



Opalesque Exclusive: Fund administrators look to technology for competitive edge as hedge fund assets recover

From Kirsten Bischoff, Opalesque New York:

Increased investor demands for transparency and reporting requirements from regulatory agencies are a headache for hedge fund managers, but the brunt of these new demands are being felt by fund administrators. The administration industry struggles from being one where staffing typically has to stay in line with assets, while levels of service (i.e., reporting) need to remain the same regardless of assets. So, over the past two years as those reporting requirements increased and asset bases decreased, administrators felt the squeeze of having fewer employees, yet needing to provide the same or higher levels of service to their hedge fund clients who needed better reporting to appeal to investors. This caused the loss of several administrators and consolidation amongst others.

Now, as hedge funds begin to recover assets and reporting requirements continue to rise (a recent SEI/Greenwich Associates poll showed institutional investors are ready to embrace hedge fund investing but have high expectations for transparency) fund administrators will be faced with a "one-two punch" that will mean much higher competition for assets coming back into the industry. Hedge fund managers looking to take part in the expected inflows from institutional investors will need to offer higher levels of transparency, and will be re-evaluating their administrators from this perspective.

"Suddenly as fund advisors are anticipating SEC registration along with increased reporting disclosure requirements in Europe and Australia,

administrators are bracing to deal with the increased workload," Kirk Botula, Executive Vice President and Chief Operating Officer, at technology provider [Confluence](#) commented to Opalesque.

Confluence says that 40% of the leading global investment managers use the firm's technology solutions and sees in that client base that more fund administrators turning to technology to both differentiate themselves and to meet the growing demand for higher levels of reporting from hedge fund clients.

For example, last week, Opalesque carried news that hedge fund administrator [AIS Group](#) was offering clients additional reporting services through AIS Financial Statement Preparation, which uses the Confluence Unity® platform. Paul Chain, President at AIS Group commented that many of the managers who had already adopted this service from the firm were increasing the level of reporting available to their own investors, because prior to technology advances such reporting, when done in house at a fund, was simply too time constraining on the fund's accounting officers to make available more than absolutely necessary.

"We are seeing administrators investing in technology, but how they are choosing to leverage it is different. For example, some are doing mass customization to meet each manager's individual needs and requirements," says Botula. "But they are all using it to reinforce their core market positions while enabling scalability and control."

With fund administrators taking up the slack on additional reporting needs, the stress may be on those firms at the moment, however, it is likely that in the end, investors will pay the cost of their own demands for increased transparency. While most administrators in the end will likely offer reporting in line with regulations, anything over and above those requirements will incur additional costs.

"Managers will find that providing the highest levels of transparency to entice investors returning to the hedge fund market, will in the end come

at a steep price. Increased fees being paid out to administrators will cut into fund management budgets and it is likely either management fees will rise or there will be further flexibility on incentive fees for managers." says Daniel Golyanov, Senior Analyst at research firm Carbon360 (publisher of the [Fund Administration Factbook](#)). "In the end, investors will have to pay for a higher level of service