

The Hedgeweek Interview: William Keunen, Director Fund Services, Citco

With the industry showing strong growth, William Keunen outlines the key trends tracked by Citco, which has seen hedge fund assets under administration increase by USD 30 billion in 2003.

Citco has been servicing the hedge fund industry for the past 30 years, beginning with many of the founders of the industry such as Soros, Tiger, Tudor and Moore and now has 15 offices worldwide dedicated to hedge fund administration.

Each office has a Managing Director reporting to Keunen, who in turn reports directly to the four-man Executive Committee at Citco.

HW: What was the scale of growth at Citco in 2003?

WK: In terms of net assets under administration we've grown from approximately USD 105 billion to USD 135 billion. In terms of funds under administration we're at 1,500 funds, up from about 1,300 funds a year ago.

This increased figure does not necessarily represent only new clients, it includes existing clients with multiple funds, the addition of sub-funds etc.

HW: This implies annual growth of around 30%. What are the drivers of this growth?

WK: Interestingly for us there have been multiple reasons for growth this year. Historically the growth of assets is related to existing clients with capital inflows and client assets increasing through performance. We have seen both these trends over the past few months.

But more specifically this year we've increased our share of start-up mandates with significant new business primarily from Europe and the East Coast of the US.

The William von Mueffling launch, the mandate for which we have won, has so far raised USD 2 billion, mainly for equity long/short strategies.

Finally, and most interesting from our point of view, we have won some significant mandates from existing hedge funds that have switched their administration to us.

For example, during the course of this year we won the Frontpoint funds and at the beginning of next year we are taking over the Standard Pacific hedge fund (primarily equity) group in San Francisco which stands at around USD 4 billion in assets under management. There's also an existing USD 1 billion European fund called Tosca which we won.

We've also won a number of other high profile start-up funds such as David Ganek's Level Global, also a US-based hedge fund, and Lee Hobson's Highside out of Dallas, who was with Maverick.

HW: What trends are you seeing in terms of capital flows in 2003 versus 2002?

WK: We're seeing a consistent flow of assets into funds of hedge funds throughout the year. Earlier in the year there were strong inflows into macro funds, various forms of fixed income funds were launched, and more recently we have been seeing money flowing back into long/short equity funds.

HW: As the hedge fund business grows, what is Citco doing to keep up with it?

WK: We have invested heavily in technology and apart the traditional offering we have launched a fully fledged outsourced front-to-back offering called AExeo, where we offer the investment manager a software platform that we install on the manager's desktop. It acts as a position monitor and order capture system and flows right into the Citco environment using the same security database throughout the system.

AExeo was developed by one of our clients, Tudor Investment Corporation, and we have an exclusive license for the system. Unquestionably this has been our biggest roll-out this year.

We already have 20 clients in the US using AExeo and three in Europe. Several more clients will come on at the start of year including Chris Hohn's Children Investment Fund.

Timely reporting and meeting deadlines continue to be of critical importance. Our web-based reporting for both investors and managers enables them to view the latest performance figures at any time. These tools have been well received.

On the funds of funds side, we have enhanced our reporting capabilities so that funds of funds managers can have far more insight into underlying investments.

HW: While keeping up with advances in technology, administrators are clearly also having to keep up with rapid changes in regulation. What are your views on the lack of regulation in the US, allowing funds to conduct their own valuations rather than have these conducted by administrators?

WK: In Europe the administration function has been embraced as a fundamental part of the process, in contrast, in the US, in particular for the domestic hedge fund industry, the valuation process has largely been done by the investment manager in-house.

However, just as it has done in the offshore arena, the investor community in the US is beginning to push for independent administration and valuations. Where a fund is trading esoteric securities that are difficult to price, the valuation process becomes a crucial part of the NAV calculation.

The US hedge fund industry is now gradually coming round to this process, and although there has been no regulatory requirement in this area so far, the industry appears to be voluntarily moving towards independent valuations and we certainly are seeing a change in this area.

HW With increasing competition in the sector, are you facing pressure on pricing of your services? How are you dealing with this?

WK: I see price as a function of two issues. First, there are now more people in this space than ever before. Some of the recent acquisitions of administrators by large institutions, who may be seeking to gather assets to stimulate other areas of their business, indicates that hedge fund administration is seen as an important add-on to their overall strategy. And as more administrators invest in the requisite infrastructure to compete, the competition will continue to grow.

The second more important issue is that price should depend on what we bring to the table in terms of the quality of the product and the service we are delivering.

We feel that the enhancements we continue to make to our services and to the delivery of these services strongly justifies our pricing. The marketplace will no doubt tell us if we have it wrong.

HW: What are the key challenges hedge fund administrators face in 2004 and beyond?

WK: Dealing with the increasingly complex strategies that hedge funds are entering into, involving the use of complex securities executed through multiple counterparties, is making the challenges far greater for the fund administrator.

However, this represents an opportunity for the fund administrator being the ideal independent counterparty that is the sole counterparty able to aggregate the information in a way that represents added value to both investors and managers.

In this demanding environment it is also important that administrators don't overstretch themselves, and that they manage expectations carefully – the temptation would be to offer everything that managers and investors are looking for – and there are some risks in doing that.

In essence, we have to be honest enough to admit that we don't always have the expertise to do everything and that we are prepared to outsource to experts, just as the funds do to us.

Finally, consolidation will certainly have an impact on the industry going forward, although it will be interesting to see just how nimble the large institutions will be in responding to the rapidly changing environment that hedge funds represent. Right now we are very comfortable with our independence.

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