



## ■ Can hedge fund operations be a paradigm for the whole industry? asks Colin Close, CIO at Netik

Over the past three years we have seen a huge growth in alternative investment funds as investment managers respond to investors' demand for higher returns and they themselves seek the higher management fees associated with these funds. The discipline required to run such higher risk alternative investment funds has resulted in the rapid evolution of requirements for a flexible and efficient operating model that could serve as a paradigm for operations in traditional markets.

This model is characterised by the emergence of specialist managers, best of breed systems and specialist accounting, high levels of outsourcing and the dependency on real-time aggregated information reporting.

Institutional investors have introduced new concerns that must be addressed by hedge fund managers. The first is transparency and disclosure. The institutions must be able to determine their real positions and exposure. This need drives the second concern which is an urgent demand for immediate delivery of real-time information. Aggregating real-time data from multiple sources is tough to do accurately and quickly. This problem is compounded when investors use multiple managers, who in turn have multiple prime brokers or OTC counterparties.

The management and servicing of hedge funds takes place against a backdrop of a total investment manager revenue base that is contracting. Cost control is of utmost concern, explaining the alternative funds sector's propensity to outsource.

Outsourcing non-core functions is an increasing trend. Such processes include pricing, fund accounting, fund administration and investor record-keeping. If the managers are seeking to attract institutional business, they must ensure their provider can handle more complex requirements, such as the ability to provide risk management analytics, full time online access to a data platform and custom integrated reporting. The variable take-up of such services means the third party provider needs a flexible platform, yet this "platform" is not a single entity. The approach of constructing such a platform has had to be one of assembling best of breed systems to sit beside traditional infrastructure. The challenge is to combine the alternative infrastructure with the infrastructure that supports traditional markets so investors get a consolidated view across their accounts, portfolios or funds. This requires the following features.

First, automated workflow functionality is required to ensure trades are delivered to and received from the appropriate front and back office applications. These routing rules enable the best of breed applications to process in their own specialist domain in the most efficient manner. Second, the results of the processing in the traditional and alternative investment applications must be represented in an aggregated form, for client reporting and performance measurement and risk management. The only way to do this is via a consolidated, scalable data warehouse acting as the hub at the centre of operations, catering for all investment types and aggregating data from multiple sources.

It is this information centric approach to the hedge fund operations model that should be a paradigm for the rest of the industry.

