

HEDGE FUNDS NEED BETTER ACCESS TO THEIR DATA

FEW THINGS STAY CONSTANT in the hedge fund world. One exception is the critical need for hedge fund managers to have total confidence in—and access to—their data. Data underpins ideas, alpha and competitive advantage, enabling faster decision-making ahead of the competition. Hedge fund managers need instant access to their data 24/7/365, regardless of geography, instrument type or trading market. They also need to “speak the same language” when viewing their data, both internally across their organizations and with their counterparties, service providers and, most importantly, their investors—otherwise they are open to operational, financial and reputational risk.

In today’s business environment, the independence and transparency with which this data is generated and distributed can also determine a fund’s success at attracting and retaining an investor’s assets and confidence. Accurately reconciled and valued hedge fund data is the No. 1 safeguard against fraud and has a significant impact on the accuracy and consistency of risk, P&L, NAV and collateral management calculations.

Historically, hedge fund managers have had to make significant capital investments to build and maintain the operational and technology infrastructures required to ensure access to timely, high-quality data. This diverted resources away from their core activities of gathering and managing assets and generating alpha. The alternative—often viewed as unappealing—was to rely on hedge fund administrators that had failed to make the necessary investments in their technology platforms to support their data requirements. This lack of confidence in hedge fund administrators led many hedge funds and funds of hedge funds to invest in their own infrastructure so that they could do administration in-house.

We all know the game changed in 2008. Now hedge funds’ operating models must re-

flect adequate adjustment to events such as the Madoff scandal and Lehman’s collapse. Self-administration is not acceptable, and “NAV Lite” will no longer satisfy most investors. The concept of “trust, but verify” has been taken to a new, deeper level. Hedge fund investors now require on-demand understanding of their liquidity, return attributions and risk characteristics—as well as basic assurances on the existence, safekeeping and accurate valuation of their assets. Hedge fund managers spend more time, and are under greater pressure, to show robust and controlled data processes as part of investor operational due diligence reviews. These challenges for hedge fund managers are exacerbated by an environment of rising costs, declining fees and growing regulatory uncertainty.

Hedge funds and funds of hedge funds have an urgent need for help in the processes of managing, leveraging and conveying the quality of their data. It is logical that hedge fund administrators become part of the solution. The service model for the fund administration industry—long-defined by legacy technology, disparate applications and under-qualified staff—must evolve.

Administrators need to remediate the weaknesses in their administration models and ensure that the hedge fund manager and the administrator have the same information and are thinking the same way. The process should intuitively start in the front office, where data originates, with workflows progressing logically across middle- and back-office operations and accounting functions. Such a solution requires stretching the scope of traditional administration so that a hedge fund’s front-, middle- and back-office staff can view their data on a real-time basis, expressed in ways that make sense to them.

The solution requires a current technology platform and a good tool set to facilitate the manipulation and analysis of data. Our solution extends a best-of-breed portfolio man-

agement system into a single front-to-back-office system that we share with our clients. It features trade capture, full portfolio management functionality, compliance, risk for front-office users, valuation of all financial instruments, automated reconciliations, collateral management, a full suite of other middle-office applications and a general ledger integrated to an investor services system. All applications were built to be accessible to and used by our clients on a 24/7 basis. We call this a shared platform. We believe it offers greater control over the quality of data and can reduce the amount that hedge fund managers need to invest in infrastructure.

Hedge fund managers deserve the best possible access to their data. A shared approach allows a fund administrator to deliver the same data across a hedge fund’s organization, creating tighter operational workflows and controls. When an administrator and client view the same data at the same time in the same applications, the result is better communication with better information between all parties. Most importantly, it allows the fund administrator to become a business partner to hedge funds and funds of hedge funds by providing the data accuracy and transparency that is critical to their business needs.

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