

**William Keunen of Citco Funds Services believes that the recent growth in hedge funds will continue and that Dublin is ideally positioned to take full advantage of this burgeoning market**

# Ready to take advantage

**W**illiam Keunen, managing director of Citco Fund Services, like others involved in the Dublin funds industry, is positive about the burgeoning growth within the funds sector, particularly the rise of the hedge fund, which has occurred over the course of the last few years.

This growth has been largely restricted to funds administered, but not domiciled in Dublin, because at present it is easier to establish funds that are domiciled in what Keunen refers to as the “so-called less regulated jurisdictions such as the Cayman Islands, Bermuda or the British Virgin Islands.” He continues: “Investors in hedge funds do regard the domicile of a fund as an important consideration, as they prefer to invest in a fund that is established in a regulated domicile such as Ireland. However, because of the additional obstacles associated with establishing a hedge fund in the more regulated domiciles, there has only been a trickle of hedge funds as opposed to a steady stream.”

Although the vast majority of funds are currently being established in the ‘less regulated jurisdictions’, Keunen is quick to predict that in time Dublin will

become the preferred domicile for European hedge funds, not just its centre for administration.

Surveys conservatively predict that the hedge fund industry will grow from its current estimated size of \$400 billion by more than 25% per annum for the next ten years. This translates into \$3,500 billion in net assets. Such numbers are undoubtedly attractive, and if you look at the degree to which the product has reached critical mass and become standard-

ised, commoditised, and institution-alised the picture becomes even more persuasive.

Keunen adds: “This means that asset classes such as equity hedge, global macro, relative value and event-driven strategies are now clearly defined, so that appropriate risk management disciplines can be applied effectively. This, coupled with improved know-how, technical expertise and transparency, has created an environment where risk/reward benefits are understood, and accordingly a

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higher proportion of investors will feel able to make strategic allocations to alternative investments. In other words, participants are high up on the learning curve, so the time is right to harvest the rewards. You cannot afford to ignore that.”

The Citco Group is an organisation of financial service companies with offices throughout the world. Its Dublin operation was established in 1998 and offers fund administration services and banking and custody. In this respect, the bank and fund administration businesses compliment each other very well. “The bank primarily services institutions that wish to invest in all types of funds. As a result we are able to offer full service support for fund of funds, where fund services provide operational and administrative support and the bank provides banking, trade execution and custody,” says Keunen.

Dublin is in a position to take full advantage of the evolution of the hedge fund market. All of the pre-eminent fund service providers are located in Dublin and the infrastructure is strong, particularly for providing administration for the European market. Keunen states: “Dublin is high on the learning curve in understanding what is required in terms of servicing a

fund. It should now grasp the opportunity to gear itself up to become much more than just a centre for back office-work."

Having established the credentials of the hedge fund as a product, a concern exists that the growth in the business will place an unnecessary strain on Dublin-based service providers. There has been widespread talk that Dublin may not be able to supply the extra personnel required to cope with the growth. Keunen says: "Certain institutions are now setting up operations outside Dublin to cope with pressure on costs, space and human capital. People are dealing with it in a very pro-active manner. If for instance you have an office in the IFSC and you want another base, there are opportunities outside of Dublin." Citco has itself established a data processing facility for its bank in Cork.

Development of new technology is equally as important, as the combination of personnel and innovation has permitted industry the sight of the holy grail of straight through processing. This hands-off method of funds administration has played a vital role in the evolution of the administrator and the funds industry in general. Keunen explains: "Our job is to maintain an independent overview of a fund's activity. This is achieved through maintaining the accounting records, calculating net asset values and producing financial reports based on the information sourced from a fund's independent counter-parties. To the extent that this information comes in through automated feeds, straight through processing has improved efficiency and timeliness of reporting and also has the added value of helping avoid manual input error. This improved efficiency has the joint benefit of lowering costs



*William Keunen*

and providing a demanding audience with the information they need about a fund much sooner than was previously feasible."

Further technical innovations are also being developed by Citco in the guise of Internet-based applications. "Investment managers and sponsors of the funds we administer are already able to gain access to financial reports on our website by restricted access. And we are actively designing various enhancements that will provide the financial and risk reporting information. We will also develop sites to be used by investors. We see it as being an integral part of the administration service."

Citco is not alone in turning to the Internet, as there are already many net-based services on offer within the market, which Keunen believes is a good thing. "They are trying to add liquidity and transparency and there is certainly demand for both." He hopes that the effectiveness of these efforts will become more widespread and says: "If you look at the way prime brokers and administrators are now reporting, they are using the Internet and websites so

that people can get prices and information on holdings." It is possible that the use of new technology is in some way responsible for generating growth in the hedge fund market in the first place. Keunen says: "The fact that assets are growing and that there is a greater understanding of the risk parameters means that people understand what the issues are." By providing clients with a faster flow of more detailed information, the Internet is playing an integral part in generating greater participation in hedge funds.

So, if the personnel are available, the technology is evolving and more clients are entering the market,

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what does the future hold for Citco and Dublin? Keunen explains that Citco sees its Dublin operation becoming the principle centre for providing fund services in Europe. "I think Ireland is distinguishing itself as the prime

domicile, which is why fund sponsors wish to set up here as part of their European initiative."

If this is the case, it would seem that the domicile is set to grow further. Keunen holds the belief that the IFSC will expand throughout Ireland. "I think everybody should feel confident about the future and I can't see why it shouldn't continue to grow. If you had looked at the IFSC five years ago, no one would have predicted what has happened here. I see the financial services becoming a nationwide industry. We see the Dublin Funds Association becoming the Irish Funds Association and Citco aims to participate fully in the benefits of this growth," says Keunen.