

## Fund growth boosts third-party providers

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Historically the third-party fund administration industry in Spain has been relatively small, but the development of the country's hedge fund and fund of hedge funds sector over the past two years has given it a significant boost. When BNP Paribas Securities Services launched third-party administration four years ago, business was initially slow to develop, but hedge fund products offer a very good opportunity.

Following the introduction of the new funds regulation (Orden EHA/1199/2006) in November 2006, fund managers began to look for administrators and custodians with the capacity to handle more complex strategies and exotic instruments. While Spanish fund managers linked to banks and savings banks have begun to analyse the advantages of outsourcing administration services hitherto carried out in-house, new managers entering the market are in need of these services.

Liberalisation of the market has enabled BNP Paribas Securities Services to demonstrate its capability. It offers hedge funds a one-stop shop solution covering trading, fund administration, custody, domiciliation and financing, ensures that the accounting and asset servicing of underlying funds is delivered to the required standard, and draws on the combined resources of the securities services and investment bank businesses to service the entire value chain.

There is pressure to outsource to third-party providers from the Spanish regulator, which is more comfortable when new fund managers in particular use outside administrators with demonstrable capabilities and expertise. At the same time, independent administration is an important marketing argument, especially for managers looking to market Spanish-domiciled funds abroad.

This new environment has helped to propel BNP Paribas Securities Services, which has more than 200 staff in Spain, into the front rank of providers to the country's alternative investment industry, as depository bank and administrator for 18 single hedge funds and funds of hedge funds and as administrator to five single-manager funds and nine funds of funds.

It is now the leading third-party depository bank and administrator for Spanish hedge funds, with around 50 per cent of the non-captive market, where either administration or depository services is open to an outside provider. At the end of June, BNP Paribas Securities Services had nearly EUR600m in assets under administration and more than EUR800m in assets under custody, out of a total market of EUR1.5bn in 70 funds.

The number of funds being launched by managers outside the ranks of Spain's big banks and asset management groups has increased slowly but steadily over the past 18 months. The main constraint upon growth is the need to attract broad investor interest, in an environment where few independent managers have a particularly long track record. It is also taking time for the large banking networks, the principal financial distribution channel, to develop the expertise to sell hedge fund products to the end-investor.

Active in Spain since 1995, BNP Paribas Securities Services has built up relationships within the industry, among fund managers and regulators, and gained first-hand experience of operational issues. Its growth in the alternatives sector comes at a time when awareness is growing of how third-party providers help to make the market more professional and efficient. After years of patient marketing, fund managers are for the first time actively seeking out providers who can maintain transparency and control over the assets.

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