

FOCUS ON

## BEST PRACTICE

Leo LaForce of HedgeServ talks to *HFMWeek* about the services on offer to support best practice for funds of hedge funds



### Leo LaForce

is a managing director at HedgeServ, overseeing marketing and communications for the global fund administrator. HedgeServ currently services over \$130bn of assets under administration, supported by 425 professionals across five offices.

**Q** **HFMWEEK (HFM): WHEN CHOOSING A SERVICE PROVIDER, WHAT ARE THE KEY FACTORS A FUND MANAGER MUST TAKE INTO CONSIDERATION?**

**A** **LEO LAFORCE (LL):** Fund administration has traditionally been viewed as a commoditised business, in ways that were neither flattering to administrators nor beneficial for managers. However, there has been an evolution in administrators' capabilities in serving funds of funds.

Any evaluation of an administrator should start with their people – they are the critical building blocks that will be delivering client and investor service and designing the processes and technology. Inexperienced staff limit the administrators' ability to legitimately serve as an efficient extension of the fund manager, creating both operational and reputational risk. Building knowledgeable service teams and limiting turnover have always been challenges for administrators. At HedgeServ, we have found a culture built upon employee equity ownership has allowed us to attract and retain hedge fund-experienced professionals. Their relevant expertise enabled us to design our workflows and technology from a fund of fund manager's perspective.

**Q** **HFM: HOW DO YOU ENSURE FUNDS OF FUNDS HAVE APPROPRIATE MIDDLE AND BACK OFFICE AND SUPPORT OPERATIONS?**

**A** **LL:** It is essential for administrators to commit to continuous investment and innovation in their technology. Many administrator platforms were originally designed a decade ago as accounting or custody systems – making them fundamentally unable to support funds of funds' specific workflows or reflect investments in hedge funds as a unique asset class. This has required many administrators to support fund of funds managers on a separate platform, limiting the ability to provide consolidated portfolio reporting to fund managers and creating further headaches if the manager receives position-level transparency.

HedgeServ eliminated these shortfalls by operating on one platform, underpinned by a single database, feeding a general ledger and portfolio management system designed to natively handle fund of fund workflows and treating investments in hedge funds as unique instruments possessing fully modelled terms and conditions. This integrated architecture enables us to deliver critical and complete information to fund of funds managers, faster.

**Q** **HFM: HOW HAVE RECENT CHANGES IN REGULATION IMPACTED FUND OF FUNDS MANAGERS AND HOW CAN YOU HELP?**

**A** **LL:** Fund managers are facing unprecedented, and often uncertain, reporting burdens – in scope, detail and frequency.

Fund of funds managers partner with HedgeServ as a solution for achieving data convergence – a single-sourced, independently valued data set, fully reconciled to the fund's official books and records. The manager can leverage this enriched data set, including risk analytics and our dynamic reporting modules, to satisfy any of their regulatory needs in a highly controlled, flexible and automated fashion.

**Q** **HFM: HOW DO YOU ENSURE YOUR SERVICE HAS THE RIGHT KIND OF SUPPORT IN PLACE TO SATISFY INVESTOR SCRUTINY?**

**A** **LL:** Investors are demanding complete operational transparency from fund administrators – simply having a SAS 70 is no longer enough. Because each fund manager has their own unique structure, processes and reporting needs, administrators must provide bespoke workflows without sacrificing controls. In order to achieve this customisation, administrators often hide manual processes and spreadsheets behind a reporting layer.

HedgeServ shares an open platform with our clients, meaning fund managers use the same tools as our professionals, and they have full real-time views into all our workflows and calculations – including valuations.

If an administrator's technology is designed to accurately reflect what is truly happening in processes, then it is easy for the administrator to take investors through all workflows and demonstrate controls in a fully transparent way.

**Q** **HFM: WHAT AREAS OF BEST PRACTICE SHOULD FUND OF FUNDS AIM TO IMPROVE?**

**A** **LL:** Fund of funds should continue to focus on core competency – their investment process. It is no longer either cost-effective or a competitive advantage for fund of fund managers to build and maintain operational infrastructure. Fund managers lacking a robust operational framework present a red flag to investors and are at a disadvantage when complying with investor and regulatory reporting requirements.

The bottom line is that fund of funds managers can achieve institutional infrastructure, at lower total cost and with stronger controls, by outsourcing to a capable administrator.

HedgeServ, for example, provides fund of funds managers with an integrated front-to-back infrastructure solution which flexibly complement and extend the manager's existing proprietary processes. This framework includes portfolio and risk management, transactional processing and investor, regulatory and compliance reporting. ■