

SBAI Publishes Guidance to Investors Conducting Due Diligence of Valuation Arrangements of Insurance-Linked Funds

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Following the insurance losses from catastrophic events worldwide in 2017 and 2018, the Standards Board for Alternative Investments (SBAI), whose members include both managers and institutional investors in alternative investments, has published “Valuation of Insurance-Linked Funds”, a document that provides guidance for investors conducting due diligence on funds that invest in (re)insurance-linked investments (“ILS Funds”). The document, developed by a working group of institutional investors, investment managers, and investment consultants, is the first in a series of [Toolbox](#) Memos on ILS Funds to be published by the SBAI.

Over the past decade, many investors have embraced (re)insurance linked investments as an asset class with unique diversification benefits. ILS Funds, due to the illiquid nature of many of the assets they hold such as private collateralised (re)insurance structures, require robust valuation frameworks. The new SBAI memo provides detailed guidance to ILS Fund managers and investors on what constitutes a robust valuation framework consistent with the SBAI Alternative Investment Standards, including governance arrangements, processes for hard-to-value assets and investor disclosures. In addition, the SBAI memo examines ILS Fund manager processes for capturing material information about catastrophe events, use of modelling, income recognition and loss estimation procedures. The memo also suggests questions that investors might wish to ask when assessing a manager’s approach to valuation.

Thomas Deinet, Executive Director of the Standards Board said: “Valuations are more difficult when assets or liabilities are less liquid or not traded at all. Further valuation challenges can arise for ILS Funds following large loss events, such as hurricanes, where the ultimate insurance related losses may not be known for a considerable period after such an event.”

Eveline Takken-Somers, Senior Investment Manager at PGGM, a Dutch pension fund service provider, said: “Good standards are critical from an investor’s perspective, and we encourage ILS Fund managers to sign up to the Alternative Investment Standards. Robust valuation procedures are of particular importance: they help to address conflicts of interest between different investors and the manager and facilitate the fair comparison of performance between managers.”

Mike France, Principal and CFO at Elementum Advisors, said: “The SBAI insurance linked fund valuation memo is a nice complement to the Standards that discusses important valuations issues faced by ILS Funds. The memo should serve as a useful tool to help investors assess a manager’s valuation framework.”

Michael Hamer, Partner and Senior Analyst at Albourne Partners, said: “The process for valuing re-insurance investments is a very important aspect of due diligence, given the high levels of uncertainty that can arise after large loss events. Investors also need to understand the differing ways in which funds deal with this uncertainty, including the use of side pockets and other mechanisms that may reduce the risk of unintentional value transfers between investors. We look forward to contributing to the SBAI’s future work in this important area of investment.”

Members of the SBAI ILS Working Group include representatives from Aberdeen Standard Investments, Albourne Partners, CPPIB, Elementum Advisors, Future Fund, Hiscox Re-insurance Linked Strategies, Nephila Capital, PGGM, PIMCO and Varma. The Toolbox Memo can be accessed [here](#).

The Standards Board is the global standard-setting body for the alternative investment industry and custodian of the Alternative Investment Standards. It is supported by approximately 200 alternative investment managers and institutional investors who collectively manage \$3.5 trillion. The SBAI Toolbox complements the SBAI's standard-setting activities by providing additional guidance to managers, investors and fund directors on practical issues. Additional information can be found at www.sbai.org.

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Notes to editors:

1. The SBAI (formerly known as Hedge Fund Standards Board (HFSB)) was formed in January 2008 as the standard-setting body for the alternative investment industry, bringing together managers and investors globally to help determine how the industry should operate. It is custodian of the Alternative Investment Standards, which create a framework of transparency, integrity and good governance for the industry, facilitate investor due diligence and complement public policy. Through the SBAI Toolbox, the Standards Board also provides practical guidance to investors and managers in areas such as fund governance, standardised transparency and risk reporting, cyber security and a standardised total expense ratio. The SBAI is supported by more than 125 alternative investment managers with approximately over \$1 trillion in aggregate assets and by more than 65 institutional investors overseeing over \$2 trillion in assets. The Standards and the full list of signatories and supporters are available at www.sbai.org.
2. In July 2014, the SBAI became an affiliate member of the International Organization of Securities Commissions ("IOSCO"). In April 2017, Ashley Alder, CEO of the Securities and Futures Commission of Hong Kong and Chairman of IOSCO, said: "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." In May 2016, Gerard Fitzpatrick, Senior Executive Leader, Investment Managers and Superannuation at the Australian Securities Commission (ASIC) said: "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. These initiatives are not just relevant to hedge fund managers but to all alternative investment funds and beyond."

3. The Trustees of the SBAI are:

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