



Newsletter – February 2017

In this month's newsletter:

- *New Stakeholders*
- *HFSB in Texas*
- *Cyber security*
- *Upcoming events*
- *Analysis of conformity with the Standards*

New Stakeholders

The HFSB is delighted to welcome new additions to its family:

Signatories

- Citadel (USA)
- Hiscox Re Insurance Linked Strategies Ltd (Bermuda)
- Myriad Asset Management Limited (Hong Kong)

Investor Chapter

- Pennsylvania Public School Employees' Retirement System (USA)

HFSB in Texas

This month, Dame Amelia Fawcett, Chairman of the HFSB, spoke at the 2017 Texas Hedge Fund Conference in Austin, where she addressed an audience representing major institutional investors and alternative investment managers.

- She spoke about the collaborative process of the HFSB in which investors and managers are brought together to address industry issues and that investors take comfort in a rigorous approach to governance and transparency, which helps every manager grow their business.
- In particular, she noted that for new and small managers, the Standards are important resources for marketing and compliance staff, representing an agreed list of the most important elements for investors in the areas of disclosure, valuation, risk management and fund governance.
- She also highlighted the HFSB's ongoing dialogue with the global regulatory community and how the HFSB feeds into the regulatory debate.
- Finally, she focused on the role of standards and why they are so important, particularly at a time when the regulators once again are looking at the asset management industry broadly in the US, in IOSCO and at the Financial Stability Board. She stated: "The Standards show that alternative investment funds are willing to voluntarily establish responsible standards of practice. This is important because good standards, widely adopted, help ensure our industry is defined by the responsible practices represented in standards rather than by irresponsible actions of sub-par



firms. Standards enable the industry to organise and take control of its future rather than having that future dictated by others.”

Dame Amelia Fawcett also was invited to speak at a high profile event in Austin - “Leadership Breakfast: Women in Finance”. The event brought together major figures of the industry to discuss opportunities for women in the finance sector.

Cyber Security

The HFSB participated in a high level roundtable hosted in Toronto by the Canadian Securities Administrators (CSA), involving financial market infrastructures (FMIs), regulators and industry participants to explore the response to potential large-scale cyber security incidents. The panellists discussed these cyber incidents from multiple angles, including the response by the affected entity as well as those both up- and downstream and internal/external communication.

Thomas Deinet, Executive Director of the HFSB said: “These table top exercises are very useful to better understand how an incident at an FMI can unfold. They also help us understand the safeguards put in place to detect the issues, the expected recovery times for different scenarios and how asset managers can be affected.”

The HFSB ran a number of table top cyber-attack exercises in 2016, exploring the response to cyber-attacks on asset managers as well as on service providers (such as Prime Brokers and Administrators).

The HFSB will incorporate the findings from this roundtable in its own cyber security seminars. **The next HFSB cyber security event will be held in Singapore on 7 April.**

Upcoming Events

- 6 March, Toronto: HFSB Information Session and Institutional Investor Roundtable
- 7 March, New York: HFSB Panel at the AccessAlts Asia Global Hedge Fund Summit
- 10 March, London: HFSB will host a delegation of the Japan Securities Dealers Association
- 6 April, Hong Kong: HFSB Institutional Investor Roundtable
- 7 April, Singapore: Cyber Security Event
- 25 April, HFSB Panel at GAIM Ops Cayman Conference
- 26 April, Los Angeles: HFSB Chairman, Dame Amelia Fawcett, will speak at Institutional Investor Public Funds Roundtable
- 27 April, San Francisco: HFSB Institutional Investor Roundtable “Alternative investments meet Silicon Valley”
- 2 May, Melbourne: HFSB Institutional Investor Roundtable
- 3 May, Sydney: HFSB Institutional Investor Roundtable
- 17 May, Tokyo: HFSB Institutional Investor Roundtable
- 18 May, Seoul: HFSB Panel at the ASK 2017 Global Summit
- 1 June, New York: Annual North American Stakeholder Forum
- 5 June, Boston: HFSB Institutional Investor Roundtable

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



Analysis of Conformity with the Standards

Alternative investment managers achieve conformity with the Standards on a [“comply-or-explain”](#) basis. The explanations in relation to the Standards are made available to the managers’ existing and prospective investors upon request.

Last year, the HFSB launched a new project to analyse the explanations provided by signatories to see which standards trigger the most explanations, as well as to discover any trends. Some of these findings include:

- 63% of signatories comply with all Standards; 37% provide explanations either to describe how their practices differ or to explain how they comply with a given Standard (comply **and** explain).
- The Valuation section triggered proportionally more explanations, which appears to reflect the high complexity and large variety of approaches. In contrast, the Shareholder Conduct section triggered the lowest number of explanations (in absolute and relative “explanations per Standard” terms).
- Risk management, the largest section (by number of Standards), and Fund Governance triggered proportionally fewer explanations, perhaps reflecting their more qualitative and principle (concept)-based character. A comply-**and**-explain approach is more common among North American signatories.

The analysis highlights the diversity of practices in the industry, reflecting the wide variety of strategies managers pursue, as well as requirements of different jurisdictions. This demonstrates that there is often no “uniform” way of doing things. This analysis also shows the suitability of the “comply or explain” mechanism that crystallises relevant disclosures and allows investors to make well-informed investment decision.

The next stage of this project is to analyse the types of explanations provided on specific Standards. The HFSB will brief its stakeholders on the findings. The high level results will be shared through the HFSB newsletters.

APPENDIX

Citadel

Citadel is a global investment firm built around world-class talent, sound risk management and powerful and innovative technology. For over a quarter of a century, Citadel has served top-tier investors around the world, including sovereign wealth funds, public institutions, corporate pensions, endowments, and foundations. Citadel’s team of more than 750 investment professionals deploys capital across all major asset classes and in all major financial markets, from offices around the world including Chicago, New York, London, San Francisco, Hong Kong, Boston, Dallas, Denver, Greenwich, Houston, Toronto, Shenzhen, and Shanghai.

Hiscox Re Insurance Linked Strategies Ltd

Hiscox Re Insurance Linked Strategies Ltd. (“Hiscox ILS”) was formed in 2013 as a licensed investment manager within listed global insurance group, Hiscox Ltd. (LSE:HSX). Hiscox ILS is Bermuda based and specialises in insurance linked securities with c. US\$1.2bn in assets under management. Hiscox ILS leverages Hiscox’s business sourcing, underwriting, research and analytical capabilities to build insurance linked



portfolios tailored to client risk appetites. A key capability of Hiscox ILS is the ability access traditional reinsurance markets via a rated balance sheet, thereby providing investors seeking diversified portfolios with greater capital efficiency than purely collateralised ILS products. Hiscox ILS seeks to partner with long-term institutional investors and provide access to this low-correlated asset class through open-ended funds and bespoke single investor mandates.

**Myriad Asset
Management Limited**

Myriad Asset Management is a Hong Kong-based investment manager that was founded in 2011. The Firm manages \$4.2 billion in an Asia Pacific-focused multi-strategy portfolio, the Myriad Opportunities Fund. The Fund invests across a variety of assets including Equity Long/Short, Macro, Convertible Bonds, Credit, Equity Derivatives, Event & late-stage Private Equity with the goal of delivering attractive absolute returns with significantly less volatility than Asian equity markets. Myriad's founder and Chief Investment Officer is Carl Huttenlocher, who has managed Asian hedge fund portfolios for over two decades.

**Pennsylvania Public
School Employees'
Retirement System**

The Pennsylvania Public School Employees' Retirement System is responsible for administering the pension and other retirement benefits for the public school employees of the Commonwealth of Pennsylvania. As of June 30, 2016, the pension fund was valued at \$50.2 billion. The System is the 20th largest state-sponsored public defined benefit pension fund and the 31st largest among public and corporate pension funds in the United States.



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