

# Servicing an asset class that's here to stay

At Citco they believe hedge fund administrators will need to adapt to different investors' needs or fall by the wayside. Simon Hildrey talks to William Keunen

**Q: What is the difference between acting as an administrator for five of the world's largest 10 hedge funds and for hedge funds with less than \$100m?**

**A:** The larger funds tend to be more challenging. They typically have either multiple strategies or multiple funds. For these funds, rigorous disciplines are required to meet service levels and to adhere to reporting deadlines.

Another factor is complexity. Funds that trade in multiple markets are more complex than plain-vanilla long/short equity funds.

**Q: Is there a minimum size of hedge fund below which it is not cost-effective for you to provide administration services?**

**A:** The problem with small funds is that their expense ratios drag performance down, so the size of a fund has a direct impact on its sustainability.

**Q: Do hedge funds prefer dealing with a specialist hedge fund administrator? Does this depend on the size of the hedge fund? And do hedge funds from major institutions prefer dealing with an "institutional" administrator they know from the long-only side?**

**A:** Hedge funds are specialist products that require specialist administrators. Even certain types of hedge fund lend themselves to certain administrators better than others.

While many institutions do like to deal with institutions because of their institutional "feel", they soon realise hedge fund administration is a specialist service and should be judged as such.

**Q: Do you think there will be further consolidation among hedge fund administrators in Europe? What will prompt this? Will more "institutional" administrators look to enter the European hedge fund market?**

**A:** Other than Citco, most of the targets have already been taken over, so there may not be much more consolidation. At Citco, we prize our independence and believe it distinguishes us because it enables us to truly provide independent checks and balances. In addition, hedge fund administration remains our core business and has been for more than 30 years. But given the growth of

the industry, it is likely that other participants will consider entry into the administration space.

**Q: How does administration of hedge funds in Europe differ from North America and Asia?**

**A:** Citco has operational offices across all these regions. We provide the same administration service across all locations, the main difference is that appetite for fully outsourced solutions is stronger in the US and Europe, where funds are more able to sustain the costs associated with these services, whereas in Asia there are still only a limited number of large funds.

**Q: Do you think the number of hedge funds setting up in Europe will continue to increase at the current rate?**

**A:** The number of large start-ups with assets of \$500m and more is greater now than ever before. And with many European countries just entering the hedge fund space, we consider the European market of vital importance.

**Q: How will the growth of retail hedge funds in Europe affect administrators? Will it lead to the entry of more administrators into the market?**

**A:** The appeal of hedge funds means new investor classes will seek access to them. The requirements of different types of investor vary and administrators will need to adapt or fall by the wayside.

**Q: Do you think more European countries will provide retail investors with access to hedge funds?**

**A:** I think European countries will retailise hedge funds to a degree, although access is most likely through funds of funds.

**Q: How different is it to act as an administrator for funds of hedge funds from single hedge funds? Are risks greater administering funds of hedge funds?**

**A:** Both types of fund represent different challenges. Funds of funds generally have less activity but the process tends to be more manual. There are fewer positions but gaining access to prices

and understanding them can be tortuous. Single manager funds require more technology and automation and knowledge of the underlying securities. Complex single manager funds remain the greatest challenge for an administrator.

**Q: How do you minimise risks of mistakes when administering hedge funds? Are the risks greater when administering hedge funds than long-only funds?**

**A:** Risks are managed by adherence to strict controls and procedures. We impose review and control hierarchies that are reinforced by compliance and internal audit functions. High-level, overall relationship risk management is also critical.

**Q: What technological developments have you implemented and how has this improved the administration of hedge funds? What plans do you have to build on AExeo technology or introduce new technology?**

**A:** Our AExeo technology, coupled with the front-to-back offering, remains Citco's most important strategic initiative. We believe this takes us to the next level in fund administration. It enables a fund to outsource its technology and operational support requirements by using a state-of-the-art application.

**Q: What are the key factors that make a successful hedge fund administrator? Is technology the key differentiator between administrators?**

**A:** At Citco, we felt the need to enhance our offering with new technology that provides a fund with greater choice and flexibility. But in addition to technology, people and their depth of experience are the key factors.

**Q: Who are your main rivals in Europe? Would you consider acquiring a rival administrator?**

**A:** IFS, GlobeOp, Bisys, Fortis and Bank of Bermuda. We are not looking to acquire a rival administrator.

**Q: Warren Buffett recently described hedge funds as a fad that had more to do with Wall Street marketing than investment returns. What is your view?**

**A:** I respect his views but believe that hedge funds as an asset class are here to stay.

**Q: From your perspective, do you think there is an increase in the number of hedge funds folding because they are unable to raise sufficient assets or fail to deliver adequate investment returns?**

**A:** Inevitably, with the profile the industry has earned, some entrants are established using unsound business models and will not survive.

## Q & A



**WILLIAM KEUNEN** is director of fund services responsible for Citco's fund services division worldwide. He has worked in the financial services industry for more than seventeen years, of which he has spent fourteen years working for Citco in the fund administration business.