

ANALYSE THIS - HEDGE FUND SERVICES

Hedging your bets



What are the current key trends in fund administration?

DEREK BUNTAIN, CHAIRMAN OF DUNDEE LEEDS MANAGEMENT SERVICES

Consolidation remains a key theme in the industry, whether through mergers which have brought global banks into the mix or through diversification by prime brokers into the administration space. Independent administrators, however, continue to thrive and the recent acquisition of Bisys by Citigroup after a long 'for sale' process, again raises the question of which type of administrator is best. In short, it comes down to manager choice, although large investors are increasingly able to exert some influence over this decision. An awareness of the implications of your administrator's ownership on your service offerings will help you make an informed choice on an important partnership.

Administrators owned by global banks and brokers have the advantage of a well known name behind them, which puts managers in an attractive position. A big balance sheet is also a huge advantage in this industry where no two hedge funds are alike. Scaling to accommodate this requires significant infrastructure investment, which is magnified by the anticipation of ever greater demands for independent pricing and valuation. However, many bank owned administrators have come about through multiple consolidations of smaller administrators, which can be problematic when it comes to the complexity of system integration. Many could be running their operations on multiple systems if the integration process is not managed properly.

Although technology continues to be a differentiator in this industry, it is a constant challenge for all administrators, regardless of ownership or size. While tier one administrators may have the resources to invest and develop their systems, they are faced with transitioning legacy technology, which can make them slow to change. Smaller administrators can be more nimble, but may have fewer resources to allocate to technology development.

All administrators rank clients, giving a premium service to those able to pay a premium price, but because bank and broker owned administrators are looking to cross sell additional services, a client not looking for these services could be pushed to the bottom of the pile and face mediocre service based on a much more extensive rating system.



Are hedge funds taking a seat at the EDM table?

JEFF LI, PRINCIPAL, CHIEF INFORMATION OFFICER AND CHIEF TECHNOLOGY OFFICER OF OPEDGE INVESTMENT SERVICES LLC

As the number of multi-asset, multi-strategy hedge funds continues to grow, so too does the demand for reference data management at the enterprise level. Such investment strategies spin a complex web of reference data elements. However, many hedge funds lack the infrastructure and experience to properly manage such large data volumes. Instead they look to their hedge fund administrators to provide clean exchange traded and OTC products, as well as price and position information.

It is a trend that shows no sign of abating; with some hedge funds already using consolidated reference data as a means of competitive advantage. This makes perfect sense when you consider that the quality of the reference data affects the quality of trading positions, profit and loss and trade settlement. This in turn affects investment decisions and operational risk.

However, implementing an internal system that can manage that quality control from scratch takes time, something that is rarely available in the fast paced world of hedge funds. That's why firms like OpHedge are doing it for them. By using an enterprise reference data management tool like GoldenSource, OpHedge is able to capture data from multiple sources such as market data vendors, dealers and prime brokers. This is then fed downstream for clients' trade processing, general ledger (GL) or reporting requirements.

Indeed, maintaining reference data across systems and across multiple hedge fund clients is challenging for any service provider. With a centralised data management solution, data cleansing and corporate action processing can all be handled in one place and the data can be fed from a single source.

While hedge funds have historically flown beneath the regulatory radar, increased pressure from regulators and institutional investors has created the need for tight operational control. Hedge fund managers increasingly have to demonstrate transparency on their investment portfolios, which is why hedge fund administrators need to streamline the complete trade processing workflow. What we are doing is enabling our clients to access consolidated position and transaction information from a reference data repository so they can customise their trading reports.