

THE STANDARDS BOARD PUBLISHES PRACTICAL GUIDANCE FOR ALTERNATIVES MANAGERS ON SIDE-POCKETING WITHIN INSURANCE LINKED STRATEGIES

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The Standards Board for Alternative Investments (SBAI) announces its latest Toolbox [publication on side-pocketing within Insurance Linked Strategies \(ILS\)](#). The memo provides practical guidance on the side-pocketing methods that can be used, robust governance arrangements, the appropriate charging of fees, and provides detailed questions for investors to ask asset managers during their due diligence on ILS funds.

Following insurance losses from worldwide catastrophic events in 2017 and 2018, as well as potential insurance losses from pandemic related claims, the use of side-pockets within ILS funds has come under increased allocator scrutiny alongside valuation and risk reporting. This memo is part of the SBAI's ILS Toolbox which also contains [guidance on valuation in ILS funds](#) and [The Insurance Open Protocol risk reporting template](#).

Michael Hamer, Senior Analyst at Albourne Partners (Bermuda) Limited said: "While the use of side-pockets within ILS funds is typically an investor friendly practice, this SBAI Toolbox memo provides a very useful framework for considering the appropriate alignment of interests between the various groups of investors and asset managers as well as a toolkit for ensuring robust practices and governance of the side-pocketing process."

Paul McCabe, Chief Operating Officer at Securis Investment Partners LLP said: "Side-pocketing is an essential mechanism and best practice within open-ended ILS funds to help ensure fair treatment to all investors. Given the variation in approaches and importance of transparency and disclosure when operating side-pockets and reporting on fund performance, it is vital for the ILS industry that the side-pocket process is effectively governed to create the right outcome for investors and asset managers. This SBAI Toolbox memo provides effective guidance on how to achieve this goal".

Lorenzo Volpi, Managing Partner at Leadenhall Capital Partners said: "Robust and fair business processes are important for the asset management community as a whole and for ILS managers specifically. The SBAI ILS Working Group has collaborated to produce an effective guide for asset managers to review and enhance their side-pocketing processes as well as important questions that allocators to ILS funds should be asking their external asset managers."

This memo was developed by the SBAI's ILS Working Group, a collaboration of asset managers and allocators dedicated to improving industry outcomes and to advancing responsible practice, partnership, and knowledge.

Maria Long, Content Director of the SBAI said: "The SBAI's ILS Working Group has worked hard to tease out the technical issues involved in this topic and the end result is a thoughtful and practical approach

to side-pocketing within ILS strategies that, when adopted, will help to improve industry outcomes for asset managers and allocators alike.”

SBAI’s ILS Working Group consists of 50 leading industry practitioners, including Aberdeen Standard Investments, Albourne Partners, Alphacat Capital Inc, APG Asset Management, CPP Investments, Elementum Advisors LLC, Hiscox Re Insurance Linked Strategies, Hudson Structure Capital Management Ltd, K2 Advisors/Franklin Templeton Investments, Leadenhall Capital Partners, Ontario Teachers’ Pension Plan Board, OPTrust, PGGM Investments, PIMCO, Schroder Investment Management (Switzerland) AG, Securis Investment Partners LLP, Sussex Capital Management Limited, Tangency Capital Ltd, Teacher Retirement System of Texas, and Varma Mutual Pension Insurance Company.

The Side-Pocketing in ILS memo forms part of the [SBAI Toolbox](#), which provides guidance to institutional investors and managers on a broad range of topics, including addressing conflicts of interest, risk and fee transparency and cyber security. The SBAI Toolbox complements the [Alternative Investment Standards](#), to which investment managers formally sign up to on a comply or explain basis. In addition to the SBAI’s work in ILS, the SBAI is also running several other working groups focusing on the following areas: Culture and Diversity, Responsible Investment, Governance, Alternative Credit, Alternative Risk Premia and Standard Investor Profile Template, as well as regional focus groups in China and Japan.

About the Standards Board for Alternative Investments (SBAI)

Established in 2008, the SBAI is an active alliance of alternative investment managers and investors dedicated to advancing responsible practice, partnership, and knowledge. We ensure the quality and efficacy of the alternative investment arena, through responsible standards and the exchange of ideas. The key objectives of the SBAI are to advance understanding and connectivity, solve through collaboration and improve industry outcomes.

The SBAI and the Standards are supported by more than 130 alternative investment managers with approximately \$1 trillion in aggregate assets and by more than 85 major institutional investors, including sovereign wealth funds, pension funds, endowments, foundations, and fund of funds, overseeing \$4 trillion in assets. More information about the SBAI can be found at www.sbai.org.

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Notes to editors:

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- Asset Management One Alternative Investments Ltd
- Bayerische Versorgungskammer
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9. [Signatories](#) (please click to see the full list)
10. In July 2014, the SBAI became an affiliate member of the International Organization of Securities Commissions (“IOSCO”).