecosystems of Tencent and Hillhouse.
Graham Capital Management, L.P.	Founded by Kenneth G. Tropin in 1994, Graham Capital Management, L.P. ("GCM") is an alternative investment manager with approximately $14.9 billion in AUM as of November 1, 2020 and a diverse roster of global institutional and private client investors. The firm emphasizes directional trading across liquid global markets, and GCM's strategies tend to have low correlation to traditional and other alternative investments. GCM has three main pillars of its business, comprised of systematic trend-following, quantitative macro, and discretionary macro trading strategies. GCM differentiates itself with an established, long-term track record, a rigorous and comprehensive risk management process, a substantial investment in operational infrastructure, and significant proprietary capital to attract and retain talented investment professionals and develop new investment strategies.
Investment Management Corporation of Ontario	The Investment Management Corporation of Ontario (IMCO) manages (CAD)$70.3 billion of assets. Its mandate is to provide public sector institutions in Ontario with investment management services, including portfolio construction advice, access to a diverse range of asset classes and sophisticated risk management capabilities. IMCO portfolio includes a diverse range of assets across all classes, as well as value-add strategies that are designed to meet the important financial objectives of its clients. IMCO evaluates its strategies – and potential partners – with a total portfolio lens. IMCO manages assets on behalf of public sector pension plans, Ontario government agencies, and other entities prescribed by legislation. It is an independent organization and operates at arm's

length from government and is guided by a professional Board of Directors.

Lakefront Asset Management

Lakefront is China's leading macro and fixed income hedge fund with 100 professionals in Beijing, Shenzhen and Hong Kong. The firm provides macro, fixed income and hybrid investment solutions with different risk-return levels in greater China markets to a wide range of institutional clientele including banks, listed companies and university endowment. With on-the-ground management and committed investments, the firm always aspires to create high Sharpe ratio by pursuing stable and absolute returns and dedicate to delivering better risk-adjusted returns to its investors.

Two Sigma

Two Sigma is a financial sciences company, combining rigorous inquiry, data analysis, and invention to solve the toughest challenges in investment management, insurance, securities, private equity, and venture capital. Founded in 2001 by David Siegel and John Overdeck, Two Sigma employs over 1600 creative minds, and has offices in New York, Houston, Portland, London, Tokyo, Hong Kong and Shanghai. For more Information visit twosigma.com

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