Managers respond to demands of due diligence

Data management and reporting is key to efficiency

What the Heartbleed bug means to you
In this issue...

03 Cloud technology gives managers an operational edge  
By James Williams

04 True cloud versus impostors  
Interview with Robert O’Boyle, Liquid Holdings

07 Combining technologies to meet data challenges  
Interview with Chad Allen, UMB Fund Services

10 Data management and reporting solutions are key to achieving operational efficiency  
By James Williams

12 Helping managers respond to due diligence demands  
Interview with Clint Coghill, Backstop Solutions Group

16 What the Heartbleed bug means to hedge fund managers  
By John Landy, Intralinks
Cloud technology gives managers an operational edge

By James Williams

“Last November we surveyed over 100 hedge fund managers on their attitudes towards using the cloud, their concerns from a security and data ownership perspective and over 87 of respondents said they were using the cloud in some shape or form today,” comments Bob Guilbert, Managing Director at Eze Castle Integration, a provider of IT solutions and private cloud services to more than 650 global alternative fund managers. “Last year we brought on 102 new clients, 42 of which were start-ups.”

Chris Nash is the Chief Operating Officer at Senrigan Capital, a Hong Kong-based USD340mn event-driven hedge fund. Whilst security has become less of a concern (due to advances in encryption), Nash says that there are still legal questions to be considered regarding the domicile of the data: “I don’t think use of the cloud in itself creates transparency problems, though a lack of attention to the different security issues posed by both the cloud and the use of mobile devices certainly could lead to breaches that could lead the manager seriously exposed.”

Over in New York, Navatar Group, the leading provider of cloud-based CRM solutions to Wall Street, has seen a 50 per cent increase in adoption among hedge fund managers over the last 12 months. “We now have over 500 managers using the Navatar cloud,” confirms Alok Misra, co-founder and principal at Navatar, adding: “Managers require not only better technology, they need it to be connected to reduce manual tasks. Our role over the next couple of years will be to do things that funds can’t do today such as find the right investors and market their funds.”
True cloud versus impostors

Interview with Robert O’Boyle

New York-based Liquid Holdings is fast becoming a tour de force in the hedge fund industry. Born in the cloud, the firm offers hedge fund managers (typically USD1bn or less in AuM) a multi-tenant “true cloud” solution. Using cutting edge technology Liquid’s platform brings together low latency OERMS – order, execution and risk – capabilities backed by managed services, giving managers a scalable, cost-effective cloud environment in which to run their operations.

But this concept of “true cloud” does not apply wholesale. Previously, organisations outsourced their IT activity to application service providers (ASPs).

“As an ASP you would have to provide disaster recovery and so on. At the same time, organisations were still responsible for doing their own operational activity. That was hard and expensive to do and never took off in the same way that the ‘cloud’ has today. “The industry then moved on from ASP to something called ‘hosted services’ – essentially an advanced ASP. Vendors host the IP for clients in a single environment but it still relies upon the manager’s server, back-up server, disaster recovery server, etc. If the vendor has 10 clients then it means they have 10 servers, 10 back-up servers and so on. That’s an expensive model to manage and maintain,” explains Robert O’Boyle, Liquid’s Executive Vice President and Director of Sales & Marketing.

Although a lot of vendors today market cloud solutions, with the opportunity to offer shared services, the fact is everything runs off individual databases, unlike Liquid Holdings, whose entire architecture was conceived in the cloud. That means each upgrade is applied once across “X” number of clients, similar to your iPhone or iPad.

“A multi-tenant cloud platform, like ours, meets the classic definition of Software-as-a-Service. We have multiple organisations and multiple data structures running on a single monolithic database.

“The market is cognisant of the fact that there’s a tremendous difference between the way in which you develop, service, support and upgrade a single tenant environment versus a multi-tenant environment,” says O’Boyle.

As new products and product enhancements are developed by Liquid Holdings in the true cloud, clients avoid the inevitable software upgrades that come from using single tenant cloud architectures. Whilst perfectly effective, single tenant ‘impostors’ are less flexible, less secure depending on their hosting facility, more costly, and slower at bringing solutions to fruition.

“The single tenant, multi-database solution is fine – it’s been done that way for years. However, given the technology that exists in the marketplace today, it is possible for managers to do this in a faster, better, cheaper, and more secure way. We can do this in a multi-tenant, single database cloud environment. It allows us to provide a highly scalable and robust solution. So if you could get something better, faster, cheaper, why wouldn’t you? If it’s not born in the cloud then clients are only getting some of the benefits but not all of them,” says O’Boyle.

The quantum leap in hedge fund technology espoused by Liquid Holdings, using the true cloud, is making it possible for managers to optimise the way they run their business. With mobile technology developments continuing apace, Liquid Holdings’ clients have the capacity to run their fund(s) anytime, anywhere.

“We’re helping them to manage investments in the most optimal environment and make them, operationally speaking, more credible to end investors as compared to their peers,” concludes O’Boyle.
How one defines the cloud is open to debate. There are plenty of software vendors now offering cloud solutions that are essentially an elaborate ASP; that is, the data sits in a cloud for single tenants and relies upon multiple databases. Firms like Liquid Holdings and Navatar Group offer true cloud solutions that are multi-tenant, single database.

“When I talk about a single database what I’m really talking about is a comprehensive data management solution born in the cloud,” says Robert O’Boyle, Executive Vice President and Director of Sales & Marketing at Liquid Holdings. “You have all the order and execution management data, risk and portfolio data stored in a single database and you’re running computations off of that. It’s already in the cloud. What other organisations are doing is pulling information from other applications then standardising it for accessibility via the cloud.”

By using the multi-tenant cloud, it means that when Navatar makes enhancements to its CRM products all of its clients get to benefit at once.

“Our product team is constantly working in the background making improvements to our CRM products often without clients even noticing. At the backend there’s an awful lot going on,” says Misra.

O’Boyle concurs, noting that the firm’s approach is to ascribe an “agile development methodology. As our platform is multi-tenant it means we are able to release functionality to our clients much quicker than locally installed or hosted providers who have a single tenant architecture.”

Semantics aside, the real benefit for managers who move to the cloud is that it becomes less of a capital expenditure.

“There is no responsibility to refresh technology every few years. We support over 80 applications on our cloud. If a manager has written their own application, they can access it via Citrix,” explains Guilbert.

HedgeGuard is a Paris-based firm whose cloud architecture gives end users full OMS, EMS, risk and compliance tools to run their fund operations.

“There’s a saying by Archimedes: ‘Give me a fulcrum and a lever and I shall move the world’,” muses Imad Wardé, Founder and Managing Director of HedgeGuard. If technology is the lever, then HedgeGuard is the fulcrum.

“Large established hedge funds have comprehensive IT infrastructures that are managed by lots of people and cost a lot of money. They are not as agile as a cloud infrastructure. Start-ups definitely have an edge over large managers when it comes to technology,” says Wardé.

Having previously worked for a hedge fund, the solution conceived by Wardé is based on the managers’ perspective and how they need to solve mission critical problems with technology. He is quick to point out, however, that most cloud solutions are just an enabler for mobility: that is, they offer a ‘virtual desktop’ infrastructure that sends an image of the fund’s data but which is not adapted to the specific device.

“Everybody today is selling their solution as if it were a cloud solution but it’s not. They aren’t sending the data or intelligence. That’s exactly what we are doing with HedgeGuard. The next version we plan to release will be sending data and displaying it the way it should be displayed on the mobile device and end-users will have an interface for each operating system.”

This is what Wardé refers to as a client cloud architecture. Rather than a virtual office, HedgeGuard will offer its clients a true ‘mobile office’.

“It's not only the software that a manager can access from anywhere it’s also their work files, their data, their emails. When a manager connects to the cloud to access their PMS they want to see the whole picture. That means, using a laptop, no matter where they are they can access all the fund’s data and intelligence. This will allow the office to be truly mobile,” comments Wardé.
One of the latest developments at Liquid Holdings follows a similar theme to the ‘mobile office’ Wardé refers to. O’Boyle says that the team is focused on creating a dynamic touch-optimised, native web version of its existing tablet applications “so that a manager can access deeper investment management capabilities to run their business with them wherever they go”.

“We’re taking what we already offer our clients today on a tablet and making the experience ‘extremely-optimised’ with touch screen, end-to-end investment management capabilities,” says O’Boyle, who continues:

“The institutional marketplace is focused on alpha generation as well as capital preservation.

Investors want to understand the fund manager they park money with is able to manage investments at all times including while he or she is away from the office. It means having actionable front-office controls in the palm of your hands, over and above simple static reporting. The concept of being able to execute and manage trading or hedging strategies from a mobile device, whether it’s DMA (direct market access) or dynamically setting and tracking risk limits in real-time from the mobile device, at any time and everywhere is something that institutional investors like a lot.”

ECI’s Guilbert notes that vendors are now using mobile device management software to wipe data remotely from mobile devices; this is particularly useful for hedge funds. The last thing the marketing officer wants is to loose their iPad containing sensitive portfolio data.

“Managers can log on to Citrix (connection software that allows applications running on the cloud to be published on the desktop) to gain access to their applications on our cloud. As the screens get updated on the servers those changes get sent over to the device being used. It’s called screen scraping technology. They can access their PMS, OMS, CRM data on the cloud and share it directly with potential investors,” says Guilbert, further illustrating how cloud technology is helping managers utilise data smartly, efficiently, and most of all, remotely.

Misra says that one of the reasons for continued cloud adoption is that people are simply becoming increasingly frustrated with the fact that their technology does not connect to anything else. One of the key features of Navatar is that it integrates to Preqin for managers to access market intelligence on investors as well as seamlessly integrating between each and every Navatar CRM module.

“Each product has evolved whereby certain clients were using one product for specific needs and another product for other needs and this has allowed us to build a range of inter-connected products. A lot of managers today, for example, run multiple funds, sometimes both hedge funds and PERE funds, so they need that connectivity,” says Misra.

Navatar Hedge Fund, for example, links seamlessly with Navatar Private Equity. Everything is running from a centralised system. Often, managers have a scattered IT infrastructure built on multiple systems. This makes it hard to know who they are interacting with and who they should be interacting with. Navatar Hedge Fund CRM brings everything together and helps managers achieve an edge.

Unlike investment-related technology, which is latency-dependent Navatar focuses on investor-related technology, which is all about connectivity.

“How can I make sure I have access to the latest information about my investors? How can I manage the ongoing relationship? That gets into CRM tools, virtual data rooms, databases etc, which is what we are consolidating on the cloud,” explains Misra.

Cybersecurity on the SEC’s radar

Last month ECI announced that it had expanded its Information Security Consulting Service to help firms satisfy the SEC’s

“There is no responsibility to refresh technology every few years. We support over 80 applications on our cloud. If a manager has written their own application, they can access it via Citrix.”

Bob Guilbert, Eze Castle Integration
Combining technologies to meet data challenges

Interview with Chad Allen

One of the unintended consequences of technology improvements in the hedge fund industry has been the sheer volume of data that service providers, in particular fund administrators, are required to manage on a daily basis. ‘Big data’, ‘data management’, ‘data farming’ – these terms are increasingly being used in the current vernacular.

With granular data comes greater transparency – something institutional investors are demanding of the managers they invest with. Chad Allen, Managing Director in UMB Fund Services’ alternative investment servicing division, says, “Historically, managers relied solely upon their in-house systems for information – but increasingly they are asking for more data from their administrator in order to track their investments and investors in greater detail.

“For example, for FoHF and fund-of-private-equity-fund clients, we now complete detailed investment subscription documents on the fund’s behalf and provide custody for those assets by way of our affiliate, UMB Bank, n.a.”

Clean, accurate data is a valuable commodity today. For example, managers can use UMB Fund Services to search data on the fund’s portfolio as well as load extracts into their own systems for further data analysis such as risk analytics.

“Managers want to understand how we are gathering, valuing, reconciling and reporting their data,” says Allen. “In addition, they want details on their investors’ capital balances, transaction history and demographics.

“Even investors are demanding more portfolio transparency. They want to make sure the manager is sticking to the strategy defined in the offering documents. They want to see more fund performance data, risk analytics and benchmarking than they have in the past.”

Integral to these data management demands is technology. UMB Fund Services uses a best-of-breed third-party system for portfolio accounting but has a proprietary system for other functions where the most customisation is needed. Its internal IT team develops proprietary software code, which, says Allen, “enables us to customise and write reports to meet the demands of our clients and their investors”.

“Individual investors drive the flow of data in terms of what they want and when they want it. Asset managers do all they can to attract the large dollars. Often we are asked to provide large amounts of data so they have it if the need arises. We develop new reports and extracts as our clients need them.”

Is there a danger of too much data being made available? Allen responds: “The manager is often hesitant to provide too much detail on the portfolio in order to protect their trading strategies. But no matter what is provided, there should be equality. What you provide to institutional investors you should provide to all investors.”

To share this data, UMB Fund Services has developed a web portal that both the manager and its investors can access. The portal lets the manager see each investor’s demographic – an important feature for Form PF and FATCA requirements. Additionally, investors can see their specific investment in the fund and other general fund data.

“A manager can log on to the portal and see the fund’s portfolio of investments, a full set of financial statements and all supporting documentation in order to approve the NAV. Following approval, investors are notified via email to log on to the portal and obtain current and historical data such as investor statements, year-end audits and K-1 schedules,” concludes Allen.
cybersecurity guidelines issued in April. Contained within these guidelines are a series of questions covering everything from monitoring cybersecurity, business continuity plans, WISP (Written Information Security Policy), physical security etc.

What ECI’s team will do is to help managers by creating the WISP and address the administrative and technical safeguards a firm needs to withstand a cybersecurity incident and demonstrate preparedness. It has been writing WISPs for clients since 2009.

“The SEC are going to look at 50 different firms – broker/dealers and registered investment advisers – and see how they stack up in relation to these questions to essentially identify best practices. The whole point is to prevent firms falling victim to cyber attacks, hactivism; anything that adversely affect the markets. What we offer our hedge fund clients is the ability to answer questions effectively from a technology perspective to help them respond to DDQs. Part of this will be to write the WISP,” explains Guilbert.

The fact that the SEC is now treating cybersecurity seriously shows the level of responsibility that technology providers have to their clients, especially those running billions of client assets.

But in terms of overall security, the cloud providers are pretty upbeat and are certainly keen to stress the point that in most instances they are far more secure than hedge fund managers.

“We’ve taken the necessary steps to add proactive monitoring, intrusion detection services, as well as twice-annual vulnerability assessments to test the cloud infrastructure and check that it can’t be intruded,” says Guilbert.

Wardé says that managers are free to manage the security issue themselves by having HedgeGuard build the platform in-house as a private cloud; something that Linedata also supports with its Global Hedge platform. Sally Crane, Linedata’s Managing Director for Asia, comments: “Managers using the cloud just want reassurances that the data is properly encrypted and secure and that all the checks and balances are in place. Some still prefer to have the server within their office and we support that; managers have the option of being hosted or deployed.”

“Large established hedge funds have comprehensive IT infrastructures that are managed by lots of people and cost a lot of money. They are not as agile as a cloud infrastructure. Start-ups definitely have an edge over large managers when it comes to technology.”

Imad Wardé, HedgeGuard

When the inevitable security question comes up with new clients, Wardé responds with the following question of his own: “Think about your data. It is hosted with your custodian, your prime broker(s), your administrator. How secure is it there? People tend not to respond to this.”

The point is, hedge fund data is not only hosted on the cloud, it’s hosted by every counterparty a fund does business with. “Our engineers are Microsoft-approved and clients are free to test the security of our cloud with third party interrogation tests if they wish,” confirms Wardé.

To protect its cloud, ECI uses a Canada-based firm called eSentire Inc. The firm does traffic inspection to look for different patterns in data files that a hacker might try to download.

“If they detect a pattern they have the ability to deny that IP address from communicating with the server. They have a solution called AMP – Asset Manager Protect. If they see one attack occurring for one of their clients they apply that same protection policy to all other clients,” says Guilbert.

Clearly then, cloud security is as watertight as it can possibly be. There have yet to be any major cyber attacks and hedge fund managers can take comfort from this.

As technology enhancements continue to be made and more applications get added to cloud platforms the ability for hedge fund professionals to work anywhere at any time not only gives them an edge, it demonstrates to prospective investors that they are in total control of their business.
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It’s a fair assumption to say that the proliferation of hedge fund regulation has spurred technology providers to produce newer, innovative solutions.

Central to this is the growing complexity surrounding data management. If one were to plot data volume over time over the last five years it would resemble a hockey stick with the introduction of Form PF reporting by the SEC two years ago marking the point at which managers began to deal with ‘Big Data’.

Whether it is Annex IV reporting under AIFMD in Europe, reporting on derivative positions under Dodd-Frank and EMIR, CPO-PQR, FATCA, reporting short selling positions to the Hong Kong Securities & Futures Commission, managing collateral and margining to comply with the demands of CCPs, the point is there is an enormous array of data points that managers need access to. And when it comes to their service providers, they want quick, accurate solutions.

Such is the level of scrutiny that managers now face – especially newly registered managers with the SEC – that even minor infractions are being investigated further under the stewardship of Mary Jo White. Clint Coghill is CEO at Backstop Solutions, a privately owned Software-as-a-service platform provider. He comments:

“If the manager struggles to get the relevant information to the SEC they are more likely to view that as a minor infraction and will then seek to get even
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Helping managers respond to due diligence demands

Interview with Clint Coghill

Technology innovation sits naturally with software provider Backstop Solutions Group. After all, it was one of the pioneers of providing a Software-as-a-service platform to the alternative funds industry back in 2003 to help managers operate more efficiently.

Increasingly, software providers are under pressure to support managers with solutions to establish data management best practices and operational robustness. By offering software solutions that span investor relations, CRM, sales & marketing and investor reporting, Backstop is empowering hedge fund managers to develop more efficient workflows that stand up to scrutiny when investors conduct operational due diligence.

“More and more, institutional investors are counting on managers to have all of their information on investor concentration and portfolio analytics readily available. In addition, we’re seeing that managers want the ability to access that information ‘on demand’ to meet ad hoc investor requests,” says Clint Coghill, CEO, Backstop Solutions, adding: “Whether it’s a USD100mn fund or a USD5bn fund, investors are looking for the same level of professionalism from the manager and to provide answers the same way.”

For smaller funds, this can be an onerous cost burden and it explains why cloud-based infrastructure continues to be adopted. Managers just pay for what they need. Solutions such as those offered by Backstop enable managers to build out data workflows and keep on top of investor details using investor relationship management tools. This makes them a more compliant operational outfit: a key attribute when trying to raise capital.

“At its core, Backstop is a relational database allowing managers to gain a 360-degree view of their investors,” says Coghill. “Each entity within Backstop contains various data points, which can range from contact details to a liquidity profile.”

It’s not just manager-investor communication that hedge fund COOs need to establish but also manager-third party provider communication to properly monitor their service providers and satisfy ODD requirements.

For example, the manager can monitor the service provider by logging into Backstop to check the last time they met with one of the team members, or they can give a potential investor details on a service provider’s disaster recovery plans. This is all part of the relationship management process and as Coghill says: “It helps to give investors the necessary level of detail as part of their ODD process when assessing a manager.”

Managers must also ensure that the regulators are kept happy. New managers registering with the SEC, for example, are likely to sit through a Presence Exam over the next couple of years, which will require them to submit detailed documentation to the SEC’s Office of Compliance Inspections and Examinations.

“Backstop offers a scalable solution that is flexible enough to allow managers to adopt their own systems or processes for ODD. We have dedicated team members that can work with our hedge fund clients to help them to put the best processes in place,” says Coghill. “If managers don’t have systematic procedures in place that can be consistently managed over time, they run the risk of ending up with a useless repository of data. Backstop can facilitate the creation of processes by sharing best practices and streamlining workflows.”

“The benefit of using Backstop is that the cloud allows managers to use more services as they grow organically. Backstop is a modular system that can expand in functionality as managers grow their funds,” concludes Coghill.
more information through a full-blown audit. So we’re helping managers at the level of getting data bound up and shared; to basically speed up the time of the presence exam to hopefully stave off any further investigation.

“We’ve heard requests like ‘Do you have an audit trail of all communications with investors since the inception of the fund?’ If the answer is yes, but they are in email form, where do they sit? Backstop preserves all communications, including meeting notes, emails and calls, all in one place.”

The result is a clear audit trail of communication with the investor in a single file. In April 2014 SEI, a leading US hedge fund administrator, published a white paper that focused on how outsourcing – particularly middle- and back-office functions – could help hedge funds improve operational efficiency. It was entitled ‘Re-inventing Buyside Infrastructure’ and gets to the heart of the issue that many managers face in the data management challenge: how to achieve better efficiencies through choosing the right partners that can deliver the right kind of solutions, that add value, and which ultimately allow them to grow as firms.

“Instead of saying they are going to outsource because it’s not their core competency or to save money, it’s now much more about outsourcing because the manager believes they will be able to get knowledge out of the data, garner more insight about their business, not just collect numbers,” says Ross Ellis, Vice President and Managing Director of the Knowledge Partnership in the Investment Manager Services division at SEI.

“In some respects, which we refer to at the end of the white paper, operational capabilities have become key to hedge fund managers’ competitive advantage. It’s not just about ‘Can I do it cheaper and faster?’ It’s about having more tools with which to make better decisions for the business. By working with the right partners, managers are looking to increase the value they add to processes or reduce their involvement in areas where they add little value.”

Back when regulation started to impinge on managers the collective belief was that they could cope. That it would be straightforward enough to build a proprietary solution and the problem would be solved. This stance has since become untenable. There are now so many reports, so many pressures to deliver customised summaries to institutional investors, that managers would need a number of internal systems to cope. With operating margins getting squeezed enough as it is, this is economically unsustainable for all but the largest multi-billion dollar managers.

“The infrastructure for data management and data governance needs a versatile solution and the only way to achieve that is with technology. Managers increasingly rely on a solution that can take care of both regulatory requests, and those from prospective and current investors, without impacting on the direction of the firm. The last thing they want is to divert the company’s resources to dealing with responding to compliance and regulatory requests,” suggests Ellis.

UMB Fund Services, another US administrator, uses third-party software for portfolio reporting, where most reporting is standard. But where it gets tricky is on the general ledger and the investor servicing side. “That’s where having proprietary software allows for customisation for the fund manager and their investors. We have a team of developers who work on customisations to meet specific requirements,” says Chad Allen, Managing Director in UMB Fund Services’ alternative investment servicing division.

UMB Fund Services administrates both mutual funds and alternative investments. Each fund type uses different software, but as Allen confirms, one big initiative for the firm this year is better integrating the data management function for clients who run both types of funds – a big trend with more
managers launching alternative mutual funds and registered hedge funds.

“Since our clients are running both mutual fund and alternative funds, we are working on ways to improve data management to meet both our clients’ and internal needs across a variety of structures. It’s an important project that we are working on right now,” says Allen.

### Pushing for operational efficiency

The SEI white paper found that 83 per cent of operations teams in fund groups regarded operational efficiency as either ‘somewhat challenging’ or ‘very challenging’. With 80 per cent of assets coming from institutions, they are buying the firm not just the fund. Performance remains the number one issue but they need to make sure that it is sustainable and that the right infrastructure is in place.

“If most new assets are coming from those types of investors, the manager has to stop thinking predominantly about how to squeeze an extra 3 or 4 basis points from the bottom line. If they want the business to succeed long term they have to start making longer term institutional decisions,” opines Ellis. The white paper goes on to suggest that by using effective outsourcing partners, firms could reduce their operational expenses by 10 to 20 per cent, freeing up the potential to deploy capital in other parts of the business and gain an edge on their competitors.

“It’s not just about saving money. It may mean only 10 per cent of the team having to focus on the task as opposed to 50 per cent of the team. That gives them more time to come up with product innovation, reach out to a different investor base, or better service existing clients. It frees firms up to be more nimble and competitive and gives investors another reason to invest in them,” suggests Ellis.

Linedata is a leading provider of global solutions to the investment management community. In September 2012 the firm rolled out Linedata Global Hedge, a scalable cloud-based platform that uses a modular approach to supporting the changing needs of managers. All of the firm’s core products - Linedata Global Hedge Portfolio Management (previously Beauchamp), Linedata Global Hedge Trading & Order Management, Linedata Global Hedge Compliance and Linedata Global Hedge Reporting - sit within the platform, which is helping managers address data management challenges with the kind of operational efficiency Ellis refers to above.

“Dealing with one service provider saves the manager time and money. That’s exactly what Linedata Global Hedge is bringing to the table. Investors want transparency which managers need to provide if they want to raise capital. To do that they need a good operational infrastructure to meet due diligence. The typical Asia start-up hedge fund can be as low as USD20mn-50mn; how are managers going to make money with all these demands being put on them?” says Sally Crane, Managing Director, Asia.

“It’s completely modular so a manager can choose to start off by just using our PMS or OMS; most Asian managers prefer to start off with a PMS and move on to use an OMS later on. They do of course need a light OMS which is built into Linedata Global Hedge Portfolio Management but they would typically only move on to use a dedicated OMS once the business grows (and they are trading a bigger book),” she adds.

One leading Asia hedge fund using Linedata Global Hedge Portfolio Management in conjunction with Eze Castle (OMS system) and Imagine Trading System (risk management system) is Hong Kong-based Senrigan Capital.

The firm has a five-year track record and when asked about data management and reporting pressures the firm’s COO, Chris Nash, states emphatically that a fund’s data is its ‘lifeblood. It gives you a whole set of things to dig into and work with.

“The problem is, you don’t really know what you want to do with the data until it’s...
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What the Heartbleed bug means to hedge fund managers

By John Landy

The discovery of the Heartbleed bug serves as a wake-up call to hedge funds and alternative investment managers. A single line of buggy code has put millions of web servers and users at risk of having their secure information stolen. If you think your business hasn’t been affected, it will be soon.

While Heartbleed is noteworthy in its near universal impact, such risks and vulnerabilities are simply part of the modern, Internet-connected business world. Few hedge funds and alternative investment funds run an entirely self-contained, on-premise data center.

Most are using some form of cloud services, whether it’s Infrastructure- (IaaS), Platform- (PaaS), or Software-as-a-Service (SaaS), like Intralinks. Your IT infrastructure is no longer sitting in your data center; it’s now spread all over the Internet. And there are sound business reasons for taking this approach: It’s less expensive, more flexible, and offers more functionality.

But one side effect of this is that the security of your IT infrastructure is now dependent on the technology and business practices of an entire ecosystem of service providers.

Even if you deal with only one outside provider, that provider might depend on a many others. Your security is only as strong as the weakest link in the long chain of companies supporting you. You could have the best practices in the world surrounding security, and you’d still be vulnerable to Heartbleed.

The question is, what are you going to do about it once it becomes known? Do you have the procedures in place? Are your vendors prepared to respond in a timely manner? A quick response can reduce risk.

Crises like Heartbleed separate the organisations that invest in security and policy from those who don’t. We take these issues seriously at Intralinks, just as our clients do, so we have a security operations center where we manage all of the software we support.

The Heartbleed bug will have long-term implications for Internet security. Here are five steps that hedge fund and alternative investment managers can take now to reduce their risk for the future:

1. Understand your IT vendors’ procedures for handling security incidents. Know their people and their operational procedures.
2. Ensure that your vendors have a Service Organisation Control (SOC) 2 that’s been certified. SOC 2 lays out how service providers should define and implement a security policy.
3. Select mature vendors with a track record.
4. Call a meeting with your IT providers and ask to meet with their security teams.
5. Finally, understand the full extent of your IT ecosystem. Ask your provider for help in understanding the security policies for any third-party technology or services.

Security vulnerabilities like Heartbleed are inevitable – people are people, and they will always make mistakes. The question is, how do you respond to problems when they arise? Putting the policies and procedures in place today, and working with service providers that take security and confidentiality seriously, can reduce risk long-term.
there to play with. It’s a bit of a chicken and egg situation. One of the problems for managers is that they know they want to look at the data but their administrator (or other service provider) is unable to present it to them in a usable way.”

This raises an interesting point. Many fintech providers talk about the need for front- to back-end integration. Unfortunately, this requires using one provider. Firms like Senrigan, however, are more inclined to use multiple best-of-breed systems. Nash says that it then becomes a judgment call within the firm to decide to what extent in-house technology should be developed to bridge the inevitable data gaps that arise.

“There is no universal panacea. You have to find a way to use these different systems for what they’re good at and decide how to fill the gaps yourself. The reason we use a number of different best-of-breed systems is to get different flavours of information for the various needs we have running the fund.

“What we’ve done is build a data management layer on top of the system to suck in as much data as possible that we can use in a way that suits us. Nobody is going to give you a great reporting tool that can give you everything you need. It’s impossible because they’d need to read your mind,” says Nash.

This wrapper is helping Senrigan address the reporting demands of regulators and investors alike. It helps that Nash has a background in computer science; not all hedge fund COOs can say the same. It certainly places Senrigan in a good position to know exactly how far to go with IT budgets and how much to rely on their service providers.

Different dashboards for different folks
One way that service providers are helping data to become more actionable is by developing different dashboard views for different people across a hedge fund organisation. Ellis notes that the desire among managers to have better data management is in large part a response to investors wanting customised reports, especially those who are moving out of commingled structures into segregated accounts.

“Greater complexity is driving change throughout the industry. Investors are now saying ‘I need to look at my book holistically, not just at your fund, but how it works with all the other vehicles and managed accounts I have in my portfolio’. They don’t always need full transparency down to the position level but they do need certain types of information that helps them analyse their investments,” says Ellis, adding that the exponential rise in customised reporting over the past several years has forced SEI to invest more in and improve its infrastructure.

“What we’ve done is try to build our operational infrastructure and treat it as a platform rather than something product specific. Providing relevant data in an organised, usable fashion saves the manager time and effort, and enables them to better add proprietary value to their investors.”

The amount of data is so vast that different people within hedge funds – the COO, the PM, the CCO etc – need to make sure they see information that is pertinent to them. “Part of what we’re trying to do is say ‘Here are the key pieces of data that are most important and valuable to you so let’s put them front and centre in the dashboard which you can then customise’,” explains Ellis.

At Senrigan, Nash confirms that they’ve built their own dashboard functionality: “We’ve built a set of dashboards to give people an aggregated view of data. It’s not real time but it’s refreshed twice a day.” He adds that the use of dashboards via browsers not only gives mobile access but also brings significant business continuity plan (BCP) benefits.

What this illustrates is just how important a part technology plays for hedge funds as they come to grips with ‘big data’. As Linedata’s Crane says: “That’s why we built the COO dashboard. You can’t just give clients data. You’ve got to give them actionable real-time data.”

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Chris Nash, Senrigan Capital