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## The evolution of the hedge fund back office is a challenge for many managers



From Kirsten Bischoff, Opalesque New York:

It is difficult to believe that as recently as five years ago, many hedge funds were still tracking portfolio information on Excel spreadsheets. The very idea of it is so surprising that even the phrase is tossed about with incredulity (especially by anyone who has crashed a server hitting the update button on an intricate, massively-linked spreadsheet). Luckily, a technological evolution has coincided with the regulatory changes and investor demands made of the hedge fund industry back office. But even with that technology available, hedge fund managers need to embrace the fact that the back office is a place of constant evolution; because as incredible as the idea of an Excel driven fund is – they do still exist. But back office evolution has in fact grown to be so much more, and the most important aspects of this area of the hedge fund business include placing a high value on best practices for data management, knowledge of accounting rules changes, and the ability to meet investor expectations for transparency.

When speaking with many managers it is easy to see that philosophically, they understand that the state of their back office reflects their brand. However, in practice, especially today as regulatory and policy changes keep this area in a constant state of flux, managers seem to struggle with the challenges required not just to survive this evolution but to thrive in it.

"At the end of the day it is all about the investors and where they are choosing to invest and how the back office impacts that decision," says Scott Powell, Product Manager at data management firm Confluence, which has organized a [free webinar for August 18th titled "Evolution in the Hedge Fund Back Office: Meeting Demand for Risk Control, Transparency and Scale"](#). "Managers need to have a solid foundation and that does not mean just investment strategy, it means the entire business and how it operates," he says.

He also points out that back office and marketing go hand in hand. He speaks anecdotally about a product manager who was hired by a firm to market hedge fund products who commented on all of the time he wound up putting in working on the reporting functions with the back office and what could be delivered to clients and investors. "What he came to realize was that if he had the performance and then the reporting and transparency available to investors he had a much higher level of credibility and confidence with those investors and that had an impact on winning business."

It may seem out of place, especially this week, for managers to concentrate on anything other than their investment strategy, however we may recognize August 2011 as a turning point for the hedge fund industry's re-growth if investors are not assured in these volatile markets that the infrastructures they have been clamoring for over the past 2 years have not been built. Hedge funds have rebuilt their industry based on changing people's perception of the vehicles from absolute returns to capital protection. And for capital protection to work, funds need to show their infrastructure is built to handle defensive maneuvers that require strong data management and reporting capabilities.

"In a world where we have gone through a lot of ups and downs – having a number on performance is great – but investors also want to know how you got to that number," Powell says.

Opalesque Note: The Confluence webinar will include panelists Brian Bekiers Managing Director of Operations at AIS Fund Administration and Charles Plaveczyk, CPA, Principal at Rothstein Kass and will address regulatory drivers of fund administration changes, best practices for data management, financial reporting challenges and transparency through automation