Proximity to managers is key to service provision

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The notion put about 18 months ago that the hedge fund industry would change radically in the wake of the financial crisis has, little by little, taken on real substance. The “light touch” approach by regulators, investors, service providers and funds themselves has ended. In particular, closer relationships with service providers are now sought by many funds to re-establish trust and meet the growing demands of local regulators.

The commoditisation of service provision may well have passed its peak, says Peter Hughes, group managing director of Apex Fund Services. Building maximum client volumes and then outsourcing services to cheap locations is no longer sufficient in many cases, he argues.

“We have a different model, where we locate close to fund managers so we know what they need, are available to deliver it and can do so consistently. It has become a time-sensitive business, so being in the same timezone is very important.”

Apex, headquartered in Bermuda, is one of the fastest growing privately-owned administrators, with 13 offices around the world from a standing start six and a half years ago. Its growth is predicated on a belief that tailor-made solutions will predominate in the future. It has a “one point of contact” philosophy and exacting service standards that include responding to emails within a given number of hours, not leaving clients on hold or transferring them to different departments.

But even the best intentions can go awry so procedures need to be in place that assure that quality is not compromised anywhere within the growing group. “It is important that we can show that each office follows the standards and implements the same controls,” says Hughes. SAS 70, which ensures for instance that each price is reviewed and each portfolio is scrutinised by two senior staff members, has been instrumental in both achieving this and demonstrating the achievement to clients. Allocators, alerted by a series of hedge fund losses linked to administration failings, see SAS 70 compliance as essential. “If it is important for the allocator, it is also critical for the client,” says Hughes.

Tailor-made services naturally imply a cap on the number of clients taken on and Apex has no more than 40 staff in any of its offices. “That way our ethics reach everyone,” says Hughes.” This is harder to achieve with, say, 200 people.”

But this doesn’t necessarily mean a cap on the growth of the company overall. “If one office becomes too busy, our policy is to open another with the same criteria of service and close contact with the client,” Hughes adds. “The key is not to become institutionalised. We want to deliver to all clients, not just the big clients. We are happy to take on loss-leading business with small firms if we spot potential and think we can help them to grow. Large, captive firms usually won’t do this.”

Nevertheless, aren’t many funds more comfortable with large, integrated administrators backed by hefty balance sheets? Hughes says there has been a shift post-Lehman. “People realise that big does not always mean robust, or responsible. Privately-owned businesses are all about responsibility and reputation. I will make sure personally that problems are resolved immediately. In a bigger organisation, the query can often just be shunted from department to department.”

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