

# THE NEXT GENERATION OF MIDDLE OFFICE SOLUTIONS

Charles Carter and Leo LaForce of HedgeServ discuss the frequent decision by hedge fund managers to outsource their middle office and how the fund administration industry is keeping pace.

**Over the past decade a significant number of hedge fund managers have outsourced their middle office functions. What are the drivers behind this continuing trend?**

**Charles Carter:** Managers with institutional-quality infrastructure have a competitive advantage in raising assets. They also have greater flexibility to implement new products, strategies, and fund structures. Managers lacking a strong middle office framework present red flags to investors and are at a disadvantage complying with increasingly complex regulatory reporting requirements. The bottom line is that managers can achieve lower total costs, stronger controls, and freedom to focus on core competencies by outsourcing their middle office.

**What current themes are you seeing within fund administration regarding middle office?**

**Carter:** Best practice has moved from T+1 to T+0. In order to remain relevant, administrators must provide managers with real-time 360° views of their portfolio data. Administrators must accurately capture, model, and price securities in their native form, regardless of asset class. Otherwise the manager can't rely on the administrator to provide the information required to manage P&L, risk, exposure, liquidity, cash, or collateral.

Beyond T+0, managers require a rich single source of data to run their businesses and meet regulatory reporting requirements. Form PF alone currently stands at over forty pages. A capable outsourced middle office is ideally positioned to solve managers' need for "data convergence." HedgeServ clients can access all their data on a global basis, from any web-enabled device, anytime.

**Leo LaForce:** Managers and investors are demanding complete Operational Transparency from administrators. Because each manager has their own unique infrastructure and definitions of middle office, administrators need to provide bespoke workflows without sacrificing controls – simply having a SAS 70 is no longer enough. Administrators often hide manual processes behind a reporting layer to achieve customization. HedgeServ shares an open, flexible platform with our clients, meaning managers have full real-time views into all middle office workflows and calculations, including valuations.

**Administrators seem to be the providers of choice when managers outsource their middle office. What challenges do administrators typically face in delivering middle office services?**

**LaForce:** The administration industry has seen a significant evolution in its middle office capabilities. It's far from a commoditized business however. Those administrators with expertise in post-execution asset servicing, including cash and collateral management, are naturally positioned to provide middle office solutions to managers.

**Carter:** Continuous innovation and investment in technology are critical to providing middle office services. Many administrator platforms were originally designed as custody or accounting systems, forcing administrators to add disparate systems in piecemeal efforts to keep up with manager needs. This approach translates into operational risk and reporting limitations for managers, especially those trading OTC derivatives and bank debt instruments.

HedgeServ eliminated these traditional shortfalls by operating on a platform designed from a logical front office starting point and using a single database. HedgeServ's real-time technology enables delivery of critical information to managers faster.

**LaForce:** Because middle office covers such a diverse range of complex processes and product types, it's crucial for administrators to invest in experienced people. In an effort to reduce operating costs, some administrators rely on a fractured approach of remote functional silos of junior staff to support the middle office lifecycle. This approach often results in a lack of coordination, delays, and incomplete views due to a lack of process expertise.

**Carter:** HedgeServ attracts and retains hedge fund-experienced middle office professionals through a culture of employee equity ownership – organized into client service teams which deliver local expertise in a streamlined model. HedgeServ is an extension of the manager, successfully providing outsourced middle office services – our philosophy focuses on true partnership.

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