

The AIMA logo consists of the word "AIMA" in white, uppercase, sans-serif font, centered within a dark blue square. A solid magenta horizontal bar is positioned directly beneath the dark blue square. The background of the entire slide is a photograph of a person's feet wearing brown leather cowboy boots, standing on a wooden plank that is part of a larger wooden structure with vertical slats.

AIMA

# **Bridging the Gap with Sound Practice Guides and DDQs**

## What's covered?

This document describes the various Sound Practice Guides, guidance and other guides available to members and discusses the various illustrative due diligence questionnaires we make available to members.

Submit feedback by answering the poll questions you will see throughout and clicking "See results". This will also show you how others have voted with respect to that question.

## Learn about our DDQs by exploring these pages:

1. Separating the wheat from the chaff
2. Focusing on fund directors
3. Assessing vendor cybersecurity

*More information can be accessed related to each of these pages by clicking the arrow next to the title on any given page.*

## Learn more about existing and forthcoming guides, guidance and Guides to Sound Practices by exploring these pages:

### Regarding service providers and fund directors

1. Selecting a prime broker
2. Selecting clearing brokers
3. Selecting fund administrators\*
4. Enhancing fund governance

### Regarding potential product types

1. Developing liquid alternative funds
2. Establishing managed accounts\*

### Regarding investors and the media

1. Building relationships with investors
2. Dealing with the media

### Regarding operational risks

1. Managing operational risk
2. Assessing cyber preparedness
3. Valuing client assets
4. Negotiating side letters
5. Preventing market abuse\*
6. Paying for external research
7. Managing liquidity risks\*

## Learn more about what's coming in 2017:

1. Rising to new heights

Each of the pages listed above, other than the ones marked with an asterisk, has a related immersion page where you can read more and provide relevant feedback. The ones with an asterisk are all forthcoming.



# Separating the wheat from the chaff



## History of the AIMA DDQs

We offer a selection of due diligence questionnaires to assist investors in assessing the fund investments they might make, as well as the fund's service providers and fund directors.

These questionnaires will be of interest to:

- investors
- product development staff
- investor relations staff
- legal and compliance staff
- risk management staff

## What types of DDQs does AIMA offer?

Our suite of illustrative DDQs focuses on:

- Investment managers
- Prime Brokers
- Clearing Members
- Fund Administrators
- Fund Directors
- Vendor Cyber Security

## What prompted AIMA to get into this area?

AIMA created the first version of its Illustrative Questionnaire for the Due Diligence of Hedge Fund Managers in 1997 in response to requests from investors for a standard due diligence questionnaire. The first version was meant to suit any type of strategy. By 1998, investor demand for tailored DDQs for managed futures funds and funds of hedge funds meant that two additional questionnaires were created. Since then, the AIMA DDQs for investors have gone on to

become the industry-standard DDQ templates.

## What types of DDQs are currently available?

The AIMA DDQ library today is designed to assist investors in performing their due diligence on investment managers, administrators, prime brokers, clearing members and fund directors.

Have you used an AIMA DDQ?

☐ Yes

☐ No

See results

## Why is it useful for there to be a standardised set of questions?

Standardised questions help investors compare

like-for-like when they receive responses from multiple managers. Managers like standardised questions because it reduces the amount of work they have to do and helps them reassure investors that they are all receiving the same information. Even in the absence of an investor request for information, a standard set of questions can be helpful for new managers who are seeking to assess their own practices against industry standards.

The AIMA modular investment manager DDQ is used by investors from all around the world and by many of AIMA's manager members. For investors, the DDQ is an early step in the due diligence process but by no means is it the last step. Investors use the information they get from the responses to these questions to develop areas of focus for further questions and discussion with managers and to cross check information from other sources.

## How does AIMA decide when and how to amend the DDQs?

AIMA's Sound Practice Committee, which is

made up of representatives from a variety of firms from countries around the world, is charged with the oversight of the development and evolution of the DDQs. When the Committee believes that user input, regulatory change, the passage of time and other factors warrant a fresh look at a DDQ, a working group of between 15 and 40 member volunteers is selected to prepare a new draft. These volunteers are selected from among the manager members, fund of fund manager members, service provider members and investors. Once a new draft has been completed by the working group, it is made available for the review and comments of the Committee, as well as other members not on the Committee or the working group (including investors) who have expressed an interest in providing feedback on the pre-publication draft. Following that review process, a final version is prepared and published.

## Can non-members use the AIMA DDQs?

AIMA DDQs are reserved for the use of AIMA members.

Should AIMA DDQs be available for use by non-members?

☒ Yes

☐ No

See results



# Focusing on fund directors



## Due Diligence on Fund Directors and Fund Governing Bodies

AIMA, in conjunction with an independent group of allocators and investors, has developed a fund director DDQ to assist investors and managers in assessing fund directors and fund governing bodies.

These questionnaires will be of interest to:

- investors
- product development staff
- legal and compliance staff

### Why is it useful for there to be a standardised set of questions?

Standardised questions help investors compare like-for-like when they receive responses from multiple fund directors. Directors like standardised questions because it makes them more efficient when replying to requests for information and helps them reassure investors that they are all receiving the same information. The fact that investors and allocators (including many who are not AIMA members) are also using the same question set should further increase the efficiency for directors.

### How do these DDQs fit into an investor's overall due diligence process?

The DDQs are an early step in an investor's due diligence process but not the last step. The DDQs are not an exhaustive list of the matters that investors or investment managers could or should consider when performing due diligence on directors or fund boards. Each user will need

to determine whether any questions should be added or amended. Investors will use the information they get from the responses to these questions to develop areas of focus for further questions and discussion with managers and directors, as well as to cross check information from other sources.

Have you or your fund directors filled in a DDQ for a manager or investor?

☐ Yes

☐ No

[See results](#)

### Platform access now available

The full suite of AIMA DDQs is now available for use through a number of electronic platforms, including AlphaPipe, CENTRL and Diligence Vault.



# Assessing vendor cyber security



## AITEC-AIMA DDQ for Vendor Cybersecurity

AIMA has partnered with AITEC in an effort to promote awareness and adoption of its vendor technology due diligence questionnaire in asset management.

This DDQ will be of interest to cyber technology and operations professionals at investment managers and vendors, as well as to investors.

The DDQ is designed to streamline the process of conducting due diligence on vendors servicing the alternative asset management industry. The DDQ represents the superset of critical questions compiled by a committee of AITEC and AIMA members who are experienced in technology and operations.

If you are a manager, do you use the AITEC-AIMA DDQ for Vendor Cyber Security to assess your vendors?

☐ Yes

☐ No

[See results](#)

The AITEC-AIMA DDQ allows the industry to approach vendors as a single voice which provides efficiencies in communication and ultimately increases the market's understanding of technology infrastructure.

If you are a vendor, have you completed a copy of the AITEC-AIMA DDQ for Vendor Cyber Security?

☐ Yes

☐ No

[See results](#)

The AIMA-AITEC DDQ for Vendor Cyber Security is also available for use through the Markit KY3P, AlphaPipe, CENTRL and Diligence Vault.



# Selecting a prime broker



## Selecting and Periodically Assessing Prime Brokers

This guide provides some suggestions about what managers should consider when they are selecting or assessing the performance of a prime broker. There is also an accompanying DDQ.

This Guide to Sound Practice will be of interest to:

- COOs
- CCOs
- Product developers
- Risk management staff

The Guide to Sound Practices for Selecting a Prime Broker was published in December 2014 and incorporates changes to the regulatory framework that affect the relationship between managers and prime brokers, including reporting requirements and other new measures introduced under the Dodd-Frank Act in the US and Europe's Alternative Investment Fund Managers Directive (AIFMD) and the European Market Infrastructure Regulation (EMIR).

The Guide also reflects the greater degree of due diligence being conducted on prime brokers and the evolution in the prime brokerage model since the financial crisis. It contains guidance on appointing a prime broker and issues to be aware of when selecting more than one prime broker, and also highlights the likely impact of future regulatory changes. In addition, it discusses the core services of prime brokers and defines a number of key commercial terms.

Do you use the Illustrative Questionnaire for the Due Diligence of Prime Brokers?

☐ Yes

☐ No

[See results](#)

# Selecting clearing brokers

The background of the slide is a dark blue field filled with a complex pattern of lighter blue squares and arrows. The squares vary in opacity and size, creating a sense of depth. The arrows are white and blue, pointing in various directions, suggesting a flow or a network. The overall aesthetic is technical and digital.



# OTC Derivatives Clearing

The Guide to Sound Practices for OTC Derivatives Clearing will be of interest to:

- General counsels
- Portfolio managers

This Guide, published in July 2014, provides guidance on the new regulatory framework in the US and European Union, which affects most OTC derivatives transactions cleared globally. The Guide to Sound Practices is supplemented by a Due Diligence Questionnaire for Clearing Members, which is intended to help asset managers during the process of evaluating different clearing members and clearing houses.

Have you read this guide or used the related DDQ?

☐ Yes

☐ No

See results



# Selecting and periodically assessing fund administrators



# Selecting and Periodically Assessing Fund Administrators

For funds, the fund administration relationship is second in importance only to the investment management arrangements. The administrator performs many vital functions for the fund and, as a result, significant care and consideration should be taken in selecting a new administrator and choosing to continue an existing relationship with an administrator. This will assure that the services to be provided are of the highest quality and suited to the needs of the fund and its investors and that the administrator will work well with the investment manager.

This Guide examines various aspects of the relationship that funds and investment managers have with fund administrators, from the start of a new relationship through to the end of a relationship and transition to a new one. The Guide frames what funds and investment managers should consider when selecting a new administrator or assessing the ongoing service of an existing administrator, specifically looking at sound practices in relation to assessing the administrator's services and practices in relation to:

- **On-boarding and starting new relationships:** The amount of regulatory and compliance obligations involved in accepting a new client's business requires a review of the subscription agreements, the offering memorandum, the SLAs and KPIs, AML/KYC/CTF matters in relation to the fund and the investment manager and the administration agreement, all of which are explored in greater detail in **Section 2** of the Guide;
- **Relationship management and oversight:** **Section 3** of the Guide outlines the importance of the investment manager establishing and agreeing a clear relationship management and interaction process with the administrator from the outset, and outlines some key considerations the investment manager should consider with regard to both the oversight and relationship management processes;
- **Transfer agency and paying agent services:** **Section 4** of the Guide

outlines the formal role of a transfer agent and the role they play in relation to subscription, redemption, transfers, bank accounts, cash payments and the signatory process;

- **AML/KYC/CTF checks:** The purpose of AML/KYC/CTF policy is to protect the fund, the investment manager, the administrator and its clients from being associated with money laundering or other criminal activities. The applied AML/KYC/CTF policies should include KYC screening, processes for subscriptions and redemptions and verification of clients and their source of funds or wealth, bearing in mind country risk, all of which is covered in **Section 5** of the Guide;
- **Fund accounting and NAV calculations:** **Section 6** of the Guide looks at the role the administrator plays in the key stages of the NAV process, from initial trade capture reflection in the books and records, through to allocation

of P&L and calculation of fees. The calculation of the fund's NAV is one of the primary roles of an administrator, with the administrator needing to independently calculate the NAV for each fund on an accurate and timely basis;

- **Middle office services:** **Section 7** of the Guide highlights the key considerations the investment manager should assess when outsourcing middle office services to an administrator;
- **Financial reporting:** Financial reporting and regulatory reporting have become far more important in the current environment, and the depth and type of such services are explored in **Section 8** of the Guide along with the how administrators are able to assist in these areas;
- **Other reporting to investors and regulators:** **Section 9** of the Guide outlines how the administrator can assist with investor reporting and other

regulatory, tax and systematic risk reporting obligations;

- **Monitoring undertaken by the administrator:** The administrator can offer the investment manager valuable post-trade monitoring services including investment strategy and restriction compliance, investor profiling and U.S. investor monitoring, all of which is discussed in **Section 10** of the Guide;
- **How the administrator provides services:** **Sections 11, 12 and 13** of the Guide outline the services administrators offer, and consider some of the relevant regulations namely around outsourcing by investment managers that may impact how the administrator delivers services to the investment manager. These sections also explore some of the operational risks related to the administrator's business;
- **Additional services the administrator may provide:** Although the primary roles

of the administrator are to calculate the fund's NAV and record its investor transactions, there may be other services the administrator can provide to the investment manager and/or the fund, including, company secretarial services for example. Some of these additional types of services are discussed in Section 14 of the Guide; and

- **Off-boarding/transitioning:** It is important that the investment manager is satisfied with the administrator's termination process, and that the administrator is able to demonstrate the steps that would be taken if the investment manager and/or the fund were to issue a notice of termination. Section 15 of the Guide highlights the considerations the investment manager should keep in mind when reviewing the administrator's termination process.



# Enhancing fund governance



# Fund Directors' Guide

The Fund Directors' Guide (3rd Edition, 2015) was developed in order to assist managers and fund directors in enhancing fund governance.

This Guide should be of interest to:

- Fund directors
- Potential fund directors
- Investment managers
- Investors

The Fund Directors' Guide (the 'Guide') is the initiative of AIMA's Sound Practices Committee. AIMA first published the Guide in June 2005 and last revised it in 2008 under the title AIMA's Offshore Alternative Fund Directors' Guide. The Guide has three principal audiences in mind, which are, in no particular order of importance:

- investment managers and promoters of alternative funds;
- individuals who are considering becoming directors of an alternative fund; and
- the appointed board of directors of an alternative fund.

The Guide examines some of the practical, legal and tax considerations when selecting and appointing directors of an alternative fund; it explains the basic tasks that fund directors should carry out and suggests ways in which fund directors could manage their relationships with the fund's service providers. It contains general advice on several important issues, including the review of the annual audited accounts and issues relating to

directors' and officers' liability insurance. Naturally, the potential impact of taxation on a fund is an important driver; consequently, the Guide considers the impacts of taxation in various specific jurisdictions affecting the fund, service providers and the directors.

Have your funds' directors reviewed this Guide?

☐ Yes

☐ No

See results

The Guide has been updated to reflect new regulatory and tax developments (e.g., AIFMD and FATCA) and adds new sections covering the general approach to fund governance, monitoring of trading practices, insider trading and business continuity planning. We have revised the main body of the Guide to be more jurisdiction neutral and added appendices to

address Bermuda, Cayman Islands, Guernsey,  
Ireland, Jersey, Luxembourg, Malta and US  
funds.





# Developing liquid alternative funds

# UCITS and Alternative Mutual Funds

AIMA's Guide to Liquid Alternative Funds examines the issues arising when managing UCITS and alternative mutual funds.

This Guide may be of interest to:

- Product development staff
- Legal and compliance staff

The Guide, published in October 2015, is designed for hedge fund managers that are considering adding a UCITS or a mutual fund registered under the Investment Company Act of 1940 (a 'Liquid Alternative Fund') to their product offering and provides an overview of the range of issues that a hedge fund manager is likely to face in setting up a Liquid Alternative Fund. The Guide brings together the experience of practitioners from a wide range of fields in the alternative investment industry, and is meant to emphasise the practical considerations that are most relevant for a hedge fund manager's decision-making process. The Guide takes into account the latest major regulatory and tax developments, and addresses some of the different jurisdictional requirements and practices affecting funds established in Ireland, Luxembourg and the United States, which are the most common jurisdictions for Liquid Alternative Fund structures.

Have you read this Guide?

☐ Yes

☐ No

See results

Which of the following best represents your reaction to this Guide?

☐ Just right

☐ Too long

☐ Not enough detail

See results





# Managing managed accounts



# Managed Accounts Guide

AIMA's Managed Account examines the issues arising when setting up and managed managed accounts.

This Guide may be of interest to:

- Product development staff
- Legal and compliance staff

Managed accounts typically offer an investor the ability to invest in alternative investment strategies with greater control over their own assets and greater transparency and flexibility than would be available in a traditional commingled fund structure. Investment managers are increasingly amenable to using managed accounts to diversify their asset raising options.

Investor demand for managed accounts exists because, among other things, managed accounts offer investors:

- Control over how the account is funded, structured and governed;
- Depending on the structure, the ability to select service providers for the account;
- Greater transparency with respect to the assets traded;
- Greater flexibility to negotiate with the investment manager on:
  1. Risk management guidelines;
  2. Investment parameters, including any divergence from the investment strategy

- of the reference fund, if applicable;
3. Leverage use;
4. Liquidity and the ability to increase or decrease funding of the managed account periodically;
5. Reporting;
6. Management fee and performance fee amounts and calculation methods;

- Insulation from the types of impacts that investors in traditional commingled fund can have on each other when they subscribe or redeem in large amounts; and
- For certain institutional investors who do not invest in commingled accounts, the ability to invest in certain alternative strategies.

There are also some potential disadvantages to managed accounts from an investment manager's perspective that should be considered (and negotiated with the investor where applicable) before initiating a mandate:

- Increased operational risks from any

counterparties and service providers selected by the investor rather than by the investment manager;

- Increased operational and performance risks from trade allocation (e.g., rounding, sub-division of certain types of trades like futures), use of multiple prime brokers, give ups, management of trading errors) where the managed account is trading pari passu with a reference fund as every trade will be subject to an allocation;
- Additional or different transparency and reporting obligations than apply to the investment manager's commingled funds;
- Further conflicts of interest;
- MFNs with other clients, which may cause the investment manager to provide any additional benefits negotiated with a managed account investor to any client who already has an MFN in place; and
- Increased regulatory burdens (including AML/CTF/KYC, FATCA, etc.).

sometimes for larger ones), the increased operational and regulatory burdens do come at a cost. Additional resources are often required and there are inherent risks in expanding the investment manager's reporting infrastructure. For these reasons, investment managers often set large minimum investment thresholds.

The Managed Account Guide explores these topics and more in greater detail.

For smaller investment managers (and



# Building relationships with investors



# Guide to Sound Practices for Investor Relations

The Guide to Sound Practices for Investor Relations looks at what managers should be considering when approaching investors.

This Guide to Sound Practices will be of interest to:

- Investor relations professionals
- Legal and compliance staff

This Guide, published in June 2016, aims to identify a common set of sound practices that will help investment managers build a stable investor base, a key pillar of a sustainable hedge fund business. The guide comes at a time of great change for how client relationships are managed, investment management brands are built and assets are raised and retained.

Have you read this Guide and considered how your firm compares?

☐ Yes

☐ No

See results

As the industry continues to institutionalise, the remit of investor relations ('IR') teams is evolving along with the industry itself. Increased transparency and heightened

expectations around communications mean that those professionals with client servicing responsibilities now may require additional technical knowledge in order to respond to investor queries and present regular updates on the fund and portfolio. Infrastructure and systems should be able to accommodate investor reporting in an efficient and secure manner.

Marketing is moving beyond just the production of pitch books. Branding is gaining currency and marketers consider how to best build that brand through a clear definition of an investment manager's edge, a campaign of thought leadership and strategic usage of media, both traditional and social. And when it comes to raising assets, investment managers are increasingly working directly with large institutions which often entails reviews by investment consultants, deep operational due diligence dives and a great deal of patience.

This is all occurring against a backdrop of regulatory change and heightened enforcement scrutiny on marketing compliance. IR teams

work closely with their investment, operations, legal and compliance peers to coordinate a compelling, commercial and compliant offering.

Among the topics the guide addresses are the structure and responsibilities of the IR function, investor communications, marketing, fundraising, due diligence, subscriptions and redemptions.

# Dealing with the media





# Guide to Sound Practices for Hedge Fund Managers' Media Relations

This Guide will be of interest to:

- Investor relations staff
- Legal and compliance staff

The Guide contains sections on creating and executing a media relations strategy, social media and 'traditional' media, compliance issues and outsourcing PR support. The new edition reflects the impact on hedge fund managers' media engagement of a number of recent trends including the on-going institutionalisation of the industry, the JOBS Act, the emergence of a retail client base and the expansion of Twitter, LinkedIn and other social media channels. The goal of the original Guide, “to encourage all in the hedge fund industry to consider the benefits of positive awareness and of building credibility, for yourselves as well as the wider industry”, remains as valid as ever.

If you have read this Guide, did you find it helpful?

☐ Yes

☐ No

See results



**Managing operational risk**

# Guide to Sound Practices for Operational Risk Management

The Guide to Sound Practices for Operational Risk Management focuses on the activities that should be undertaken to effectively manage operational risks.

This Guide is likely to be of interest to:

- COOs
- Legal and compliance staff

This Guide, published in February 2016, sets out principles that small- to medium-sized hedge fund managers should consider when developing an Operational Risk Management ('ORM') program as part of their overall compliance and operations. With the increased scrutiny of hedge fund managers by institutional investors, regulators and the media, particularly post-2008, the focus on a hedge fund manager's ORM processes and procedures has multiplied. Following this trend, institutional investors and ORM specialists routinely recommend that emerging managers adopt "sound practices". AIMA hopes that this Guide will provide additional insights for its manager members looking to improve their operations, and understand what next steps could be considered as an investment manager's AUM grows.

Have you assessed your operations against the sound practices set out in this Guide?

☐ Yes

☐ No

[See results](#)



A stylized image of the Earth, showing the continents and oceans. Overlaid on the globe is a complex network of glowing orange lines, representing global communication or data networks. The lines are most dense over North America and Europe, with many lines crisscrossing the globe. The background is dark, making the glowing lines and the Earth's surface stand out.

# Assessing cyber preparedness

# Guide to Sound Practices for Cyber Security

The Guide to Sound Practices for Cyber Security is updated periodically to keep it fresh. The most recent update was published in July 2017.

This Guide will likely be of interest if you are:

- CTO/CISO/head of technology
- COO
- General counsel/head of legal

Technological advances have brought great efficiencies to alternative asset managers (referred to throughout this Guide generically as 'investment managers'), but not without introducing new and unexpected risks. Rapid technological developments often tend to introduce both novel opportunities and previously unimagined risks. In today's world, cyber security is one of the biggest challenges facing business and it is often difficult to appreciate what businesses should really be worried about in terms of cyber threats. Until now there has been very little guidance tailored to investment management firms in general, and alternative asset managers in particular. This has raised questions both about investment managers' understanding of the various cyber security-related issues and how they could impact their businesses, as well as their overall level of preparedness.

Investment managers who have considered the extent of cyber risks in their business will already know that there is no one-size fits all solution: each investment manager's reaction must be appropriate to them, and

proportionate to their budget. Throwing money at the problem is not always the most effective solution. With this in mind, the Guide walks through the material considerations in the wider cyber debate to enable investment managers to have informed internal discussions about what they need to do within their own organisations to respond to the threat and continue to be an effective investment manager.

Some of what is referenced in the Guide many investment managers may do already, some of it may be new or provide a new angle to the debate for some investment managers, and there will be much along the scale in between, but the overall message is that doing nothing is not an option.

The Guide is not intended to be the solution to any investment manager's cyber security issues. It is designed to frame the principles of the debate rather than directing it. The Guide seeks to enable those responsible for the implementation of a cyber security programme to really understand the universe of problems



as well as to consider more sensibly what is and what is not applicable to them. The Guide also tries to differentiate between what are seen as advanced defensive techniques and those which are more basic to enable some selection to be made between base layer protection and something more complex. While there is an acknowledgement of the most sophisticated of cyber threats and protection techniques, the focus of this Guide is to concentrate upon doing the straightforward things really well.



The Guide will help investment managers:

- understand their critical assets and threats targeting these assets in order to determine what their overall risk to the threat is;
- assess what their cyber security goals are in the context of their risk tolerance; and
- assess whether their current governance structure and existing information security policies and procedures are sufficient for meeting those goals.

The Guide will also assist investment managers in improving their understanding of the nature and scope of the cyber threats facing them and the developing regulatory context being applied to cyber security matters. Section 2 of this Guide explores the nature and scope of the cyber threat facing investment managers, looking at the types of attackers and what motivates them, and it also provides some real examples to illustrate the current threat environment. Section 3 then discusses the developing regulatory context.

Because the hedge fund community shares many common features with other players in the financial services world, an investment manager's reaction needs to consider the same issues:

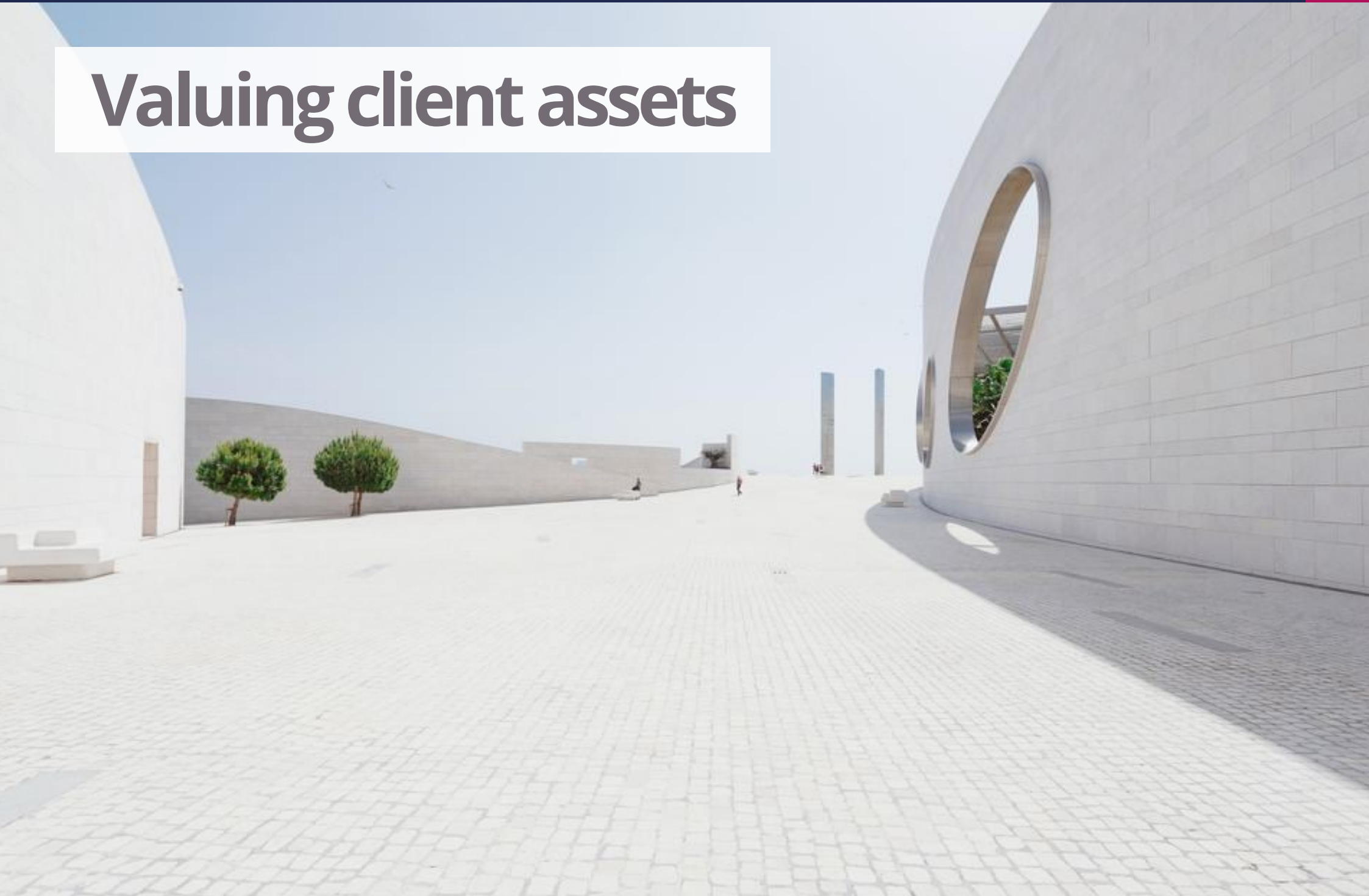
- employee education,
- executive engagement,
- ongoing monitoring,
- proper procedures and auditing,
- self-testing,
- personal device control,
- managing risks from relationships with third-parties, and
- appropriate insurance.





Accordingly, the rest of the Guide elaborates on the considerations relevant to the development, operation and maintenance of an effective cyber security programme. The discussion in the Guide focuses on matters such as governance, employee related considerations, the technology that can be used for data protection, threat prevention and threat detection and how these technologies can be developed in-house or using cloud services.

# Valuing client assets



# Guide to Sound Practices for the Valuation of Investments

The Guide to Sound Practices for the Valuation of Investments is a "must read" for people involved in fund valuation.

You will be interested in reading this guide to sound practices if you are:

- CFO
- COO
- Investor relations

AIMA is pleased to present the updated 2018 version of the Guide to Sound Practices for the Valuation of Investments. The alternative asset fund industry has continued to develop and mature since the last version of the guide was published in October 2013. Although the significant challenges that arose immediately following the financial crisis have been moderated by new regulatory requirements and the passage of time, valuation remains a continuing area of regulatory, accounting and investor scrutiny. In addition, a significant increase in the numbers and types of alternative asset funds investing in and holding illiquid assets has heightened interest in valuations processes. AIMA believes that the enhancement of sound practices in the area of valuation is an ongoing process, given the evolution of the different types of instruments, and developments in valuation techniques in the context of a changing regulatory environment.

The vast majority of alternative fund managers behave in a responsible manner and take their fiduciary duties very seriously. Their reputation and future success relies upon their reliability,

transparency and credibility in the eyes of existing and potential investors. Such investment managers have an obvious vested interest in the ongoing stability of financial markets and the equitable treatment of investors. AIMA's previous valuation guides have demonstrated that opinions and techniques may vary but that most stakeholders understand the issues that arise and seek to address them as diligently as those who operate in other financial sectors. The valuation of financial assets is an area where inherent risks can never be eliminated, regardless of how simple the asset class or investment vehicle may appear. This fourth edition of the guide seeks to reflect the changes in the markets and industry with respect to valuation since 2013. We have expanded the number of recommendations by one, to 17, and enhanced and updated a number of the existing recommendations to reflect trends in valuation processes during that period. This version of the guide also better reflects the valuation practices that have developed in the wake of the implementation of the AIFMD.



These recommendations on hedge fund valuation, which AIMA has developed over time, have been recognised and acknowledged globally by regulators. The recommendations reflect sound practice in alternative asset fund valuation in the current environment.

The guide sets out and elaborates on:

#### **Recommendations regarding governance**

- adopting a Valuation Policy Document;
- the contents of a Valuation Policy Document;
- establishing a fair value hierarchy;
- segregating duties;
- overseeing the valuation process;

#### **Recommendations regarding transparency**

- making appropriate disclosures to investors;
- disclosing any material involvement of the investment manager in the valuation process;
- providing transparency reporting to

investors;

#### **Recommendations regarding procedures, processes and systems**

- segregating the valuation process from the investment process;
- managing investment manager involvement in the valuation process;
- maintaining consistency with accounting standards;
- applying and deviating from the policies in the Valuation Policy Document;
- managing price challenges and inaccurate vendor sourced prices;

#### **Recommendations regarding sources, models and methodologies**

- establishing primary pricing sources;
- using broker quotations;
- using pricing models and pricing matrices; and
- valuing side-pockets.

# Negotiating side letters



## Side letter guidance

Now in its second edition, our side letter guidance is a valuable tool for fund governing bodies and for investment managers.

This guidance may be of use to:

- General counsels/heads of legal
- COOs
- CCOs
- Fund governing bodies

It is common for investors in funds (particularly, institutional investors such as funds of funds, pension plans, sovereign wealth funds and government plans) to seek special terms and conditions to govern their investments. When such special terms and conditions are agreed, the fund and/or its investment manager often documents the agreed terms and conditions in a "side letter" agreement.

AIMA's Side Letter Guidance 2015 updates earlier side letter guidance and touches on considerations around:

- The terms of fund constitutional documents and offering documents not prohibiting side letters;
- What the terms of side letters might include;
- Directors' duties when considering side letters;
- The parties and signatories;
- When a side letter might cause the need for a new class of units/shares;
- Disclosure of side letters to investors and prospective investors; and

- Ongoing management and monitoring of side letter obligations.

Do your funds follow the AIMA side letter guidance?

☐ Yes

☐ No

See results



# Paying for external research



## Paying for external research

This Guide may be of interest to:

- Legal and compliance staff
- Portfolio management staff
- COOs

AIMA published its Guide to Sound Practices for Paying for Research in September 2016. The Guide aims to provide guidance to investment managers who purchase externally sourced equity or fixed income research on behalf of their client accounts. It aims to clarify industry sound practice in relation to the payment for research and to help investment managers understand their role and responsibilities to their clients when using client's assets to pay for research. The Guide focuses on the basic principles underlying the regulation of the payment for research, which should be internationally applicable, but examines the regulatory regimes in the U.S. and the UK more thoroughly.

Have you read this Guide yet?

☐ Yes

☐ No

[See results](#)





**Rising to new heights**



## What's next?

We continue to develop sound practices and due diligence questionnaires.

Help us decide by giving us your feedback and ideas!

Which of these would be the most useful to you?

- ☐ A guide to sound practices for outsourcing
- ☐ Trade error guidance
- ☐ A reporting requirement census

See results

If you have other suggestions or comments, please contact us at [info@aima.org](mailto:info@aima.org).

Thanks for your feedback!

# Bridging the Gap with Sound Practice Guides and DDQs