

THE LONG VIEW

WILLIAM KEUNEN

offers some thoughts from a hedge fund administrator on the likely industry trends for 2012



“ THE ADMINISTRATION FUNCTION WILL CONTINUE TO EXPAND ITS HORIZONS TO MEET THE DEMANDS OF THE INCREASINGLY COMPLEX ENVIRONMENT ”

My sense is that most industry participants do not regret the passing of 2011 and are looking forward to making a fresh start.

Overall the industry lost money and a higher number of funds than usual called it a day and wound down, even some that had only started earlier in the year.

Other than the notable out-performers, the main bright spot for the industry is that the investor community continues to see alternatives as a must-have piece of their allocation jigsaw; so capital flows have remained positive, especially from institutional sources.

Here are some thoughts on what can we expect in 2012:

A HEALTHY FLOW of new blood in the form of fund launches; managers coming off proprietary trading desks and out of hedge funds. Of course, it takes longer to get going, the bar is higher and raising capital is certainly no bed of roses, but managers haven't been deterred from going it alone.

CLOSER CO-OPERATION between managers, investors and service providers to raise awareness around the context of the industry. We all know this has always

been an uphill battle but it is particularly encouraging to see investors joining industry associations such as Aima and the MFA at the forefront of the engagement with Washington and Brussels.

INVESTORS CONTINUE to look for access to good managers but increasingly want it on their terms; with the aim of rendering the requisite strategy mix, information flow, liquidity and fee levels; hence investors increasingly combine the use of standard funds of funds portfolios with managed accounts, advisory mandates, funds of one, structured products, all to achieve the desired outcomes. Correspondingly, the desire for access to new investor markets will lead to the set-up of regulated onshore funds and wrappers, even Chinese feeders.

THE CONTINUED DRIVE to deliver more risk information to investors. Fund managers have always been the primary source of risk data on behalf of their funds, but service providers have become much more integral to this process. Investors want independently generated data so rely on administrators to provide transparency, either directly or to their risk providers.

The Opera initiative (which we recently embraced) is another step towards this.

COSTS CONTINUE to escalate resulting in squeezed margins. New regulatory and tax compliance requirements will force costs up further, so funds will look for creative ways to reduce or deflect costs. We are seeing many funds exploring technology and operations outsourcing opportunities, even staff lift-outs.

THE INDUSTRY IS GOING to have to prepare itself for Dodd-Frank and the EU's Alternative Investment Fund Managers Directive (AIFMD), and we as service providers need to align ourselves to stay in the game. That means we will have to provide managers with help delivering Form PF to the SEC, and offer valuation and depositary services that enable funds to comply with the AIFMD. Fatca compliance will follow soon thereafter.

CORPORATE GOVERNANCE best practices are no longer a thing of the past. While guidance has been available for some time (eg Aima's Guide for Alternative Fund Directors), the Weaving judgement has focused renewed attention on this area, with the result that investors will insist any gaps are addressed as part of their due diligence. While most funds are committed to proper governance, we see many that still pay corporate governance lip-service.

THE ADMINISTRATION function will undoubtedly continue to expand its horizons to meet the demands of the increasingly complex environment I have described. What does this mean? Continued investment in technology and expertise to support the processing and reporting of a fund's activities. The administrator is uniquely positioned to facilitate the union of managers with their investors through its uses and provisions of data in a meaningful and measurable form. To stand still is to admit defeat. ■

WILLIAM KEUNEN is global director of fund services at Citco Fund Services

THE WEEK IN QUOTES

“WE EXPECT SOMEONE IN HIS POSITION TO BE ABLE TO IDENTIFY INSIDE INFORMATION WHEN HE RECEIVES IT AND TO ACT APPROPRIATELY”

FSA ENFORCEMENT CHIEF TRACEY McDERMOTT FOLLOWING THE HANDING DOWN OF A RECORD £3638M FINE TO GREENLIGHT FUND OWNER DAVID EINHORN

“THE RESULTS HIGHLIGHT THE NEED FOR GREATER UNDERSTANDING OF AIFMD AND OTHER REGULATORY REGIMES AFFECTING THE MARKET”

PETER MOORE, HEAD OF REGULATION AT THE IMS GROUP, DRILLS DOWN THE RESULTS OF A STRAW POLL ON INDUSTRY REGULATION IN LONDON LATE LAST WEEK

“HOW DO I KNOW THAT THE DATA I STORE AND WORK I DO ON THE CLOUD IS GOING TO BE SAFE?”

RAHUL MOODGAL, INVESTOR RELATIONS AND BUSINESS DEVELOPMENT SPECIALIST, HIGHLIGHTS THE CONCERNS SOME INVESTORS FEEL OVER CLOUD COMPUTING