

# Don't Just Check the Box

## HedgeServ

HedgeServ is redefining hedge fund administration with excellence in service and a shared technology platform that breaks the cycle of costly data duplication while strengthening controls and giving clients real-time access to their data. HedgeServ client service teams are the most experienced in the industry at consistently delivering timely and accurate information to both hedge fund managers and investors. HedgeServ supports all structures, strategies, and domiciles of hedge funds, funds of hedge funds, managed accounts, private equity funds, and endowment investment platforms from offices in New York City, Dublin, and Grand Cayman.

HedgeServ was awarded the #1 ranking for highest overall average score in the 2010 Global Custodian fund administration survey, receiving perfect scores in both client service and investor services.

## Hedge fund administration is not a commoditized service.

This fact does not make life easy for anyone tasked with selecting or evaluating a fund administrator. There is increasing complexity and cost to the review process, and a diverse range of fund administrator capabilities and levels of quality to assess. Hedge fund managers face pressure to build quality infrastructure in order to attract and retain capital. Investors' due diligence analysts face similar pressure to protect their firms from operational risk and fraud. Independent fund administration should be the practical solution to both of these challenges. Unfortunately, legacy approaches to selecting an administrator based purely upon "check the box" considerations, such as lowest cost or widest brand recognition have exposed many managers and their investors to the operational and reputational risks inherent in traditional fund administration.

Just as operational due diligence progressed post-Madoff from questionnaire-driven assessments to rigorous on-site verifications, fund administration best practices are now evolving to a higher standard of best practices. **At HedgeServ we believe four key criteria have emerged to help managers and investors benchmark the quality of a fund administrator in this redefined fund administration landscape.**

### 1. Experienced professionals

Under-qualified staff, high turnover, and inefficient coverage silos are all pitfalls associated with traditional fund administration. This not only limits the value-add an administrator can contribute to a manager, but also increases the risk of errors in calculating a NAV or answering investor queries. At HedgeServ, we believe fund administration will always be - first and foremost - a people-driven business - and have invested accordingly. Our stable and accessible senior management team has a proven track record of innovation, with each member having over 20+ years' experience. Broad employee ownership of the firm has translated into highly motivated staff and zero turnover among managers, directors, and managing directors since the firm was founded. Over 70% of HedgeServ fund accounting professionals hold the CPA or CA designation and investor services staff average 10+ years of industry experience. HedgeServ possesses integrated in-house expertise in audit, tax, risk analytics, valuation, and support of OTC and bank debt products. Client coverage teams are assembled with skill sets specific to each individual manager's business requirements and have clear points of senior contact. HedgeServ is an easy organization to navigate, with staff who work as a trusted extension of the manager's own team.

# It has never been more important to perform in-depth due diligence when assessing a fund administrator.

## 2. Shared technology platforms

Typical fund administration platforms are characterized by disparate legacy systems and administrator-centric applications requiring spreadsheet workarounds. The result is a lack of transparency into how data is calculated and limitations on the overall usefulness of the data. HedgeServ instead offers hedge fund managers real-time total access to their data through a current “shared technology platform.” This means that HedgeServ staff and managers use the exact same set of tools, at the same time, with the same views of the data. Our post-execution workflows are fully integrated and progress logically across front office, middle- and back office operations, accounting, and investor services workflows. Managers have complete real-time transparency into all data points within the platform. Portfolio data is fully customizable via manager-defined tags at the instrument, trade, strategy, fund, and firm-wide levels in ways that make sense to individual users within each manager. This allows managers to speak the same language when viewing their data - functionally across their organization, with counterparties and service providers, and with their investors. We believe this approach offers better control over data quality and ultimately reduces the amount that managers need to invest in their own infrastructure.

## 3. Controlled processes

Due to gaps in traditional fund administration processes, managers historically have had to divert resources away from core competencies to build out and maintain their operational and technology infrastructures.

HedgeServ provides managers with highly scalable, institutional quality infrastructure that is SAS70 certified and designed to complement managers existing internal tools and workflows. We augment our SAS70 commitment with additional independent oversight from internal audit, compliance, and quality assurance functions. The HedgeServ technology platform, extending a best-of-breed portfolio management system, eliminates spreadsheets and proxy security setups to process complex instruments. It is a highly permissioned environment with full audit trails, and managers have clear views into all workflows across the platform (except the general ledger and share registry, which are accessible via read-only views). Critical deliverables such as the creation and distribution of investor statements are all performed within our system – even the manager review and approval process. HedgeServ takes full responsibility for the quality of its work product and does not look to include a liability cap in its service agreements with managers.

## 4. Accurate NAVs, on time

NAV restatements can cause economic and reputational damage for managers and investors. Even when ultimately accurate, not all NAV calculation processes are created equal. Few administrators possess the integrated technology, robust daily processes, and streamlined workflows to make month-end just another day. Instead the manager is often forced into late nights and duplicative processes with the administrator to “get it right.” It is vital that an administrator have qualified valuations and accounting personnel who can understand and independently verify or contest the marks that make up a manager’s NAV. With

HedgeServ, managers can see all the components of their NAV real-time within our system, and have transparency into the status of all deliverables throughout the month-end process. We consistently achieve managers’ NAV delivery targets by applying logical workflows underpinned by automated reconciliation and price verifications on a daily basis intra month. HedgeServ valuation teams have deep expertise and leverage a comprehensive valuation data warehouse to ensure our adherence to a manager’s pricing policy when calculating an NAV. Additionally our portfolio and risk calculation engine can independently generate theoretical values for OTC derivative instruments as a further point of comparison. HedgeServ provides managers with extensive modules to create portfolio reporting and investor analytics. Our experienced professionals, shared technology platform, controlled processes, and close working relationships with managers all contribute to the fact that HedgeServ has never restated a NAV.

It has never been more important to perform in-depth due diligence when assessing a fund administrator. Many fund administrators faced significant downward pressures during the credit crunch, leaving them without the capacity or functionality to support the increasingly complex requirements of the alternative investment space. Incorporating the four evaluation criteria above into the assessment process, along with other components such as the Global Custodian Fund Administration Survey findings, will help hedge fund managers and investors avoid the traditional risks while benefiting from the next generation of fund administration.