Hedge Fund Technology Innovations 2016

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Although the underlying data might be broadly similar, if they set up a process to manage each report independently it's going to become a burden. However, if they manage their data centrally and all that is needed to file each report is a different set of outputs it becomes more automated, more manageable, and more cost-efficient," explains Lee Godfrey, Deputy CEO of KNEIP, one of the industry's leading legal and regulatory report specialists.

KNEIP focuses primarily on ensuring that fund data is sourced and managed in an optimal fashion. As far as regulatory reporting goes, it sets the parameters by supporting only the fund data and the fund's obligations, ignoring anything to do with transactions - EMIR for example - and anything to do with the underlying investor - i.e. FATCA.

According to consultancy firm MackayWilliams, the quality of fund reporting is the third most important criterion when selecting a fund manager, after risk management and the quality of the fund management team.

Citing survey results provided by Fund Buyer Focus, 10.7 per cent of a pool of 999 fund selectors highlighted the importance of reporting, suggesting that fund managers who have the technology in place to deliver fast, accurate reports are going to be best placed, going forward, to attract institutional assets.

**STP reporting**

"The hedge fund community is still limited in terms of the amount of reporting it faces but if fund managers offer a UCITS fund they may face multiple reporting obligations. Although the underlying data might be broadly similar, if they set up a process to manage each report independently it's going to become a burden. However, if they manage their data centrally and all that is needed to file each report is a different set of outputs it becomes more automated, more manageable, and more cost-efficient," explains Lee Godfrey, Deputy CEO of KNEIP, one of the industry's leading legal and regulatory report specialists.

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“Right now, our focus is on developing more of a hands-on approach; a self-service type model. Once you’ve uploaded the data, it should be completely straight-through processed i.e. you upload the data and a report comes out the other end with all the necessary built-in checks. We are almost there for all of the reports that we produce today. In the near future, end users will be able to sit by the pool and produce a fund report on their iPad, should they wish to!” explains Godfrey.

The ability to report data effectively mitigates not only the risk of investor dissatisfaction but also the risk of regulatory fines and potentially increases speed to market by supplying data feeds to Bloomberg when a new fund is launched. Then there’s the reduction of noise – operations teams are less distracted having to fix inaccurate data and field calls from investors, or from ratings sites.

Working with accurate data is a necessity but it needn’t become a burden, nor a distraction, for hedge fund managers.

Godfrey says that regulation has become a fact of life but it can be managed if legacy technology is replaced with STP processing capability.

“Last year, when we produced the first significant volume of Annex IV reports, everyone was struggling. We ended up sending our specialists to managers’ offices to go and sit in their office and ask, ‘Where’s your data coming from? Where can we trust it? How can we set up a trusted and permanent source of data?’ Once that was put in place with clients, this year their Annex IV reports were produced seamlessly. Our reporting volume has risen 18% even though our team is 30% lighter. And that’s predominantly thanks to the fact that we’ve introduced STP capabilities on our end and our clients’ end.”

**Improved collaboration can reduce operational costs**

Connecticut-based Nedelma has developed a powerful accounting and reporting platform called Portfolio Amalfi™ that is helping asset managers drive home real operational efficiency.

As the regulatory and compliance requirements become ever stricter,
Driving straight-through processing within alternatives

Interview with Joel Andersen

Ever since the DTCC’s Alternative Investment Product (AIP) Services initiative was introduced in 2008, the goal has been to replicate the success of the NSCC’s Fund/SERV and Networking service for mutual funds and apply it to the alternative investment industry.

At its heart, the DTCC’s AIP platform links key players across the value chain, from broker/dealers to fund managers, administrators and transfer agents, in order to provide straight through processing capabilities when sharing data.

“Currently, we are working in collaboration with DTCC on the ability for broker/dealers to place hedge fund purchase orders and to establish new accounts directly through DTCC’s AIP, and have them directed to the administrator or transfer agent in a fully automated fashion,” explains Joel Andersen, VP, Investor Services Business Solutions, UMB Fund Services.

“The AIP platform is very similar to what was developed in 1986 with NSCC’s Fund/SERV. Currently mutual fund transfer agents are able to send electronic data to the broker/dealers to enable them to reconcile any transaction and position data. This allows them to automate their reconciliations in a more standardised way.

“We’ve been working on implementing the technology and processes for hedge fund purchase orders and the next step will be for AIP to electronically handle redemption orders to further automate existing manual processes.”

This is not just about automating the data sharing process; it is also about building standards within the alternatives industry on how transactions should be processed by the various parties involved. By effectively addressing the operational challenges related to capital investments and investor activity, AIP provides the alternative investment community scalability through improved efficiencies, reduced operational risk and lowered costs.

According to DTCC, there are currently 40 fund administrators and 26 broker/dealers and custodians utilising AIP. UMB Fund Services has been involved in promoting the development of the platform since 2008, and being the voice of our clients within the administrator community.

UMB Fund Services views the AIP service as a major benefit for unregistered and registered alternative fund managers. Straight-through processing brings a variety of advantages to managers including operational efficiency, greater transparency and reduced risk. “The greatest benefit we see is increased distribution potential for funds who are looking beyond their traditional investor base. The AIP service is one factor that may allow funds access to trading platforms and speed asset growth,” explains Andersen.

“We became involved with the project in order to advocate for our clients on the development of the platform, but also so our internal systems are completely integrated into the process to best support clients and their asset growth.”

With so much data being exchanged within the alternatives industry, especially as managers launch ‘40 Act alternative investment funds alongside their unregistered vehicles, technology investments that can streamline that transfer of data are a focus for UMB Fund Services.
Consider the example of a hedge fund that is participating in AIP and just recently gained access to a large distribution platform. In that example, the broker/dealer will need to receive a monthly position file on each fund investor to reconcile the number of shares and update investor accounts with the new capital balance. As everything is automated within DTCC’s AIP, it means that the fund can easily send the information electronically so the broker/dealer can send out accurate information to the fund’s investors.

“It allows everyone using AIP to receive data in a more timely fashion; for example, the transfer agent doesn’t have to manually input investor information as they are getting it directly from the broker/dealer as it uploads into the system. It eliminates the need for manual tasks, which can be time-consuming. Streamlining the reconciliation process as purchase orders come through and purchase amounts settle will simplify what has, for the alternatives industry, been a complex process,” concludes Andersen.

“Being able to accept subscription documents electronically is certainly beneficial. We are looking to add functionality on the redemption side and allow managers using the AIP platform to receive redemption orders from broker/dealers electronically rather than having internal staff manually inputting that information,” confirms Andersen.

In the mutual fund industry, nearly everything is automated with respect to the way that money is moved and settled and positions are reconciled within funds. Without that level of automation in place the US mutual fund industry may not have grown to the size it is today.

“The more automation we can build in to AIP, the more opportunity it will give hedge funds to grow their assets and their investor base that up until today they might not have been able to reach,” suggests Andersen.

“Distribution platforms in particular want hedge funds to utilise AIP to more effectively deliver data to them. Indeed, some platforms are mandating that hedge funds do this.”
“If the portfolio management team wants to look at a specific data set, ordinarily this would involve going to the IT team and the stock response will often be, ‘No problem but what would you like us to stop working on? We are busy.’

“Now, if the front office can do this by themselves it dramatically improves efficiency as it avoids putting more burden on the IT and operations teams. Time is money. Getting answers quicker can allow the investment team to trade markets faster and, hopefully, improve fund performance,” suggests Medvinsky.

**Building investor insight**

In some respects, the fact that hedge funds are sharing so much data with investors and regulators can have its advantages, even if the reporting requirements can feel frustrating. One of the most useful advantages is that it can build greater insights on end investors, assuming the right technology is in place.

New York-based Imagineer Technology Group (‘ITG’) offers award-winning solutions to help hedge fund managers address the transparency and workflow demands necessary to stand out and succeed in today’s marketplace. Although best known for its flagship CRM platform, Clienteer, the firm’s web portal product, WebVision, enhances the fund and investor level reporting experience for managers and their investors, in addition providing metrics to allow managers to better understand the needs and wants of investors and prospects.

“As all the information is online with WebVision it creates a ‘hands-off’ methodology for hedge fund managers,” says Erol Dusi, Founder and President of Imagineer. “Whether it’s financial reports, fund reports, audits, etc, all can be presented on WebVision for investors to download, not just for current needs but historical purposes as well. If somebody wants to reference K1 reports from previous years they can freely download them.

“The enhanced transparency that comes with accessing all of the fund’s reports, and even specific account level data that relates to the investor’s allocation in that fund, can be a valuable tool, allowing managers to better control the dialogue with investors.

“Time is money. Getting answers quicker can allow the investment team to trade markets faster and, hopefully, improve fund performance.”

**Michael Medvinsky, Nedelma**

In addition, giving investors the ability to self-serve eliminates the inefficiency of waiting on managers or their appointed fund administrators to provide reports.”

This is very helpful for smaller and emerging managers where making a positive first impression with potential investors is so critical. By leveraging technology provided by Imagineer and others to improve the day-to-day business operations of running a hedge fund it can go a long way to demonstrating the institutional quality of the fund and address potential concerns that the investor might have.

Indeed, Nedelma’s Managing Director, Jeff Strauss, says that improved performance coupled with more transparent, robust portfolio information, delivered quickly, can make acquiring new investors much easier.

“Managers can do dynamic reporting, showing their fund’s performance by sector, by market, by asset class in response to investors’ questions, which is not possible when using a static PowerPoint presentation. It builds confidence among investors and prospects and can help to retain the fund’s assets as well as to raise new assets,” comments Strauss.

**Culture of compliance**

Back at Imagineer, although the primary function of Clienteer is the investor relations module, the functionality set goes far beyond that, touching all areas of a hedge fund’s daily activities including business development and marketing, operations and financial reporting.

Having a centralised system, such as Clienteer, creates a proper firm-wide culture of compliance. The system typically becomes an important hub for all of the hedge fund’s information and workflow management.
Enhancing hedge fund reporting in a mobile age

Interview with Michael Medvinsky & Jeff Strauss

The Portfolio Amalfi™ platform by Nedelma offers multi-asset, multi-language, multi-currency dynamic reporting and data visualisation, as well as analytical capabilities to the asset management industry. The platform also offers data aggregation tools, portfolio management solutions and a calculation engine. Users can analyse and view data from multiple perspectives using a combination of attributes, formulas and values, with extensive options for dynamic customisation. Nedelma also has an online investor document repository with document approval workflow and interactive reporting.

"Everybody in the financial industry cares about four factors: improving performance, increasing transparency, raising assets and reducing costs. Our products help business users achieve those goals with quick integration and minimal input required from the user’s technology team," says Managing Director Jeff Strauss.

Portfolio Amalfi™ seamlessly aggregates P&L, risk, exposures, third party and in-house data making it available across numerous devices including desktops, iPads and other mobile devices. One attractive feature of Portfolio Amalfi™ is that it can be used as a CEO dashboard to give senior executives a holistic view across their firms, anytime and anywhere, and it is a real value-add to hedge fund executives.

As Nedelma’s CEO, Michael Medvinsky states: "If you are trying to raise assets in Asia, for example, Portfolio Amalfi enables you to share fund information with investors in their local language, e.g. Japanese. It also empowers users to provide multi-currency results. Portfolio Amalfi provides track records, the fund’s performance over a user-defined period and other valuable investor focused information and outputs.

“The information you see on your desktop can be fully replicated on the iPad. This gives the user flexibility in how they look at the portfolio and the ability to generate customised ‘on the fly’ reports. It really helps improve business efficiency and reduces demand on IT teams.”

Both Strauss and Medvinsky held senior positions at Goldman Sachs and are applying that expertise to enhance Nedelma’s products. Strauss also has significant experience in the hedge fund administration business. He feels that Nedelma’s technology with Portfolio Amalfi is something administrators “have been trying to develop for several years”.

"It's a technology platform that every administrator and hedge fund manager could use because it enables people to look at their business quickly, create customised reports, and use it for both financial information and marketing purposes."

In terms of how Portfolio Amalfi can improve fund performance, the ease with which investment teams can pull down different data sets and analyse them efficiently can enhance their ability to make informed decisions on the market, helping managers analyse current and historical data by allowing intuitive access to their data, anytime and anywhere.

Portfolio Amalfi supports multi-dimensional reports to enable users to analyse their data from multiple perspectives.

“We believe that a first-class fund analytics and reporting system needs to provide powerful ad-hoc flexibility to clients, both in reporting and data aggregation. We provide powerful and rapid ad-hoc flexibility in reporting, data aggregation, data visualisation, calculations and analysis," says Medvinsky. "Ultimately, we allow people to work more efficiently. This helps to reduce operational costs and maximise productivity. Technology and operations staff can focus on more important issues to help improve the hedge fund, rather than being consumed with reporting obligations.”
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Using tech integration to simplify workflows

By Rob Keller

In today’s world, increased regulatory pressures make collaboration between compliance and trading departments critical. The growing demands of compliance departments for pre-trade checks can potentially disrupt workflows and take valuable time away from trade creation and execution. According to TABB Group*, many investment managers have issues with their current pre-trade compliance technology setup. Many firms have trading and compliance in disparate systems resulting in inefficient and slow trading workflows. These inefficiencies are driving the demand for tighter integration between execution management and order management systems.

Order entry and operation within a single application

Compliance departments at investment firms are increasingly aiming to integrate compliance into their investment workflows to identify and mitigate potential issues earlier in the investment lifecycle. For many, this has been tough to achieve, as compliance and trading tools often reside on separate systems. The order is created in the order management system, where positions are checked, allocations processed and compliance runs, from there it is staged into the execution management system.

At this point, the workflow in one system ends, and moves over to the other system; should the order have to be adjusted, the trader must swivel from the EMS back to the OMS to make the change and back again. This is inefficient and can cost the trader time and money while away from the market.

Eze Software has eliminated the need to swivel between systems by integrating the pre-trade compliance and allocation capabilities in the OMS with the advanced execution capabilities in the EMS.

Synchronisation of security data

In order to manage trading and compliance efficiently, firms need a single trusted view of their orders and positions. Relying on disparate systems that don’t integrate until the end of the day makes it difficult to look over the entire portfolio and manage risk accordingly. Moreover, various jurisdictions now require firms to run accurate real-time exposure, counterparty exposure and beneficial ownership disclosure, and adjust positions accordingly throughout the day.

The earlier these violations can be detected, the easier they are to fix – but in order to do this efficiently, data across systems has to be synchronised. Trying to synchronise different data structures can be difficult and time-consuming if you are stitching third-party systems together.

Easy access to advanced execution management functionality

Compliance may present great demands upon the trading desk for position checks, pre-trade compliance, and other business requirements, but traders are reluctant to devote more time to running compliance than necessary. Scenarios that force traders to choose between robust compliance engines and advanced trading capabilities put the trader between a rock and a hard place. The ideal trading and compliance solution will ensure that traders have access to position checking, pre-trade compliance, staged order edits, child order edits and list creation within the EMS – an environment they can exploit with the least disruption to their workflows.

With growing regulatory pressure on trading and compliance, it’s becoming difficult for investment firms to piece together the required data. Having an integrated solution with centralised, synchronised data, without cutting down on advanced trading capabilities, will help.

It allows the hedge fund to track relevant compliance data such as ERISA capacities, FATCA compliance, and even Form-PF questions as they relate to investors.

“Moreover, if the SEC pays you a visit and you can easily pull up all fund documents on every investor, communication logs, the details of every investor that the Offering Memorandum was sent to - basically the full audit trail of the hedge fund’s operations - it clearly demonstrates a proper culture of compliance. Beyond that, it makes life much easier when an investor calls up as the IR team doesn’t have to waste time searching for answers across disparate systems,” explains Dusi.

Real-time mobile technology
One technology company that has focused heavily on mobile technology is Eze Software Group, a leading industry provider of global investment technology. It recently enhanced its mobile offering, Eze Mobile, for iPhone 6 and 6 Plus; a single application that can be downloaded remotely to run on Apple devices which gives users of the Eze Software OMS access to critical compliance, trading and portfolio management functionality when on the move.

“Fund management groups – both traditional and alternative – no longer need to feel confined to their desktop to harness the power of the Eze Software OMS. What we notice is that for most of our smaller and mid-sized hedge fund clients, they are happy for all of their internal staff to utilise the mobile technology whereas some of the larger fund management groups will typically restrict access to the senior compliance officer, the portfolio manager(s) or the senior analysts - basically those who need it the most,” observes Michael Hutner, Senior Managing Director of Americas Sales and Business Development at Eze Software Group.

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One of the most powerful features of Eze Mobile is the ability for users to view data on their mobile device in near real time. They can see what is happening to their portfolio positions, which might prompt them to dial up or dial down risk depending on the market. Or, if the COO happens to be at a conference and wants to [show] answer questions about the fund’s performance to a prospective investor, they can view P&L and liquidity, and perform benchmark analysis, and drill down into performance relative to critical market changes.

“There are very few technology groups that are able to manage real-time data and provide it to end users on the go as and when they need it. We were one of the first to support real-time position management, exposure and P&L,” says Hutner.

“That ability to drill down to determine the fund’s P&L and liquidity, and the way that data can be visualised in graphical format, is proving of great value to our clients; it’s highly intuitive and far more powerful than continued reliance on spreadsheets. In addition, Eze Mobile allows the end user to send orders in to the trading team whilst remaining in full compliance; if you breach a certain exposure limit, we will not allow you to execute the trade. We’ll basically put it into a holding bin where a compliance officer
As a proven leader for over 20 years in data aggregation, management and reporting, Confluence offers solutions to the global fund industry to support asset managers and their administrators with performance and analytics, regulatory reporting, investor communications and expense management. By taking disparate data sources from providers such as custodians, index providers and accounting systems, then centralizing and aggregating the data, output in various information formats is available to both internal and external consumers including portfolio managers, boards of directors, regulatory agencies, and investors.

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Data management is Mount Everest challenge

Interview with Todd Moyer

“One of the things we see across our organisation is that data management is becoming a much bigger priority and focus among asset managers,” asserts Todd Moyer, Executive Vice President of Global Business Development, Confluence. “The complexities related both to institutional investor reporting and regulatory reporting are making data management a significant challenge. With Form-PF alone, managers might be looking at 30 to 35 different data sources across a dozen systems in order to meet the transparency requirements.”

Confluence is a leader in data management and automation for the global asset management industry. To address the data management and regulatory reporting challenge – both for traditional and alternative fund managers – Confluence has just unveiled the Unity NXT™ Regulatory Reporting platform.

“It’s not the end reports that are the problem, it’s more the ability to take data and turn it into knowledge; whether that’s taking data from Confluence or external sources and being able to normalise that data for reuse across a variety of regulatory, financial and institutional reporting requirements. We will be using the platform for June 30th filings that some of our larger clients need to prepare for,” says Moyer.

Before the financial crisis, hedge funds could get away with producing straightforward quarterly or annual reports for investors. Both managers and fund administrators used technology systems that weren’t designed to cope with complex regulations.

With the convergence of fund investment strategies, today’s hedge fund managers are increasingly managing “mutual fund-like” products. Fund administrators are taking a hybrid approach to the opportunity by servicing multiple fund types, including mutual funds, UCITS, private equity and real estate funds. As a result, retail investors are expecting them to administer all of their funds with mutual fund-like efficiency, accuracy and reporting frequency,” observes Moyer.

In his view, the fact that hedge funds increasingly resemble traditional mutual funds in the way they report and provide transparency to satisfy institutional investors is a trend that is likely to continue. “Institutional investors are demanding heightened levels of transparency into their hedge fund investments. They are requiring higher levels of operational efficiency and cost savings through outsourcing and back-office automation,” adds Moyer.

Those managers running multiple versions of their strategy face a rising summit of data management and filing obligations. This can bring about altitude sickness if the right technology is not in place to handle different data sets and reporting formats, across different jurisdictions.

“If you look at what’s being proposed with traditional ’40 Act funds with SEC Modernisation, there is quite a bit of data re-use between the traditional and long-only world, but hedge funds were not originally set up to share data and re-use data across different jurisdictions and regulators,” says Moyer. He thinks the burden will be placed firmly on the administrators and technology companies, “which sit in a strong position to help normalise large volumes of data for re-use”.

“Our data hub is centred on the ability to take data in its native format without additional manipulation. That is going to be key because not only is it hard to source data, but then when you get it, being able to tag it in a reusable format will become increasingly important. We’ve positioned ourselves today such that we can support both administrators and fund managers directly, to help them deal with their day-to-day data management challenges,” concludes Moyer.
can remotely review the data and override the trade if needed.”

This is where there are clear advantages to hedge funds when using technology solutions in a mobile device. The majority of hedge fund managers have fairly small teams so anything that can extend the capability of how they run the fund, without using up valuable internal resources, is going to be welcomed.

From a security perspective, Hutner says that all of the fund’s data stored on an iPad and/or iPhone is RAM memory and that there are firm-controlled timeout settings to clear the data; in other words, you get logged out after a certain amount of inactivity. Also, there’s an ability for the client to wipe the data remotely if someone accidently leaves their iPad on a train or has it stolen.

“Security is probably one of the most important parts of what we are doing. Everything in the application uses SSL, TLS encryption with signed certificates. Everyone today wants to have information at their fingertips. But it has to be as secure as possible,” stresses Hutner.

Administrators need to be agile

It isn’t just hedge fund managers that have to prove their technology prowess to investors. Equally, hedge fund administrators must do the same, both to managers and their end investors. This is especially true when one considers that over the last few years there has been significant convergence between the long-only and alternative funds industry, as demonstrated by the rise in popularity of ‘liquid alternative’ funds; be they ’40 Act alternative mutual funds or alternative UCITS funds.

This is an exciting trend but the inevitability is that reporting requirements are only set to increase with SEC modernisation, part of which is the N-PORT reporting rule, which is expected to be approved in the second half of 2016, after which there will be a 24-month window for asset managers to get prepared. This regulation is significant for the US ’40 Act mutual fund market and can best be thought of as the long-only equivalent of Form-PF and Annex IV reporting in the alternative funds space.

One firm that has moved quickly to support both hedge fund managers
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The virtues of outsourcing technology and operations

Interview with Bennett Egeth

How hedge funds view their technology and operational models is fast evolving. Consider a simple example: the need to reconcile with half a dozen prime brokers and an administrator.

In the past a large fund would think nothing of developing a proprietary solution, but now there are other choices:

• Buy an off the shelf software that automates the reconciliation process
• Hire a managed reconciliation service
• Push the recon function to a fund’s HFA or middle office proposal as a value-added service.

Previously, managers would build complex internal technology frameworks to reconcile with their prime brokers, but the option to outsource this function has grown.

As Bennett Egeth, President of Broadridge Investment Management Solutions, observes, “Managers see the benefits of auto-reconciliation because not only does it decrease the cost of their technical infrastructure (reliance on fewer systems), it also reduces the operational effort needed to support these systems. For example, one of our clients is a USD3.5bn credit derivative fund that uses an integrated system that auto-reconciles with their fund administrator and seven prime brokers. That’s providing the manager technology and labour savings.”

Cleansing reference data, automating end-of-day pricing data and processing corporate actions all are key areas where technology solutions can reduce operational overheads. Egeth estimates that there is at least a 30 to 40% cost saving - if not greater - to using an outsourced technology managed services provider. When discussing managed services, it’s important to make a distinction between technology managed services (hosting) versus operational managed services; the former would apply to the above example of the credit fund.

In operational managed services, the manager goes a step further and uses an outsourced provider to take over the running of certain operational tasks and become, in effect, an extension of the manager’s operations team, which may reduce the operational headcount to a handful of key staff.

“When a firm trades a new asset class, not only do they need the operational expertise in that asset class, they also need back-up for that expertise if the key person is out of office. A lot of large funds have built significant operational infrastructure and I think everyone acknowledges that operations can become a more ‘mutualised’ and shared solution,” says Egeth.

“There’s an ability to pool the knowledge and expertise of operations staff that support multiple funds, rather than having to retain that expertise in-house for every different fund. This can lead to a 30 to 40% cost savings - if not greater - when using an outsourced managed services provider.”

At 50,000 feet, there are, says Egeth, four questions that can have a significant impact on the cost structure of a large hedge fund:

• Can I consolidate multiple providers to a limited number of providers or even a single trusted provider for my solutions?
• Do I need to host the infrastructure myself?
• Do I need to do all the operations functions myself? What tasks, knowledge and redundancy do I need to do?
• What level of controls (shadowing?) do investors expect me to perform independent of the work done by my administrator?

In a nutshell, what is differentiating? If you took every function and subjected it to the test: “does it help generate alpha or raise capital.”
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KNEIP is one of the fund industry’s foremost legal and regulatory report providers. Over the years it has helped traditional asset managers overcome the data management complexities of regulated UCITS funds.

More recently, since the introduction of AIFMD, KNEIP has watched closely as hedge fund managers have fought to overcome the stranglehold of Annex IV reporting—depending on the size of the manager, they must file quarterly, semi-annual or annual reports and collect large volumes of reliable, consistent data.

Data ownership
In the first instance, you have to analyse the symptoms of the problem,” says Lee Godfrey, Deputy CEO of KNEIP. “This requires understanding where the data comes from; what’s the source? A manager might respond, ‘It is centralised with the back-office of the AIFM in Luxembourg’. But once you dig down, you soon discover that the data doesn’t originate in Luxembourg, it originates with the fund manager based in New York who has appointed a third party AIFM. It might still make sense to centralise the data in Luxembourg but will the data be updated regularly? If the source of data is only updated every three months that is not sufficient.

“Managers have to ensure that the source of their data is right on the pulse. This is what KNEIP helps to ensure.”

Once it has been determined where the primary source of fund data is and who owns it, the next step is to determine the best way to collect it.

“It might be that the client has a better solution for doing this internally. If not, we step in and extract it directly from the source. In the above example, we sourced the data directly from the manager in New York and circumvented the AIFM in Luxembourg. The AIFM does not abdicate responsibility, they delegate that responsibility to us,” confirms Godfrey.

Automated checks
Once the data is sourced and collected, KNEIP’s system performs a number of validity checks, coherence checks and formatting checks before data is loaded into the database.

“We then perform a second level of checks based upon a particular guideline. All of these checks are fully automated. When it comes to the data outputs, the production of a particular regulatory report is very straightforward: it’s a full straight-through processing arrangement,” says Godfrey.

This is all managed within KNEIP’s private cloud which uses a Tier 4 data centre.

Regardless of whether the relationship that fund managers have with their data is internal with their own data management team, or external with a specialist such as KNEIP, it is critical that they keep on top of regulatory change.

Godfrey points out that KNEIP produces financial reports for more than 10,000 funds, of which approximately 80% of them rely on KNEIP for regulatory reporting. “In Luxembourg, we have something called the O1.1 report, which is being superseded by the U1.1 report on 6th June 2016. It’s basically the same report, give or take a little bit of data, but the format is changing from Excel to XML. Clients contacted us panicking, asking what they should do. We replied, ‘Don’t worry. We’ve taken care of it.’”

As hedge fund managers settle in to their new role of complying with regulatory reporting, the more help they receive from a supporting cast of technology providers the easier their lives will become.
and administrators in this endeavour is Confluence.

“We’re been actively working with clients to address this development by sourcing data and getting it normalised to be able to report on it. It’s not something that managers can wait on, even if the first filing will not be for another 2 years or more. We are focusing on this intensively to help our clients,” says Todd Moyer, Executive Vice President of Global Business Development, Confluence.

“The current proposal is a monthly filing; the first ever monthly reporting requirement to such a scale in the US fund industry. That is going to change the way managers approach their operations. They won’t be able to rely on manual processes. It’s a tipping point. Managers will need technology support.”

In response, Confluence has spent two years developing the Unity NXT™ Regulatory Reporting platform, which has just gone live.

Normalising data for re-use
To cope with the broader data management and reporting challenges, Moyer believes that the burden will be placed firmly on administrators and technology companies as they will be best placed to help normalise large volumes of data for re-use.

“Re-use is going to become a critical feature because not only do managers want to be able to access data in a consistent fashion, they also want to make sure it is accurate across different reports as regulators pay close attention. You don’t want to file one set of data for Form-PF and then use a different set of data for Annex IV under AIFMD, for example. Technology solutions should be able to help automate data flow in order to provide consistency across those filings,” comments Moyer.

He says that administrators who demonstrate the ability to provide “mutual fund-like services” to the hedge fund market will win “the lion’s share of the business”. With even more regulation expected in coming years, the industry can expect increased reporting on the largest sets of data to be a significant, long-term trend impacting their operating models.

“Overall, I would say that administrators who can provide consistent and transparent reporting will be in a better position to garner assets as they win mandates from the larger fund management groups,” comments Moyer.

Relying on Confluence technology, clients already retain a lot of the data needed within the Unity® platform. Confluence services a large share of the financial reporting, both for alternative and traditional funds across the globe. Moyer estimates that the group holds approximately 70% of fund data to handle all of the current regulations. “We then gather and normalise the remaining 30% and bring it in to our platform.

“This is mainly counterparty and risk information. We work directly with the client and their third party providers to source data and onboard it in its native format. There is no need for the data sources or providers to comply with any specific data formatting requirements on the Confluence stack. We are able to take the raw data from them and tag it for multiple reuse within our application to support clients’ transparency reporting needs, not just today but as regulation evolves in future,” explains Moyer.

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Things to consider when outsourcing operations
In this last section, it’s worth drawing upon some of the considerations for hedge fund managers who are looking to update their operating models by outsourcing some of their functions to managed service providers.

Todd Moyer, Confluence
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Enhancing workflows and investor communications

Interview with Erol Dusi

New York-based Imagineer Technology Group offers award-winning solutions to help hedge fund managers address the transparency and workflow demands necessary to succeed in today’s marketplace. These solutions, which include an industry-specific client relationship management (Clienteer CRM) software, a web reporting portal (WebVision) and a fund research and due diligence platform (FundInsight), have been designed to build workflow efficiency and help firms communicate more effectively with investors and prospects.

“The platform is quite comprehensive in terms of the day-to-day workflows of our clients. In as much as investor transparency requirements and regulatory requirements have changed over the years, our clients’ reporting needs have grown tremendously. A regular hedge fund’s annual filing requirements have risen from six to 60 filings. This places a tremendous burden on the operations team.

“The Clienteer CRM platform not only manages investor relations, operations and sales and marketing workflows, but also tracks relevant compliance data such as ERISA levels, FATCA compliance, and Form-PF questions on investor data. Having a full audit trail gives hedge fund managers the comfort of knowing that if they are ever asked a question on historical data, they have it at their fingertips,” explains Erol Dusi, Founder and President of Imagineer.

The ability to seamlessly handle data collection, archival and regulatory reporting requirements in a single platform can help ease pressure at a time when the compliance burden is probably higher than it’s ever been. Another key function of Clienteer, in conjunction with WebVision, is the level of investor transparency it affords.

By controlling multiple inter-relationships between investors and fund products and tracking all activities with investors as well as all account transactions and balances, the system can immediately serve up the relevant information needed by the IR team when an investor calls.

“It's becoming important for hedge fund managers to focus on client service and to have the capability to respond to investors quickly and efficiently in order to set themselves apart from other funds,” says Dusi. “Having an easy to navigate online portal where investors can access their statements, newsletters, or historical information on a fund, is also an important aspect of communicating effectively today. Combine all of those capabilities into a single platform, across Clienteer and WebVision, and it becomes a highly efficient process rather than having to manage disparate tools for reporting and investor communications. We feel that this is solving an important piece of the puzzle for our asset manager clients.”

From a capital raising perspective, fund performance will always be a primary consideration when investors do their due diligence. However, those who can demonstrate operational efficiency, and enhanced levels of communication, will be well placed to stand out from their peers when pitching to potential investors.

“It’s a good point. If you are in business development mode and providing access to information on your WebVision portal to 100 different prospects, knowing which of those prospects logged in to the portal, the number of times they logged in, which documents they viewed, can provide a tremendous amount of insight as to their level of interest,” remarks Dusi. This gives managers the ability to focus their attention on those investors that are showing the strongest levels of interest, thereby making their capital raising process more focused and strategic,” concludes Dusi.
The adoption of both technology managed services (infrastructure-as-a-service) and operations managed services has grown in popularity across the industry as fund managers look to trim the fat by reducing their headcount. There has been a shift in mindset whereby having large, unwieldy internal IT frameworks is no longer regarded as representing a competitive advantage in the market.

But if the manager selects an inappropriate managed services provider, it can definitely become a competitive disadvantage.

The following are some key considerations:

- First, managers should check that the managed services provider has experience in implementing a governance model to support managed services; if so, what are the Service Level Agreements it uses?
- Second, look for someone that is committed to offering managed services as their livelihood as opposed to one who is providing managed services merely to earn a few extra basis points.
- Third, they should look to those who can provide both the operations and the technical solutions because the way you get the best operating scale is by consolidating people on common platforms. If someone is doing managed services across 10 different platforms, that is 10 systems that need staffing.
  
  "If you provide both the technology and the operational managed services you have greater control when it comes to committing and adhering to SLAs," suggests Bennett Egeth, President of Broadridge Investment Management Solutions.

- Fourth, if your provider offers many similar products, either built or acquired, make sure that there is a long-term commitment to support the products you are using, or seek to use.
- Fifth, assess the balance sheet of the vendor; you don’t want to introduce more vendor risk. The idea is to reduce vendor risk.
- Sixth, look for someone that is willing to pass on some of the benefits of mutualisation. You want to be able to participate in the economies of scale of the provider as this will reduce costs over time.
- Finally, select someone who is willing to convert your fixed costs to variable costs that align with your business drivers. For example, if you were once a US$10bn fund and you built the internal IT architecture, but you’ve now shrunk to an US$5bn fund you are going to have to figure out how to reduce the fixed costs.

  "With operational managed services, it is possible to structure costs and expenses to a variable model, which can help better align with the manager’s business model over time," advises Egeth.

  Not only can using managed services lead to significant savings to the management company and the fund’s investors, it can reduce the operational risks and remove the potential threat of ‘key man risk’.

  More importantly, it can free up the brainpower of those running the hedge fund to focus on optimising the investment strategy, raising assets, without worrying about all non-revenue generating activities. It will keep the CTO and COO motivated and not feel weighted down by operational commitments, allowing them to feel more integral to the future growth of the business.

  Hedge funds are built to trade and pit themselves against the market. Regardless of what the solution – a regulatory platform, a comprehensive CRM system, a managed services solution or dynamic reporting solution – technology in all its guises is playing a critical role in making hedge fund managers’ lives easier and focus on what really matters; and that’s generating returns for investors."