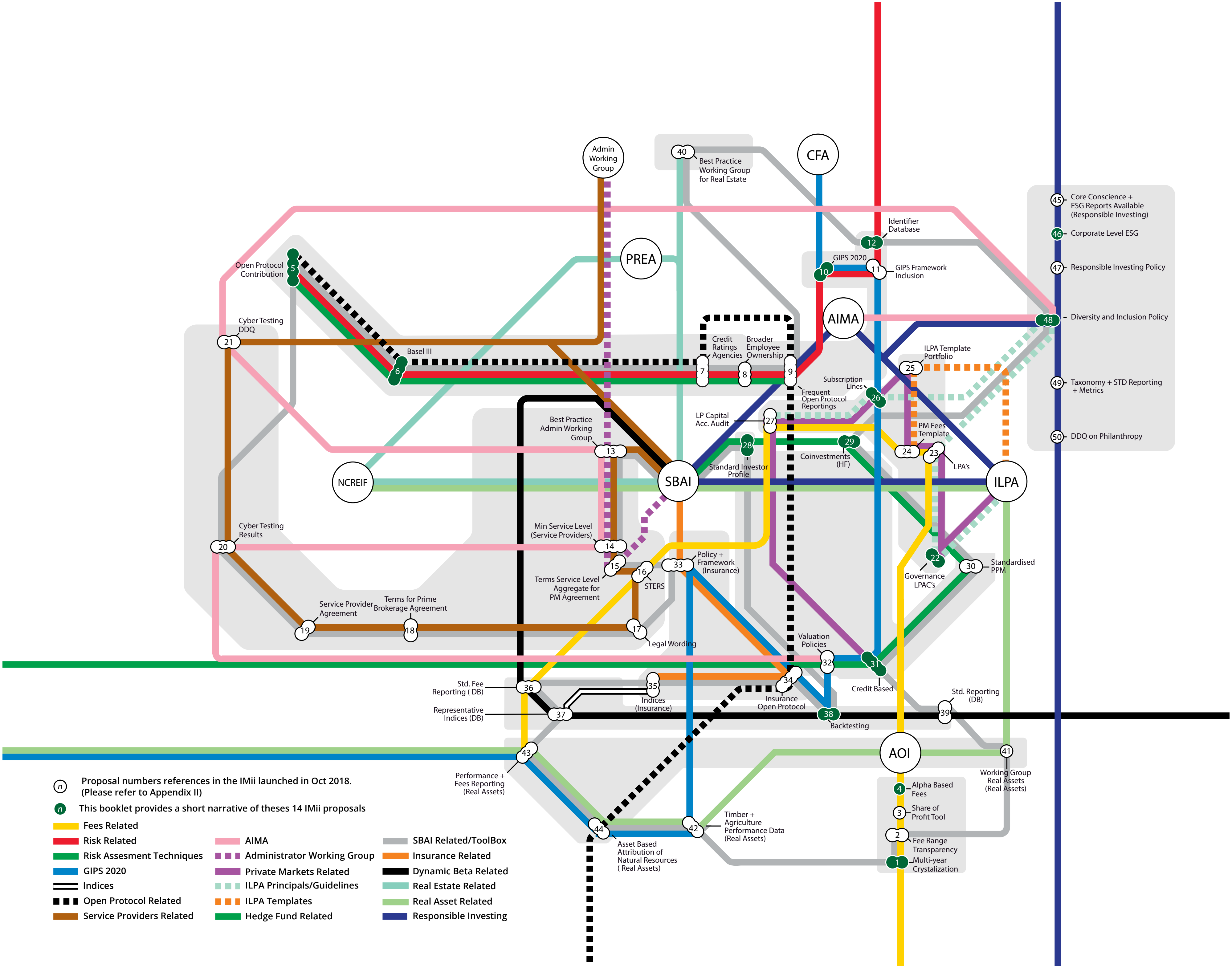

We the Investors
21 OCTOBER 2019
Investor Manifesto II
A Declaration of Interdependence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Executive Summary

- Albourne is committed to the pursuit of better practice within the Alternatives industry. This is the second edition of the Investor Manifesto, with the first being Hedge Fund focused and launched in October 2013.
- In October 2018 Albourne published the Investor Manifesto II (“IMii”), to its clients, which is a 50-point manifesto of compelling ideas across all alternatives. The Manifesto covers ten themes that Albourne has been discussing with investors, industry bodies, managers and regulators.
- This booklet provides a short narrative of the objectives, key points, considerations, and ultimate value of 14 proposals of the Investor Manifesto II. The goal is to call upon and partner with co-champions on these proposals.
- In an effort to ‘connect the dots’ on so many initiatives, the route map illustrated on the first page of this booklet, outlines the interconnection of the 50 IMii proposals and the Standard Bodies across the Alternatives Industry.
- We appeal to you, the investors, to identify which initiatives are closest to your heart, pick up the mantle and help us to seek change. Please reach out to us if you are interested at *IMii@albourne.com*

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Fees Related

Lobbying for change to U.S. tax rules applicable to investors in multi-year investment structures (Proposal 1)

Investor Manifesto II Proposal Statement

Proposal 1: Seek economic alignment by making real multi-year fee crystallization possible. This would entail lobbying for changes to U.S. tax rules applicable to investors in multi-year investment structures. The end goal is to get a substantive or technical amendment to IRC §457A that delays manager tax liability on performance fees to the extent those fees are subject to potential full reversal in subsequent years, based on performance. In time, Albourne will seek to address this issue where it applies in other jurisdictions, as required.

Proposal Focus

In 2008 the U.S. tax law changed to curb Hedge Fund managers' practice of deferring performance fees from taxation, by making all performance fees taxable in the year the performance occurred, regardless of whether crystallization was delayed into future years, and subject to reversal, if gains were not maintained. This change has made it nearly impossible for investors to negotiate fee arrangements that align the performance fee calculation period with the multi-year term of their investment.

Under the current law, multi-year fee arrangements force one of two imperfect situations:

1. Managers must satisfy each year's tax liability without any actual performance fee revenue, which has proven to be a non-negotiable risk to the managers' business.
2. Investors must allow around half the fee to be crystallized and paid (for the manager to pay tax), which leaves investors bearing the risk of overpaying on fees over their full investment term.

Tax-exempt investors are in an excellent position to demand the ears of U.S. Senators and Representatives. While any tax change with a net negative effect on U.S. revenue will be an uphill battle, improving pension funding status is a national concern, a priority, and a possible route for success.

Objectives

The objective of this initiative is to organize an investor group to lobby for change to U.S. tax policies inhibiting fair treatment of investors in multi-year investment structures.

The end goal is to bring about a substantive or technical amendment to IRC §457A that delays manager tax liability on performance fees to the extent those fees are subject to potential full reversal in subsequent years, based on performance.

Key Points

A few of the key discussion and action points surrounding the achievement of this initiative are:

- Carried interest / performance fee structures for Private Markets funds are also affected by the proposed change and are included in this proposal.
- There is a similar restriction on performance allocations (as opposed to performance fees) that may require parallel changes to accounting standards.
- Albourne plans to release a white paper on the topic and invites investors to publicly support the cause.
- There are examples where investors have accomplished something similar, using their clout to lobby federal legislators.
- Albourne will provide support and guidance to participating investors in their individual outreach to lawmakers and Treasury officials.
- Standard Board for Alternative Investments (SBAI), Alignment of Interests Association (AOI) and other industry groups will be invited to support the proposal.

Win-Win-Win

A win on this issue would improve available tools for investors and managers alike, in order to achieve long-term economic alignment.

Promote greater adoption of alpha-based fees in the equity long-only space (Proposal 4)

Investor Manifesto II Proposal Statement

> **Proposal 4:** Promote a greater adoption of alpha-based fees in the equity long-only space (focused on long-only managers that are categorised as actively seeking positive tracking error). This would also help administrators, and other service providers, to handle a wider range of fee structures. We see this as a stepping stone to the adoption of alpha-based fees for all alternative investments

Proposal Focus

This proposal focuses on the advocation of alpha-based fees in the equity long-only space. When approaching this issue, one should differentiate between two categories of long-only managers: those that are passive - tracking an index, and those that are active - seeking positive tracking error. Passive management fees are simply a race to the bottom in terms of total cost of ownership and alpha-based fees do not work here. Alpha-based fees are relevant in the active long-only world. Active managers often charge an additional performance fee, which is typically based on the fund's total return. Total returns aside, these managers should be evaluated on their risk (ergo beta) adjusted returns. The infrastructure for modelling and evaluating alpha-based fees is available and has already been developed on Albourne's Feemometer.

Objectives

This proposal focuses on seeking adoption and promoting alpha-based fees within the world of long-only equity managers. Alpha-based fees provide an elegant mechanism to align the interests of investors and funds by rewarding performance due to the skill of active management.

Key Points

Albourne is looking to address three issues that exist when considering alpha-based fees:

- **Frequency of Net asset value (NAV) data.** In the Hedge Funds space, NAVs are typically provided on a monthly basis, which is insufficient to robustly calculate a fund's beta over a one-year crystallization period and hence deduce the appropriate measure of "alpha." This should be easier for long-only managers, as most funds provide weekly or even daily NAVs. Weekly data is preferred to avoid a) the mismatch in trading date between local and global funds; and b) the noise of daily data.
- **Administrators' ability to handle the structure.** As with the "or" structure[1], Albourne is looking to work alongside its clients with the administrators, focusing on creating a fully-working precedent which will help to promote broader adoption of alpha-based fees throughout the industry.
- **Identification of benchmarks**. A key component of all alpha-based fees is the benchmark used to measure the beta component of a fund's return, and hence deduce alpha. The choice of an appropriate benchmark ex ante is vital; in the long-only world, it should be easier to identify equity market benchmarks that offer fair comparison to active fund return series, taking into account sectoral and regional biases. This process become more involved in the Hedge Fund space, where systematic sources of investible risk premia outside of equity beta are more nuanced, but Albourne will build upon the framework of risk that has been used to model funds for years.

Win-Win-Win

A win for this proposal should not be controversial and would be highly valued, as investors want to pay for fees on value created by managers (that is alpha,

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[1] *A fee structure where the management fees are treated as an advance of the performance fee, which may be charged on profits or on alpha.*

not total return). A big win for this proposal is that it can be seen as a stepping stone to the greater inclusion of alpha-based fees into other Hedge Fund strategies. This initiative should also help administrators, and other service providers, to handle a wider range of fee structures.

Risk Related

Showcase to regulators the contribution Open Protocol data can make to measure systemic risk (Proposal 5)

Investor Manifesto II Proposal Statement

Proposal 5: Work with, and via, the SBAI to showcase to regulators the contribution that Open Protocol based data can make to the search for, and containment of, systemic risk within the global financial system.

Proposal Focus

Since the origination of the Open Protocol risk reporting language, Albourne and the SBAI have been primarily focused on educating investors on the value and utility of the data. Now, that focus is expanding to regulators and policy makers, who equally demand a common risk reporting language across financial market participants to inform their macro prudential efforts globally. This proposal is focused on informing various global financial institutions how Open Protocol represents a proven solution for their needs.

Objectives

The intention of this proposal is to develop several durable relationships with global regulators and policy making institutions, while also publicly raising awareness of the macro prudential utility of the Open Protocol. This initiative intends to stoke interest and demand from regulators, and has the potential to drive greater alignment in financial risk reporting across the financial sector. Open Protocol serves the purposes of both regulators and investors.

Key Points

Albourne has maintained an active dialog with global regulators and policy making institutions for many years, we are now working to translate this discourse into action:

- Albourne will work to promote the profile of Open Protocol and the SBAI within the regulatory community.
- Albourne will build upon existing regulatory relationships while building new relationships.
- Ultimately, a cohesive risk dialog between investors, asset managers, and regulators, will benefit all members of the financial industry.

Win-Win-Win

The ultimate value of the regulatory community embracing Open Protocol is that it will vastly accelerate the timeline for achieving an ever-elusive, win-win-win scenario. In this scenario, investors benefit from the transparency and insights from Open Protocol, regulators and policy makers make better decisions/rules due to the insight available through Open Protocol data, and asset managers are relieved of the burden of having to report their risk in several formats to various constituents. This initiative will entail a complex dialogue focused on educating diverse sets of interests and biases. Given the long-standing power struggles between various regulatory agencies, each with their own views and agenda, such an ambitious goal needs as much support as possible. Albourne enthusiastically invites all clients to join our engagement with industry bodies and the regulatory community. Please reach out to us if you are interested.

Liaise with Basel III and Solvency II regulators on current risk reporting guidelines (Proposal 6)

Investor Manifesto II Proposal Statement

> **Proposal 6:** Liaise with regulators responsible for Basel III and Solvency II implementation to achieve clearer interpretations of the current guidelines for risk reporting on alternative investments.

Proposal Focus

Albourne intends to set up and sit on a working group of institutional investors. The working group's objective would be to liaise with regulators responsible for Basel III and Solvency II implementation to identify a better solution to interpreting current guidelines and to gain a full understanding of what is required by regulators in relation to reporting on alternative investments, and if possible to position Open Protocol to help with this process. It should be possible to have one large working group for both regulations, or alternatively, two smaller groups. Albourne will also look to unite existing groups with similar objectives. This proposal does not seek to change what already exists, but to rather to lobby for better solutions for reporting.

Objectives

The desired outcome of this proposal is to simplify the reporting and analysis by investors, aid the wider adoption of Open Protocol, and gain an agreement by regulators that Open Protocol reporting is sufficient for the majority of their reporting needs.

Key Points

A few key action and discussion points surrounding the achievement of this initiative include:

- Identify, collaborate with and present to target regulators and decision-makers within regulators the objectives of the group.

- Clarify the current reporting requirements.
- Identify which can be satisfied by Open Protocol.
- Create a version of Fund/Portfolio Control[1] that can be adopted by regulators and used to monitor reporting.
- Enlist the assistance of SBAI in achieving these objectives.

Win-Win-Win

The ultimate value of this endeavour will come from convincing the Basel III, Solvency II and the National Association of Insurance Commissioners (NAIC) regulators that a better understanding of risk can be acquired by using the Open Protocol system, and to supply them with the tools to monitor that risk over time (this is Win number 1). The acceptance by regulators of this proposition and approach will lead to more general production of Open Protocol reporting by funds (resulting in Win number 2 for investors). Finally, the general adoption by investors of reporting through Open Protocol will reduce the overall reporting requirements for managers (Win number 3, for managers).

[1] *Control is a tool for monitoring deviations from expected parameters. The Control tool can used for a fund or a portfolio.*

Promote the 2020 GIPS performance measurement guidelines in the alternative assets industry (Proposal 10)

Investor Manifesto II Proposal Statement

> **Proposal 10:** Contribute, if still feasible, to the formulation of the 2020 GIPS performance measurement guidelines so that they better apply to alternative assets. Promote the 2020 GIPS Standards amongst the relevant industry bodies as and when they are completed.

Proposal Focus

The Global Investment Performance Standards (GIPS Standards) are a voluntary set of standards that seek to ensure that performance presentations to prospective investors are fair, comparable, and not misleading. While many traditional asset managers claim compliance with the GIPS Standards, very few Hedge Funds and Private Market funds claim to be compliant.

The previous version of the GIPS Standards had some provisions that were less appropriate for Hedge Funds and Private Market funds, which impeded its uptake across alternatives. The 2020 GIPS Standards seek to address these problems and go a step further. New provisions address topics that are important to investors in alternatives, for example how firms should report performance when subscription lines of credit are used. In addition, the GIPS Standards have been re-structured, making it easier for firms to understand the requirements of compliance. There are now separate chapters for fund managers and asset owners who want to claim compliance with the GIPS Standards.

Objectives

The goal of the project is to promote adoption of the GIPS Standards across the alternatives industry. Albourne believes that all industry participants will benefit from the broad adoption of a common set of rules for performance reporting.

Adhering to the Standards reduces the likelihood of producing potentially misleading or inaccurate performance information, giving investors greater confidence that the information they receive is reliable and comparable. Fund management firms that claim compliance with the GIPS Standards demonstrate to prospective investors that they want to follow best practice in performance reporting.

Key Points

Albourne will take the following steps towards the achievement of this initiative:

- Albourne has engaged with the CFA Institute to contribute to the development of the 2020 GIPS Standards and guidance statements, to help ensure that the GIPS Standards are relevant for Hedge Funds, Private Market funds and Dynamic Beta products.
- Albourne will use its platform to disseminate information about the 2020 GIPS Standards and explain the advantages of compliance to both fund managers and investors.
- Albourne will encourage fund managers to adopt the GIPS Standards and help investors to identify firms that are compliant and hopes to see fund managers adopting the standards from the beginning of January 2020.
- For further information please read the white paper which details the key points and benefits of complying with the GIPS Standards.

Win-Win-Win

The GIPS Standards promote best practice across the investment industry and empowers investors to make the right investment decisions based on reliable performance information. Adoption of the Standards will demonstrate the integrity of the alternatives industry and increase trust between investors, fund managers and regulators.

The GIPS Standards offer solutions to many problems that commonly afflict investors and fund managers. Questions about how to calculate and report performance in different scenarios are answered by the GIPS Standards. Fund managers can use the GIPS Standards as a common rulebook and demonstrate to their investors that they are committed to best practice. Investors can feel confident that the information they receive from fund managers is accurate and comparable.

The 2020 GIPS Standards address issues that previously prevented some alternative asset managers from claiming compliance, so Albourne encourages all fund managers and asset owners to review the 2020 GIPS Standards and consider how adopting the Standards could benefit their firms.

Creation and adoption of an industry standard ‘Identifier database’ (Proposal 12)

Investor Manifesto II Proposal Statement

> **Proposal 12:** Call for the creation of an ‘Identifier database’ as an industry standard for securities issued by Hedge Funds and Private Market portfolio companies, and its adoption by industry participants. Albourne will encourage relevant industry bodies to manage and operate these types of databases, which eventually could be a potential revenue source for them.

Proposal Focus

Current unique Identifier databases in the market have not reached the adoption levels necessary to provide benefits to market participants.

The lack of universally adopted Identifiers for alternative fund offerings limits the ability for market participants to communicate efficiently and increases risks of errors and costs associated with collecting information.

Objectives

This proposal calls for the creation, and wide adoption, of a database of open source Identifiers by all industry participants. The aim is for Identifiers to be created for managers, Hedge Funds and in the case of Private Markets, portfolio companies. Wide adoption is the key to the success of this proposition.

Key Points

There are hurdles that need to be cleared in order for market participants to adopt this initiative widely:

- A clear methodology to create fund Identifiers needs to be established that incorporates existing Identifier data e.g. Central Index Key (CIK code), tax Identifier etc. This methodology should be published for market participants.
- If market participants are required to pay to use fund Identifiers, adoption

will not be wide-spread. Managing a database of Identifiers is not free as there are ongoing administrative, IT and security costs that require funding. A funding source is necessary to ensure that fund Identifiers are free to market participants.

- The entity that manages the database must be trusted by market participants and ideally be free of conflicts.
- The main issue is how to provide fund Identifiers to market participants for free.
- One potential solution to the funding issue is to establish a not-for-profit organization that would manage Investor Profile Templates (see Proposal 28) for investors and managers, on a fee basis, and will use the fees from this to provide funding for fund Identifiers. Ideally, this organization would be overseen by a trusted industry group such as the SBAI. Surpluses would be donated to a worthy charity.
- Once the funding issue has been solved, an open source Identifier creation methodology will be developed and published, and the database will be opened to investors.

Win-Win-Win

Universally accessible Identifiers for all industry participants, covering all issuances, will encourage a wide adoption. Achieving wide adoption will improve the tracking and monitoring of prospective and current alternative fund offerings, and improve communications between fund administrators, fund managers and investors, reducing the risk of errors. In order to achieve wide-spread adoption, the fund Identifier database will need to be free and managed by a trusted organization.

Private Market Related

Recommend a stronger fund Private Market governance model (Proposal 22)

Investor Manifesto II Proposal Statement

Proposal 22: Recommend a stronger fund governance model for Private Market funds to make Limited Partner Advisory Committees (LPACs) more effective. This may include LPACs with greater representation across investor classes; uniform baseline mandates for LPACs; rotation of seasoned LPs; standard reporting and conflict disclosure requirements to LPACs in governing documents; LPACs acting in the capacity of a pseudo-audit committee; and potential independent representation on the LPAC.

Proposal Focus

The governance model for Private Market funds is inherently flawed, in that it lacks independence and is debilitated by the extreme information asymmetry that exists between General and Limited Partners.

Given that most Private Market funds are structured as Limited Partnerships, it is extremely rare for a Board of Directors to represent the interests of investors. Rather, most fund governance models have adopted the concept of Limited Partner Advisory Committees ("LPAC") – a committee comprised exclusively of Limited Partners (LPs) in the fund. The primary role of the LPAC is to represent the interest of all investors in the fund through its mandate to vote on specific events as defined by the Limited Partnership Agreements ("LPA") and to deliberate on conflicts of interest. However, this model is flawed in several ways:

- The LPAC is generally comprised of a handful of the fund's largest investors, so it does not reflect different investor types in the fund. The desires and interests of these larger investors may conflict with the broader Limited Partners base.

- Limited Partnership Agreements define the mandate of the LPAC. The LPAs are set up by the GPs, with limited input from the LPs. As a result, the LPAs can differ from one fund to the next. Albourne reviewed over 500 Private Market funds and it was noted that the level of engagement with, and the authority of, the LPACs varied widely from appropriate levels to almost non-existent.
- The level of transparency and form of reporting to the LPAC also differs widely. Allowing the General Partners (GPs) to selectively report information to LPACs further deteriorates the value of this governance model.
- "Conflicts" is never a defined term within the LPA. Albourne has seen time and time again where material conflicts of interest were never reported to the LPAC. In Albourne's view and consistent with the Institutional Limited Partners Association's (ILPA's) Principle 3.0, all conflicts, no matter the degree of materiality, should be reported to the LPAC, and no GPs should be clearing its own conflicts.

Objectives

A stronger fund governance model, one that maintains the current LPAC structure but serves to better empower the LPAC to perform its role in fund governance, is required. Albourne recommends several proposals on better transparency and the process of structuring of the LPAC to ensure a stronger fund governance model for Private Market funds.

Key Points

Albourne has numerous proposals on the appropriate process of structuring the LPAC and ensuring better transparency to all LPs on LPAC voting.

- Introduce LPACs with greater representation across investor classes, including commitment size, investor type, Co-investment rights etc.
- Create a uniform baseline mandate for LPACs across all funds.
- Set minimum expectations on the frequency and format of LPAC meetings.
- Incorporate standard reporting requirements from the GP to the LPAC.

- Promote the already developed ILPA Principle of the LPAC acting in the capacity of pseudo audit committee – engaging with the fund auditor in a closed session annually (borrowing an idea from public company governance).
- Promote the concept of independent representation on the LPAC – an industry expert who is not beholden to the GP and is able to challenge proposals and potential conflicts faced between the fund and the GP – this would be a form of non-executive director, as often seen in Hedge Funds. Note that certain fund structures must have a board in place, but it is not common place for fund-wide issues/conflicts to go through these boards.
- Promote the concept of LPA compliance audits at key points over the life of the fund (e.g. end of investment period, year 7, 10 and upon every extension).
- Specific conflicts which should always be disclosed to the LPAC include: any affiliate transactions with valuation evidence; conflicts involving LPAC members; and material family relationships at the GP that may result in conflicts.
- LPAC members should be indemnified and are understood not to have a fiduciary duty to the fund beyond the duty to act in good faith.

Win-Win-Win

Albourne firmly believes an improved Private Markets governance model would benefit all participants in the Private Markets investment industry and provide stronger alignment for all.

The cost of this solution would not take more than the time and energy of a select few Private Market experts to brainstorm together on the ideal governance model, to communicate to GPs, influence changes, and to set this down on paper. Private Market experts could provide advice on better practice and suggest recommended agendas to follow, to ensure a stronger fund governance.

Support the ILPA Principles on the use of subscription lines and borrowing facilities (Proposal 26)

Investor Manifesto II Proposal Statement

Proposal 26: Support the ILPA Guidelines on the use of subscription lines and borrowing facilities including performance comparability, overall risk mitigation, and transparency/governance, while recommending a middle-ground in the impact on the preferred return calculation. This is currently an ILPA Guideline that should be included in the next update amongst the standard ILPA Principles.

Update: The ILPA Guidance has now been included as part of the recently released ILPA Principles 3.0.

Proposal Focus

The goal of disclosing how GPs are using subscription lines, and other forms of fund-level leverage, is to provide clarity over the extent returns are financially engineered by their use, as well as to disclose how much risk the manager is taking regarding leverage. Managers can use subscription lines to manipulate the Internal Rate of Return (IRR), thus proper disclosure will improve performance comparability, provide clarity on subscription line related expenses, and manage potential tax considerations, liquidity risk and other possible legal risks.

ILPA, in 2017, released guidance regarding the risks and potential impact on Limited Partners resulting from the use of subscription lines and borrowing facilities. Albourne has been championing these recommendations and guidelines since they were issued. These ILPA Guidelines have now been included in the ILPA Principles version 3.0: *https://ilpa.org/wp-content/uploads/2019/06/ILPA-Principles-3.0_2019.pdf*

In addition, Albourne engaged with the CFA Institute as part of the 2020 GIPS Standards initiative to discuss their proposed presentation requirements surrounding fund-level leverage, including subscription lines, while providing examples of preferred disclosures and calculation methodology. While many Private fund managers do not adhere to GIPS Standards, the standards are viewed as an industry best practice by many in terms of standardizing reporting.

Objectives

Albourne looks to support many of the ILPA Principles 3.0 on the use of subscription lines and borrowing facilities including performance comparability, overall risk mitigation, and transparency/governance, while recommending a middle-ground on the impact on the preferred return calculation.

Albourne will not pursue limiting the overall use of facilities as some investors may wish for a heavier use of fund-level leverage. Instead, this proposal focuses on ensuring LPs are adequately informed as to the risks and impact of the use of such facilities.

Investors can help promote this initiative by requesting their managers to include the disclosure requirements outlined below as part of the governing documents of newly launched vehicles, while also pressing for similar disclosures in active funds.

Key Points

The preferred use of subscription lines will vary from investor to investor, although there are key disclosures and discussion points surrounding the achievement of this initiative which includes:

- If a manager uses fund-level leverage, primarily a commitment backed subscription facility, a full disclosure of the terms, expenses, use of proceeds, repayments, and amounts outstanding, including their specific use by asset or expense, should be disclosed at least quarterly.
- If a secondary fund uses deferred payments and deal leverage - a disclosure of the amount in quarterly statements is expected.
- Where amounts drawn are outstanding for longer than 90 days, the preferred return should begin to accrue as though the amounts drawn on the line were invested by LPs.

- Additional disclosure suggestions:
  - Partnership agreements should clearly outline the limits over size, use, and tenure of borrowing.
  - Net IRR with and without credit facility, including for past funds, in marketing materials and track records.
  - Where IRR is not presented net of fund-level leverage, all fund-level cash flows should be made available to investors for all past investments.
  - Marketing materials should clearly disclose expected usage of fund-level leverage.
  - Where applicable, include Co-investment agreements to ensure any GP, affiliated, or third-party vehicles making use of the line are bearing their appropriate share of expenses and risk.
- The low-interest rate environment has resulted in greater use of these facilities. If interest rates rise, the use of subscription lines is likely to diminish.
- GPs have widely used the defense that their LPs like the heavy use of fund-level leverage, however, this does not align with Albourne's discussions with clients and prospects.
- Albourne will continue to champion these disclosures as part of on-going Investment Due Diligence (IDD) and Operational Due Diligence (ODD) interactions with managers.

Win-Win-Win

Improved disclosure surrounding the use of subscription lines is a benefit across the industry as it will empower investors with the information necessary to make informed investment decisions, while allowing GPs to be reviewed on the merits of their investment strategies, as opposed to inflated figures through financing engineering.

Hedge Fund Related

The creation of a Standard Investor Profile Template (Proposal 28)

Investor Manifesto II Proposal Statement

Proposal 28: Recommend the creation of a Standard Investor Profile Template, to be added to the SBAI's Toolbox and an associated database, that can be used across funds to simplify and streamline the subscription and AML processes. The template need only be filled out once, though it should then be regularly updated, and it should be used as a basis for all subsequent subscription documents. This could eventually be a potential revenue source for the SBAI.

Proposal Focus

Subscription and Anti Money Laundering (AML) documents for Hedge Funds are complex and require comprehensive knowledge about the investor organization, tax, laws and regulatory framework, to be completed correctly. It requires excessive time and effort from investors, managers and from administrators. Many times, subscription documents are filled in by junior staff at the investor organization and vetted by junior staff at the manager and administrator, which may increase the likelihood of errors. Much of the information requested in subscription documents is similar from fund to fund, and this overlap could be leveraged to reduce errors and streamline the subscription process.

Objectives

Alternative investor stakeholders should create a Standard Investor Profile Template that can be used across many funds to streamline the subscription and AML process. This template can be directed and channeled by the SBAI as part of their Toolbox.

Alternative investment professionals should work together to create an Investor Profile Template that need only be filled out once (with regular updates) and can be used as a basis for all subsequent subscription documents.

The SBAI is a natural organization to champion this initiative. In June 2019, the SBAI convened a working group to create a Standard Investor Profile Template to satisfy the goals of this initiative. The tool will be open to the public for comments and then released in the SBAI's Toolkit.

Investors, managers, administrators and lawyers are encouraged to comment on the draft Standard Investor Profile Template when it is published on the SBAI website.

Key Points

For this initiative to be successful, the wide adoption of the Standard Investor Profile Template is necessary. To encourage a wide adoption:

- The Investor Template would be an open-sourced document developed with the input of managers, administrators, investors and lawyers to cover most of the relevant regulatory and legal information required for a standard fund, including AML/KYC requirements for common jurisdictions.
- The first iteration will focus on Delaware Limited Partnerships (LPs) and Cayman Limited Company (Ltd) funds, given the predominance of these fund vehicles and jurisdictions. Once an acceptable Investor Profile Template is developed, subscription documents for new funds need only to ask the investor to attach the most recent template and the remaining portion of the subscription documents need only address specific information required for the fund that is not covered in the Investor Profile Template.

Win-Win-Win

This is standardization that all stakeholders have reason to get behind, given the benefit of creating a Standard Investor Profile Template that can help reduce inefficiencies, and decreases repetitive efforts, costs of legal reviews and potential inconsistencies, while satisfying AML/KYC requirements.

Administrators can further increase efficiencies if they are able to make use of one Standard Investor Profile for the same client across different funds. When this is fully developed, all stakeholders are likely to ask, "why didn’t we do this before?” The answer would be: “While the benefit of creating a Standard Investor Profile Template is easily understood by all stakeholders, the marginal benefit for any one stakeholder was not large enough for any one stakeholder to push for it.”

Formalizing policies for disclosing and allocating Co-investment opportunities (Proposal 29)

Investor Manifesto II Proposal Statement

Proposal 29: Call on managers to tell prospective investors about their policy for disclosing and allocating Co-investment opportunities among investors. This would include providing governance and tracking of Co-investment practices, rights and processes in fund/client agreements and side letters, and the disclosure of investment allocation policies in agreements and applicable offering documents.

Proposal Focus

For many alternative fund managers, the ability to show investors 'differentiated ideas' in the form of Co-investment opportunities outside of traditional fund structures has become desirable in recent years. Demand from investors has been driven by the need to reduce blended fees through committing to lower fee Co-investments alongside commingled funds; a desire for greater concentration in high conviction ideas; as well as the need to replace traditional sources of yield, and/or trade ideas (sell-side research) in portfolios.

As Co-investing, in its various forms, becomes ubiquitous, a best practice framework is needed to foster transparency, and accountability to all parties. The general sentiment amongst investors is that Co-investments are often not adequately disclosed, and that preferential access to Co-investments may result in potential conflicts of interest or unfair treatment of fund investors. This has also been a focus for regulators, who view the development of clear allocation policies as key to mitigating the potential risks to all parties.

Regulators have also called for greater transparency, "suggesting that all investors deserve to know where they stand in the Co-investment priority stack."[1]

The landscape is complex: large investors may feel that a lack of transparency protects their proprietary access to attractive deal flow.

Managers meanwhile present various arguments justifying their approach to selectively offering and disclosing Co-investments, some of which may well be legitimate, at least with respect to the ex-ante disclosure of deals. These include:

- They can only offer Co-investments to investors who can act quickly.
- They cannot support the complexity and time commitment of sharing due diligence on single deals with all fund investors.
- Confidential information may need to be shared with Co-investors, and they need to limit this to a contained group of investors.
- They will offer Co-investments to strategic investors who offer some benefit to the investment thesis/situation.

Objectives

Ultimately, Albourne strongly believes that ensuring transparency and accountability protects all parties, investors and fund managers alike, and clear frameworks for the allocation and disclosure of Co-investments are a key to ensuring accountability.

Albourne proposes the creation of a framework for the disclosure and allocation of Co-investments. A framework should clearly define who, when and how Co-investments are allocated, establishing a clear priority waterfall for the allocation of all co-investment opportunities.

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[1]*Private Equity: A Look Back and a Glimpse Ahead' Written by Marc Wyatt, Acting Director, Office of Compliance Inspections and Examinations, New York, May 13, 2015. https://www.sec.gov/news/speech/private-equity-look-back-and-glimpse-ahead.html*

Key Points

The key end goals of this initiative are to:

- Create a proposed framework for the disclosure and allocation of Co-investments.
- Promote key elements of a proposed framework, including:
    - o Promote full disclosure of Co-investment allocation policies in agreements, applicable offering documents, or due diligence materials and potentially in the Form ADV Part 2.
    - o Promote clear documentation of how Co-investments have been allocated in specific Co-investment transactions, with oversight from an appropriate compliance or oversight function.
    - o Promote the ability for investors to review/audit Co-investment allocations ex-post to ensure fund manager compliance with policies as part of due diligence reviews.
    - o Promote disclosure of all Co-investments, at least in retrospect, to all investors and potential investors.
- Collaborate with the SBAI to provide a Toolbox Memo on Co-investments outlining components of the framework.

Win-Win-Win

A best-practice framework that ensures the disclosure, transparency and adherence to clearly defined Co-investment practices, taking into account confidentiality and other legitimate manager constraints, protects the integrity of fund managers. The establishment of such a framework will preserve crucial trust and confidence between investors and fund managers.

Provide the SBAI with a to-do list of topics focused on 'credit-based' strategies (Proposal 31)

Investor Manifesto II Proposal Statement

Proposal 31: Provide the SBAI with a to-do list of topics for a working group focused on 'credit-based' strategies. This will cover both Hedge and Private Market funds.

Proposal Focus

There is currently a lack of quality industry guidance and consistency in credit market operational practices resulting in confusion about best practices in the space.

Objectives

Albourne has proposed a list of recommendations focused on best practice for Hedge Fund and Private Markets 'credit-based' strategies. The areas of focus are valuation, conflicts of interest and fund structures/models and associated considerations for investors and others.

The SBAI is the industry body responsible for transmitting the Proposal to investors and managers. An SBAI working group (formed in 2Q 2019), of key industry stakeholders, is actively proposing and refining the list of standards and recommendations specifically applicable to both open and close-end credit managers.

It is expected that the working group's submission will broaden the SBAI's existing standards and its Toolbox and will be available in late 2019 /early 2020.

Key Points

The following ideas have been proposed to the SBAI:

- Managers articulate their policy for investing at different levels of a given company's capital structure in different funds.
    - o Rationale: Particularly for distressed companies, being in a

company's senior debt in Fund A and junior debt in Fund B can lead to conflicts between funds; the manager will have to fight to maximize recoveries for one at the expense of the other.

- Managers articulate their policy for refinancing private loans in one fund out of another fund.
  - Rationale: Particularly for deteriorating loans, refinancing a loan out of Fund A into Fund B can lead to conflicts.
- Managers articulate their policy (e.g., valuation, approvals, process) for "crossing" credit assets between affiliated funds.
  - Rationale: This is prone to happen where Fund A is experiencing outflows and Fund B has liquidity. The practice is fraught with conflict of interest; the assets being crossed may be subjectively valued, and/or not suitable for Fund B's mandate.
- Managers direct administrators to meet a minimum level of granularity in Administrator Transparency Reports (ATR) (e.g., SBAI's preferred format).
  - Rationale: Some managers' ATRs provide less granularity around certain things, such as Level 3 exposure and valuation sources.
- Managers articulate if (and how) changes in systematic risk premia for traded credit (i.e., syndicated loan spreads) are captured in their valuation of non-traded/private credit (e.g., private/direct loans).
  - Rationale: Absent idiosyncratic problems, private loans are frequently held at par, with little reflection of clear changes in risk premia for similar—but traded—credit.
- Managers articulate their policy and practices for restricting the firm's information flow and trading activity in securities of companies for which they become insiders (e.g., via creditor committees, receipt of ownership stakes through debt restructuring, board representation post-restructuring, etc.), and engage a third party (e.g., auditor, compliance consultant) to evaluate and critique those policies and practices.
  - Rationale: This is self-evident.

- For funds that have the right to "side pocket" assets, managers necessarily articulate the criteria by which they will designate such holdings.
    - o Rationale: Historically, assets have been designated (or not) unevenly, often retroactively when funds come under redemption pressure. Ideally managers would designate assets up-front, based on set criteria.
- The SBAI credit working group develops and distributes industry guidance - ideally through the SBAI toolbox - for engagements with Valuation Agents and Loan Servicers as it relates to fees, service levels, engagement frequency, etc. Separately, managers direct that fund administrator service levels include all entities in the overall fund structure (Special Purpose Vehicles (SPVs), etc.) in an appropriately robust service level.
    - o Rationale: While prominent in the credit space, there is a lack of quality industry guidance around these engagements.
- Managers articulate how their chosen fund structure properly matches assets and liabilities (primary), along with how the chosen fund structure addresses valuation and tax considerations.
    - o Rationale: A proper fund structure minimizes the risk of associated portfolio illiquidity, valuation and tax issues.

Win-Win-Win

This proposal will improve the distribution of industry guidance, ultimately strengthening the credit investor position, while at the same time benefitting credit fund managers and regulators who oversee the space.

Dynamic Beta Related

Require managers to adopt a common standard for back-testing trading strategies (Proposal 38)

Investor Manifesto II Proposal Statement

Proposal 38: Require managers to adopt a common standard for back-testing trading strategies, to ensure consistency and viability and to limit overfitting biases.

Proposal Focus

The ever more powerful computational tools coupled with the depth and breadth of data available, has naturally led both quant and often fundamental managers to rely on back-testing. Back-testing is the process of testing a trading idea/strategy on historical data for proof of validity. A key challenge with using back-testing in strategy development is the risk of over-engineered models, where the methodology is deliberately or inadvertently chosen to fit past data. By doing so, back-tested track records become striking but the ability for the underlying models to perform in the future is potentially compromised.

Quantitative models, which follow a mechanistic rule-based implementation, are often born, analysed and applied through a rigorous and exhaustive quantitative exercise based on historical data. This process entails several “known” problems, such as:

- Survivorship bias: The tendency to view the current constituents of the market as a representative sample of the past.
- Short sample size: Some researchers draw conclusions from a handful of observations which lacks statistical rigour.
- Hindsight: Back-test models are constructed from humans that have knowledge of the past.
- Model/Period/Market snooping: This is when researchers purposefully look for relationships between variables without having a hypothesis as to the type of relationship, period or type of markets it might entail.

- Liquidity/Market impact: History would look different with more participants and increased flows, especially with illiquid assets.
- Friction/Trading costs: Estimating historical/hypothetical trading costs is difficult and back-tested results often ignore these costs. Their inclusion would have a negative impact on performance.

The understanding of the above problems is imperative: critical interpretation of the back-tested results gives a better understanding of the robustness of the model and ultimately its expected performance. Therefore, managers using back-testing in strategy development need to put in place frameworks to scrutinize strategies and help avoid overfitted models. Investors should always be critical whenever evaluating back-testing results presented as part of the marketing materials of a strategy. It is important for them to have tools that enable the assessment of the validity of the chosen model, the underlying assumptions and the back-tested track record.

Objectives

The goal is to promote industry wide adopted standards for best practices when conducting back-tests, to ensure consistency and viability and to limit overfitting biases.

The SBAI, in collaboration with Albourne, and via the Factor-based investing/ Dynamic Beta working group, has discussed the important issues associated with presenting as well as conducting back-tests. This has led to the development of a framework for assessing back-test results, supplemented with a list of key due diligence questions.

The proposed framework and questionnaire are expected to be included in the SBAI Toolbox in October 2019, to guide investors as to how to interpret back-tested results, as well as to ask the right questions to managers.

Key Points

While there are numerous regulations regarding the standardisation of the presentation of back-tested results, there is very limited regulatory guidance as to how the back-test should be conducted.

Ways to standardise back-testing revolve around addressing the typical problems with conducting historical data analysis and research, for example:

- Survivorship bias: Explicitly include data that are liquidated, sold, cease to exist.
- Short sample size: Use all available data going back at least 10-20 years.
- Hindsight: This is difficult to overcome but one possible direction is to exclude "known" periods from the sample data. Also, delaying the information compared to the time it was released historically.
- Model/Period/Market snooping: Have a hypothesis that is logical and based on economic rationale, then test it across periods and markets. Changing the parameters slightly should retrieve similar results.
- Liquidity/Market impact: Ensure that the models are not only valid on illiquid assets.
- Friction/Trading costs: Include trading costs by using conservative estimates of spreads going back historically.

Similar critical analysis can be applied at the various key steps of the back-testing process, which are an essential to the manager's internal research process: assumptions, data, technique, interpretation and presentation. Managers might be resistant to changing how they conduct research to adopt new standards. However, endorsing investor – manager conversations on back-testing through the SBAI Toolbox Memo can drive positive change

Win-Win-Win

Equipped with a better tool set, investors will become more sceptical as to the validity and accuracy of a back-test. Increased awareness should help avoid investing in products that are clear manifestations of over-engineering. Consequently, such products could be limited. The Dynamic Beta and the broader Quant industry should ultimately benefit from increased awareness and scrutiny in the field, by establishing better back-testing practices and thus better product choice, with the investor having more confidence in simulated results.

Responsible Investing Related

Explore the creation of a common base corporate-level ESG reporting format (Proposal 46)

Investor Manifesto II Proposal Statement

Proposal 46: Explore with private sector firms engaged in corporate-level ESG reporting and with ESG managers the creation of a common base corporate-level ESG reporting format as a basis both for their own analysis and for investors to use to formulate their own direct oversight capabilities.

Proposal Focus

The need for standardised Environmental, Social and corporate Governance (ESG) reporting has been communicated to Albourne from many sources. Investors are increasingly looking to their fund managers to integrate ESG factors into their investment processes and would ideally like to see reporting on their exposures from an ESG perspective. Many asset managers are keen to integrate ESG information into their process, however the lack of objective standardised information that can be compared across underlying corporates is a significant hurdle to the integration of this data. ESG rating agencies have a range of different methodologies and issues around the data available and included within ratings. This makes comparability across rating agencies difficult, and reliance on the final score not a simple exercise.

Objectives

The aim of this proposal is to evaluate the practicality of the creation of a common standardised reporting framework, through which corporates could report specific data relating to areas commonly associated with ESG. To accomplish this, Albourne will engage in discussions with those parties having direct experience in ESG data, and views on the implementation and output of a standardised framework.

Albourne is keen to promote a collaborative effort between all interested parties to develop a blueprint for a corporate-level reporting framework covering key ESG data points across all sectors. A standardised corporate-level reporting framework will help ensure consistency across reported data and allow for better investment comparisons, that can then in turn be aggregated at the fund and investor level.

A standard framework is nothing new for Albourne, having spearheaded the creation and adoption of Open Protocol Enabling Risk Aggregation.

This is not an effort that is focused exclusively on the alternative investment sector, but something that would be applicable across all corporates, making it a useful tool for all investment strategies active in corporate securities.

If some level of standardisation can be achieved, then this would provide opportunities to push through further initiatives to improve reporting and measurement of ESG integration within funds.

This could include:

- The creation of a consistent reporting framework, similar to the Open Protocol template.
- Ensuring consistency around reporting methodology, reducing ambiguity and promoting comparisons.
- Promoting a consistent measurement approach allowing for managers to show changes in their underlying portfolios and demonstrate actions taken.
- The evolution or creation of new investment styles – risk premia ESG based, activist ESG improvement strategies.

Key Points

The key aspects and steps of this proposal will include:

- Initiating the conversation from Albourne, around the need for a standardised corporate level reporting framework.
- Mapping out areas where corporates are currently reporting on areas of ESG data.

- Understanding and gathering information regarding reporting norms that are currently used in various countries, and relevant organisations.

Win-Win-Win

The creation of a common corporate-level reporting framework will allow for better and easier collection of transparent and consistent data. This would reduce ambiguity and make it more efficient to compare information between corporates in relation to the exposure to ESG factors.

This is a huge topic for Albourne to try to progress, however with the support of leading investors and asset managers around the world, we can help coordinate with other groups already looking at solutions in this area. Albourne is not likely to have the ability to define and complete this framework. However, Albourne would be able to articulate the needs and requirements of a framework, and facilitate conversations between the relevant organisations whether that be investors, asset managers, ESG rating agencies, stock exchanges or regulators.

If you as an investor are interested in understanding the impact of your investments in the context of improving the underlying companies from an Environmental, Social or Governance perspective, then please do reach out to Albourne to continue the conversation to create a more responsible investment industry.

Recommend that managers agree to a 'Diversity and Inclusion Policy' (Proposal 48)

Investor Manifesto II Proposal Statement

Proposal 48: Recommend that managers document a 'Diversity and Inclusion Policy' and implement practices that foster Diversity and Inclusion ("D&I"). Albourne recommends that all managers, across all alternatives, complete a D&I questionnaire, such as the one published by ILPA. Reporting should include statistics on diversity within the manager's ownership structures, its lead decision makers and its broader organization. Albourne will be advocating for and facilitating the standardization of a D&I questionnaire across the alternatives industry, using the ILPA D&I Questionnaire as the foundation, with input from other standard setting bodies, investors and asset managers.

Proposal Focus

Diversity and Inclusion (D&I) is becoming an increasing area of focus for investors. D&I in the workplace has become a key focus as institutional investors understand the positive impact it delivers to organizations, such as stronger employee engagement, improved profitability and productivity, increased innovation, improved reputation, and improved decision making. Many investors have embraced the idea that diverse teams lead to better decision making in that diverse teams lead to cognitive diversity. Further, there is increased acceptance that homogenous teams present a source of risk, which is the risk of 'group think.'

On the 24 September 2018, ILPA announced the publication of resources developed to support the progression of D&I within the Private Markets space. The resources include an expansion to ILPA's standard Due Diligence Questionnaire (DDQ) and guidance for developing codes of conduct for LPs, GPs and Fund Companies. The DDQ expansion includes a new section that improves an LP's understanding of a GP's policies and procedures on hiring, mentoring and harassment. It also includes a template for GPs to measure and report on diversity.

Objectives

Albourne encourages all managers to document a 'Diversity and Inclusion Policy', implement practices that foster D&I, and complete a D&I questionnaire, such as the one published by ILPA, so investors can better understand each manager's stance on D&I.

Albourne will be advocating for and facilitating the standardization of a D&I questionnaire across the alternatives industry, using the ILPA D&I Questionnaire as the foundation, with input from other standard setting bodies, investors and asset managers.

Key Points

A few of the key discussion points surrounding this initiative include:

- Transparency on D&I polices should include: a written policy on how the policy is publicized; how the policy is implemented (including training of employees); whether the manager partners with any diversity related non-profit organizations; whether any diversity related goals have been set; as well as statistics on diversity within the manager's ownership structure, executive ranks, lead decision makers, and broader organization.
- Diversity is present when the composition of an organization's workforce is comprised of underrepresented groups within the alternatives community. Based on the definitions we've seen from the investors we work with, diversity typically focuses on women and minority groups including racial/ethnic minorities, LGBTQ+ individuals, veterans and persons with disabilities. It is acknowledged that there are many other elements of diversity, such as socioeconomic background, educational background, religion, and age. However, these are not elements of diversity that we've typically seen investors focused on. Inclusion is present when underrepresented groups within an organization feel valued, respected and empowered to fully participate and share their

views with equal footing as everyone else. Simply put, diversity is about composition, and inclusion is about culture.

Albourne will take the following steps towards the achievement of this initiative:

- Albourne will continue to advocate for this initiative with investors, managers, the media and at industry conferences.
- Albourne is determined to raise awareness that D&I is an important part of our and our client's due diligence processes, so managers can reflect on their own organizations and effect change as needed.
- Albourne has partnered with the Alternative Investment Management Association (AIMA) to form an ILPA inspired standardized set of D&I questions and template for workforce and ownership metrics that can used across the alternatives industry.
- Once the revamped questionnaire is published, we will encourage managers to complete this.
- The questions and responses will then be made available to clients via the Albourne Castle.
- The final version of this questionnaire is expected to be available for managers to complete via Moatspace before the end of 2019.

Win-Win-Win

Many institutional investors have embraced the idea that diverse teams lead to better decision making. Thus, there is a business case for managers to focus on D&I as investors will view this favourably and this may help managers attract and retain capital. Implementation of a D&I policy should benefit managers over time as diversity of ideas should be additive to the success of the organization by leading to cognitive diversity and less 'group think.' From an investor's perspective, investors are able to report back to stakeholders that they are investing in organizations that value D&I.

Appendix I - Glossary of Acronyms

AIMA	Alternative Investment Management Association
AML	Anti Money Laundering
AOI	Alignment of Interests Association
ATR	Administrator Transparency Reports
CIK	Central Index Key
DDQ	Due Diligence Questionnaire
D&I	Diversity and Inclusion
ESG	Environmental, Social and corporate Governance
GIPS	Global Investment Performance Standards
GP's	General Partners
IDD	Investment Due Diligence
ILPA	Institutional Limited Partners Association
IRR	Internal Rate of Return
IMii	Investor Manifesto II
LP	Limited Partners
LPAs	Limited Partnership Agreements
LPACs	Limited Partner Advisory Committees
LTD	Limited Company
NAIC	National Association of Insurance Commissioners
NAV	Net Asset Value
NCREIF	National Council of Real Estate Investment Fiduciaries
ODD	Operational Due Diligence
PM	Private Market
PREA	Pension Real Estate Association
SBAI	Standard Board for Alternative Investments
SPVs	Special Purpose Vehicles

Appendix II - The 50 Investor Manifesto II proposals

The numbering on the Tube Map, on the front page of this booklet, refers to the 50 proposal numbers referenced in the Investor Manifesto II launched in Oct 2018.

Fees Related

Proposal 1: Seek economic alignment by making real multi-year crystallization possible. This would entail lobbying for changes to U.S. tax rules applicable to investors in multi-year investment structures. The end goal is to get a substantive or technical amendment to IRC §457A that delays manager tax liability on performance fees to the extent those fees are subject to potential full reversal in subsequent years, based on performance. In time, Albourne will seek to address this issue where it applies in other jurisdictions, as required.

Proposal 2: Get managers to be more transparent about the full range of the fee options they offer and have offered in the past.

Proposal 3: Encourage the use of Albourne's internal 'Share of Profits' tool (Excel-based template: profit/alpha framework) available to Open Protocol producing fund managers via MoatSpace, to clients via the Castle and to other investors via Free Parking. The 'Share of Profits' tool can facilitate more productive fee negotiations and fee structures that better align both managers and investors.

Proposal 4: Promote a greater adoption of alpha-based fees in the equity long-only space (focused on long-only managers that are categorised as actively seeking positive tracking error). This would also help administrators, and other service providers, to handle a wider range of fee structures. We see this as a stepping stone to the adoption of alpha-based fees for all alternative investments.

Risk Related

Proposal 5: Work with, and via, the SBAI to showcase to regulators the contribution that Open Protocol based data can make to the search for, and containment of, systemic risk within the global financial system.

Proposal 6: Liaise with regulators responsible for Basel III and Solvency II implementation to achieve clearer interpretations of the current guidelines for risk reporting on alternative investments.

Proposal 7: Urge the major credit rating agencies to adopt risk assessment techniques consistent with Proposal 6 above.

Proposal 8: Nurture a longer-term approach to risk-taking and stronger governance by encouraging succession planning and the broader employee ownership of alternative asset management companies. In keeping with this, help to formulate templates for, and investor analysis of, permanent capital structures.

Proposal 9: Encourage more frequent Open Protocol reporting for all traditional and alternative investments (Hedge Funds, Private Markets, Dynamic Beta, Insurance etc.). Proposals 5, 6, 7, 8 and 9 are deeply interconnected.

Proposal 10: Contribute, if still feasible, to the formulation of 2020 GIPS performance measurement guidelines so that they better apply to alternative assets. Promote 2020 GIPS Standards amongst the relevant industry bodies as and when they are completed.

Proposal 11: Encourage the inclusion in the GIPS Standards framework of a way to measure the performance of non-discretionary advisors, as well as of firms that offer both discretionary and non-discretionary services.

Proposal 12: Call for the creation of an 'Identifier database' as an industry standard for securities issued by Hedge Funds and Private Market portfolio companies, and its adoption by industry participants. Albourne will encourage relevant industry bodies to manage and operate these types of databases, which eventually could be a potential revenue source for them.

Service Provider Related

Proposal 13: Encourage the formation of, and contribute best practice proposals to, an Administrator-based working group. Such a group could be a stand-alone 'Administrator Standards Board', either like the SBAI or in some other form, or it could be an outreach group initiated by the SBAI to address Administrator issues. In addition, Albourne intends to broaden its collaboration with all, and any industry bodies that deal with best practice for Administrators.[1]

Proposal 14: As, when and if an Administrator working group is formed, promote templates for 'minimum service levels'.

Proposal 15: As, when and if an Administrator working group is formed, identify terms that should appear in Service Level Agreements for PM Fund Administrators, including a standard level of service, best practice elements, involvement by Administrators in all cash payments, improved reconciliation frequency (monthly rather than quarterly), and confirmation of existence of assets (strategy dependent).

Proposal 16: Encourage the disclosure of more detailed expense classifications in Audited Financial Statements, to be consistent with the expense categories that already exist as part of SBAI Standardised Total Expense Ratio ("STER").

Proposal 17: Explore whether indemnification wording in offering documents can be tightened up so as to minimise the extent to which investors have to bear legal fees associated with subsequently proven wrong-doing.

Proposal 18: Promote a list of model terms for a Prime Brokerage Agreement and then reflect this list in a short, standardised reporting format for the SBAI Toolbox.

Proposal 19: Create a supplement to an Investor's DDQ covering the content of Service Provider Agreements.

Proposal 20: Claim the right for investors to be assured that the results of cyber-testing carried out by managers and Private Market firms meet appropriate standards.

Proposal 21: Encourage managers and Private Market firms to adopt AIMA's Cyber DDQ.

Private Market Related

Proposal 22: Recommend a stronger fund governance model for Private Market funds to make Limited Partner Advisory Committees (LPACs) more effective. This may include LPACs with greater representation across investor classes; uniform baseline mandates for LPACs; rotation of seasoned LPs; standard reporting and conflict disclosure requirements to LPACs in governing documents; LPACs acting in the capacity of a pseudo-audit committee; and potential independent representation on the LPAC.

Proposal 23: Recommend new and promote existing ILPA Principles to attain terms in Limited Partners Agreements (LPAs) that improve alignment and provide appropriate protection to LPs. For example, new terms would provide clarity on 'waterfall structures'; preferred return; carried interest; management fees; transaction fees; clawbacks; guarantees; and annual third party valuations.

Proposal 24: Seek ILPA template reporting for the periodic disclosure of Private Market fees and expenses. Albourne is currently actively encouraging clients to include fee reporting requirements in their side letters/negotiations with managers.

Proposal 25: As and when the ILPA-based reporting for the periodic disclosure of portfolio company metrics itemized by investments to Limited Partners (LPs) is complete, and the ILPA template is made available, encourage its adoption by managers.

Proposal 26: Support the ILPA Guidelines on the use of subscription lines and borrowing facilities including performance comparability, overall risk mitigation, and transparency/governance, while recommending a middle-ground in the impact on the preferred return calculation. This is currently an ILPA Guideline that should be included in the next update amongst the standard ILPA Principles.

**Update: The ILPA Guidance has now been included as part of the recently released ILPA Principles 3.0.*

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[1] *Albourne is aware of recently-formed group NAFAA (North American Fund Administration Association) and intends to reach out to them in due course.*

Proposal 27: Recommend that managers of self-administered Private Markets funds adhere to the ILPA Principle for LP Capital Account Audits. This can mitigate the risk of incorrect capital, fees or expense allocations across LPs, given that the Private Market manager is solely responsible for this in the absence of a fund administrator.

Hedge Fund Related

Proposal 28: Recommend the creation of a Standard Investor Profile Template, to be added to the SBAI's Toolbox and an associated database, that can be used across funds to simplify and streamline the subscription and AML processes. The template need only be filled out once, though it should then be regularly updated, and it should be used as a basis for all subsequent subscription documents. This could eventually be a potential revenue source for the SBAI.

Proposal 29: Call on managers to tell prospective investors about their policy for disclosing and allocating Co-investment opportunities among investors. This would include providing governance and tracking of Co-investment practices, rights and processes in fund/client agreements and side letters, and the disclosure of investment allocation policies in agreements and applicable offering documents.

Proposal 30: Recommend content disclosures and a standardised report format that should appear in the PPM. For example, in terms of content this should include: trade error policy, service provider liability and policy in terms of harassment allegations. The SBAI should include a standardised content disclosure section for PPMs as part of their Toolbox that is jurisdiction and investment type-specific.

Proposal 31: Provide the SBAI with a to-do list of topics for a working group focused on 'credit-based' strategies. This will cover both Hedge and Private Market funds, and will be consistent with Proposal 32 below.

Proposal 32: Recommend and encourage managers to update their Valuation Policies in line with the AIMA Guide to Sound Practices for the Valuation of Investments, and formulate a policy for valuing hard-to-price assets.

Insurance Related

Proposal 33: Recommend and encourage insurance fund managers via the SBAI Insurance Working Group to create policies, and frameworks for the implementation of these polices, in areas such as Valuation, Income Recognition, Loss Recognition, Side-pocketing, Presentation of historical performance in the presence of Side-pockets, Redemptions, Structuring of Collateral Trusts and Collateral Release Agreements, and Fronting Agreements.

Proposal 34: Encourage insurance fund managers, via the SBAI Insurance Working Group, to provide much greater transparency in performance reporting, showing the performance of both long and short positions and the recognition of losses from historical events over time (as is recommended in the Insurance Open Protocol).

Proposal 35: Encourage investors and managers, via the SBAI Insurance Working Group, to push for a substantial improvement in the estimation process used for indices of industry losses.

Dynamic Beta Related

Proposal 36: Recommend standardising the collection, collation and representation of fee information for Dynamic Beta products, and work on this with the Dynamic Beta Working Group of SBAI. The creation of one generally accepted standard fee report can help ensure greater transparency, equal investor treatment and better oversight.

Proposal 37: Promote standards and regulations on the creation of representative indices of performance. This should not be limited to Dynamic Beta, but should extend to other investment areas such as Hedge Funds, Private Markets etc.

Proposal 38: Require managers to adopt a common standard for back-testing trading strategies, to ensure consistency and viability and to limit overfitting biases.

Proposal 39: Define the recommended terms of Dynamic Beta reporting and the structure of a Dynamic Beta Rulebook. (The aim is for a more practical and user-friendly Rulebook as opposed to a legal document).

Real Estate Related

Proposal 40: Encourage the formation of a working group or board to establish standards and best practice guidelines for Real Estate. For its part, Albourne intends to broaden its collaboration with the industry bodies that set best practice in Real Estate - for example, the Pension Real Estate Association ("PREA") and the National Council of Real Estate Investment Fiduciaries ("NCREIF"). Albourne will also encourage the SBAI to form a working group to look at Real Estate-based funds.

Real Assets Related

Proposal 41: With bodies like NCREIF, ILPA and SBAI, encourage the formation of a working group or board to address and set the standards and guidelines of best practice for Real Assets. Albourne itself intends to broaden its collaboration with the industry bodies that set best practice in Real Assets. Albourne will also encourage the SBAI to form a working group to look at Real Asset-based funds.

Proposal 42: Work with any such Real Assets-based working groups to develop more comprehensive frameworks and standards for the reporting by managers of performance data for Timber and Agriculture.

Proposal 43: Encourage any such Real Assets-based working groups to develop templates that address the unique needs (performance and fee reporting) of cash flow based assets such as infrastructure.

Proposal 44: Encourage any such Real Assets-based working groups to develop universal templates and definitions to allow clients to better understand the risk and asset based attribution of natural resources such as mining and energy.

Responsible Investing Related

Proposal 45: Endorse Albourne's policy to make all its Core Conscience Reports and all ESG white papers available to all clients at zero-marginal cost, subject only to confidentiality obligations imposed by others.

Proposal 46: Explore with private sector firms engaged in corporate-level ESG reporting and with ESG managers the creation of a common base corporate-level ESG reporting format as a basis both for their own analysis and for investors to use to formulate their own direct oversight capabilities.

Proposal 47: Recommend that managers integrate and document a 'Responsible Investment Policy' covering their investment activities for individual funds.

Proposal 48: Recommend that managers document a 'Diversity and Inclusion Policy' and implement practices that foster Diversity and Inclusion ("D&I"). Albourne recommends that all managers, across all alternatives, complete a D&I questionnaire, such as the one published by ILPA. Reporting should include statistics on diversity within the manager's ownership structures, its lead decision makers and its broader organization. Albourne will be advocating for and facilitating the standardization of a D&I questionnaire across the alternatives industry, using the ILPA D&I Questionnaire as the foundation, with input from other standard setting bodies, investors and asset managers.

Proposal 49: Develop and agree the taxonomy and standardised reporting metrics for impact investing, providing some level of comparability in definitions across managers and also outlining key reporting metrics on engagement, proxy voting, etc. For itself, Albourne will promote its views with industry bodies.

Proposal 50: Create a Due Diligence Questionnaire on Philanthropy to be made available to all via Albourne.com. In time, Albourne hopes to establish an "Emote-space" directory comprising charity-supplied answers to the questionnaire, together with any feedback from Albourne-recognised fund managers and investors, as a costless way of sharing third-party due diligence.

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