# Meeting the system challenges of SMAs

By *Oliver.bradley*
Created *27/09/2010 - 14:31*

The past two years have seen a surge in the number of institutional investors seeking to access hedge fund strategies through separately managed accounts, in the development of third-party platforms designed to ease the cost and internal resource requirements of managed account investing, and in the willingness of hedge fund managers to accommodate investors outside the traditional framework of pooled funds.

These developments answer a growing need among institutions for the benefits of absolute returns while retaining the transparency and improved liquidity stemming from control over the assets, as well as in some cases advantages in the tax treatment of fees. However, the development of managed accounts also presents various challenges at different levels of the value chain.

Firms must not only offer good product but institutionalise supporting data on trading decisions versus recommendations, risk mitigation strategies when markets move or mandate changes require action, and demonstrably monitor compliance guidelines.

This means documenting investment decisions, risk guidelines and exposure management across all asset classes, and being able to tie ‘review and recommendations’ back to the actions taken by the traders as well as potentially for underlying externally-managed product. Middle- and back-office solutions gain importance as shortened periodic cycles are necessary to manage cash flows and billing to clients.

In turn this forces faster communication cycles with counterparties, custodians, and the fund administrator demanding automated communication and collaboration. Prior models involving adding Excel applications and hiring asset class mercenaries did little more than increase costs and operational risk, leaving firms less agile following the market collapse. Essentially, firms cannot rely solely on good returns, but must to prove the institutional quality of their systems and processes.

These challenges helped to steer the development of Advent’s portfolio management and fund accounting system, Geneva. Originally designed to meet the needs of the alternative investment industry, it has undergone significant enhancements for middle- and back-office support and offers unparalleled connectivity across the alternative ecology to deliver on the unique requirements of SMA platforms.

Geneva users include leading managed account platforms for third-party investors, such as GlobeOp and Butterfield Fulcrum. Most recently Maples Finance, an existing Geneva user for fund administration, used the system to create a managed account servicing platform for institutions.

Other clients include fund of funds managers that have responded to outflows by outsourcing management capabilities to institutions in a manner not dissimilar to a pure managed account, and bespoke asset managers leveraging existing relationships to deliver alternative product.

The driver for SMA offerings is the increased profitability a firm can leverage off existing structures – provided returns meet the fund objectives. However, the added due diligence imposed by institutions often strains internal systems and processes. Whereas hedge fund systems previously focused solely on investment objectives, today they must respond to institutional demands for incremental change reporting, comparative analysis, and rapid slicing and dicing of data to the underlier’s level.

While the ability to meet investment objectives remains key in attracting institutional assets, a firm’s process, procedures and ability to demonstrate adherence, monitor exposures, and earn the investor’s trust have become the second pillar.

Copyright © 2009 Hedgemedia Ltd. All Rights Reserved

Tom Zdon, Advent

Please click here to access the hedgeweek special report on Managed Accounts II [1]

- Special Reports

**Source URL:** http://www.hedgeweek.com/2010/09/27/62534/meeting-system-challenges-smas

**Links:**
[1] http://www.hedgeweek.com/special/hedge-fund-managed-accounts-ii-2010

Copyright © 2009 Hedgemedia Ltd. All Rights Reserved