



HFMWEEK

17th
BIENNIAL

ASSETS UNDER ADMINISTRATION SURVEY

PART TWO
FUNDS OF HEDGE FUNDS

Following last issue's single manager results, *HFMWeek* turns its attention to funds of hedge funds, and finds the sector holding steady following six months of uncertainty, as institutional investors continue to value the services FoHFs can offer

BY TONY GRIFFITHS

With single manager assets showing a small but encouraging advance of 3%, expectations might have been for the fund of hedge funds (FoHF) industry to demonstrate a similar resilience in the face of the wider economic turmoil. And, as it would happen, the FoHF results of *HFMWeek*'s 17th biennial Assets under Administration (AuA) Survey suggest that hopes have, to a certain extent, been met.

According to *HFMWeek*, there has been no change in the size of the FoHF industry in the last six months. Dig deep and you will uncover a statistically insignificant advance of around \$3bn, but, for the purpose of the survey, AuA remains at \$1.11trn. Growth among the 63 firms that took part has been flat.

"In the fund of funds space we've seen six months of very static capital activity, both on inflows and outflows," says Ian Lynch, head of Prime Fund Services, Credit Suisse. Effectively a new administrator, having entered the space following a purchase of assets from ABN (formerly Fortis) in 2010, Credit Suisse is the third-largest FoHF administrator in the industry, with \$90bn in AuA. "However, although it's a wait-and-see market, we haven't seen any large-scale redemptions," Lynch adds.

 **KEY THEME TECHNOLOGY**

With greater investor expectations a general theme across the board and the resulting increase in complexity at fund level, a strong technology platform is vital for growth. Credit Suisse's Ian Lynch offers a key example. "Our clients need sophisticated technical solutions to manage fund data that allow the

highest level of transparency," he says. "In the current market environment, we are noticing that funds of funds are gravitating to a more hybrid trading model. In general, we have seen an increase in the use Delta 1-type products [such as ETFs], and we anticipate that the trend will continue."

It's a strange situation when asset stagnation is met with a sigh of relief, as will have been the feeling in some quarters. While no-one will be celebrating six months of non-movement the possibility of a retreat looked very real during the summer mire, with single manager strategies across the board struggling for a foothold.

As with six months ago, Citco remains the sector's largest administrator, with AuA at the firm reflecting broader developments – staying static at \$130bn. Total AuA at the top ten has followed the same pattern. Combined assets at the ten biggest FoHF administrators totals \$750.28bn, up marginally from \$749.19bn six months ago. Still, not enough for a percentage point in growth.

Top ten AuA as a percentage of overall assets is 67.6%. Although this represents a barely noticeable shift from 67.7% in April, the very fact that the trend is downwards is worth noting, especially after the +\$100bn gain made at the ten largest single manager administrators.

However, the general narrative of stagnation hides individual stories throughout the list, particularly among the top ten. Notable successes include: Bank of New York Mellon, up 13% to \$110.6bn from \$98bn; State Street, now at \$70.1bn following a 15% rise; and, in joint tenth-place, HedgeServ, which has moved to \$39bn following an impressive 50% advance.

Of course these gains have to be balanced out, and UBS, SEI and HSBC – ranked 4, 5 and 9 respectively – have all recorded negative growth. Significantly, losses in AuA at BNP Paribas Securities Services have widened the spread of the top ten, wiping out the group's gains. Current number ten, SS&C Fund Services, has \$39bn, whereas BNP Paribas, the previous survey's equivalent with \$44.2bn, now has \$38.8bn.

As in the single manager space, it appears that the FoHF administrators most likely to prosper are those that have an expanded, flexible and granular service offering. A common thread among all those administrators interviewed by *HFMWeek* was that FoHFs are broadening their horizons in response to investor demands.

One smaller administrator suggested that, although FoHF managers are facing the same challenge in terms of raising capital, "more institutional types of investors tend to invest in funds of hedge funds today than we see investing in single managers".

6 MONTHS
FoHF GROWTH FROM APR 11 - OCT 11

TOTAL AuA
APR 11

\$1.11trn

TOTAL AuA
OCT 11

\$1.11trn

0%

6 MONTHS GROWTH



68%

Combined assets
at the top-ten
administrators as
percentage of the
list's total AuA

Toni Pinkerton, global head of fund services, Maples Fund Services, agrees: "The composition of the funds of hedge funds' investor base has changed significantly – while high-net-worth retail investors were largely the market in the 2000s, it is increasingly institutional investors that are deploying new capital into this asset class," she says.

With interest from a more sophisticated audience, it is increasingly important that Fo-

HFs establish a business model that offers value, Pinkerton explains. "There are three primary attributes to improving and modernising funds of hedge funds that need to be considered in order to be successful in this new environment: transparency, customisation and pricing flexibility."

As outlined by John Wallace, co-head Deutsche Bank Alternative Fund Services, key trends in the space include managed account platforms, customised fund of funds portfolios and a willingness to invest in niche or new managers.

Venkat Srinivasan, head of fund accounting at Viteos, backs the suggestion that there has been a widening of the types of strategies pursued. "Fund of hedge funds managers are allocating more and more assets to emerging markets," he says. "Besides multi-strategy, focus is also on other strategies such as relative value and event driven. We're also seeing more interest in the aggregation of data from underlying positions, enabling better risk and concentration management," he adds.

"Many fund of hedge funds groups are growing their business by adding new asset management models such as customised funds, advisory mandates and managed account platforms," says William Keunen, global director at Citco Fund Services.

"One of the original attractions for FoHFs was that you gained exposure to a wide number of funds and effectively paid for the due diligence on those underlying funds being done by the FoHF manager," notes Mark Hedderman, COO of Custom House. "In today's environment, where there is an even greater demand for transparency, it may be the case that investors are not as willing to allocate money without being able to control the full due diligence process".

"For fund of funds managers we see an increasing trend for managers to want to bundle administration, custody and financing with a single provider," notes Chris Adams, head of hedge fund solutions at BNP Paribas Securities Services.

Choosing an administrator that provides a comprehensive suite of services will be increasingly important, notes Deutsche Bank's Wallace. "The administrator may become

APR 11 position moved up/down		AUA (\$BN) OCT 11	AUA (\$BN) APR 11	GROWTH (%) APR 11 - OCT 11	
1	–	CITCO FUND SERVICES	130.00	130.00	0%
2	–	BANK OF NEW YORK MELLON**	110.60	98.00	13%
3	4 ↑	CREDIT SUISSE 3	90.00	N/A	N/A
4	3 ↓	UBS FUND SERVICES **	85.38	96.46	-11%
5	–	SEI	71.50	73.00	-2%
6	–	STATE STREET AIS GROUP**	70.10	60.70	15%
7	–	CITI HEDGE FUND SERVICES	55.76	56.02	0%
8	–	SGSS*	51.76	51.76	0%
9	–	HSBC SECURITIES SERVICES 1	46.18	46.81	-1%
10	11 ↑	SS&C FUND SERVICES	39.00	36.00	8%
11	16 ↑	HEDGESERV	39.00	26.00	50%
12	10 ↓	BNP PARIBAS SECURITIES SERVICES	38.80	44.20	-12%
13	–	BUTTERFIELD FULLCRUM GROUP*	35.00	35.00	0%
14	12 ↓	JP MORGAN HEDGE FUND SERVICES	34.20	35.70	-4%
15	14 ↓	NORTHERN TRUST 5	30.03	27.20	10%
16	15 ↓	DEUTSCHE BANK ALTERNATIVE FUND SERVICES	30.00	27.00	11%
17	17	BANQUE PRIVÉE E. DE ROTHSCHILD	24.79	24.55	1%
18	–	CACEIS INVESTOR SERVICES 1	18.23	22.81	-20%
19	–	UMB FUND SERVICES	17.46	17.06	2%
20	–	VASTARDIS FUND SERVICES	12.07	16.95	1%
21	22 ↓	ADMIRAL ADMINISTRATION LTD	8.80	8.90	-1%
22	23 ↑	EUROPEAN FUND ADMINISTRATION	8.40	8.75	-4%
23	24 ↑	RBC DEXIA FUND SERVICES	8.13	8.28	-2%
24	30 ↑	CUSTOM HOUSE GLOBAL FUND SERVICES	5.72	2.55	124%
25	–	MAITLAND FUND SERVICES	4.70	4.93	-5%
26	24 ↓	RBC OFFSHORE FUND MANAGERS LIMITED	4.15	4.45	-7%
27	28 ↑	MAPLES FUND SERVICES	3.79	3.73	2%
28	29 ↑	KAUFMAN ROSSIN FUND SERVICES*	3.10	3.10	0%
29	32 ↑	ALPHAMETRIX360*	2.00	2.00	0%
30	34 ↑	INVESTMENT DATA SERVICES GROUP (IDS)	1.83	1.73	6%
31	33 ↑	DAIWA SECURITIES GLOBAL ASSET SERVICES**	1.70	1.90	-11%
32	36 ↑	ISIS FUND SERVICES	1.58	1.60	-1%
33	37 ↑	ALPS FUND SERVICES	1.50	1.50	0%
34	45 ↑	ATC FUND SERVICES	1.40	1.40	0%
35	39 ↑	MERIDIAN	1.31	1.31	0%
36	38 ↑	CIRCLE PARTNERS	1.20	1.35	-11%
37	44 ↑	EQUINOXE ALTERNATIVE INVESTMENT SERVICES	1.20	1.00	20%
38	26 ↓	APEX	1.16	4.84	-76%
39	41 ↑	FOLIO ADMINISTRATORS*	1.13	1.13	0%
40	–	WOODFIELD FUND ADMINISTRATION	1.10	1.22	-10%
41	42 ↑	LACROSSE GLOBAL FUND SERVICES**	1.10	1.10	0%
42	46 ↑	COLLUMBUS AVENUE CONSULTING	1.00	0.90	11%
43	–	CAPITA FINANCIAL GROUP	0.95	0.99	-4%
44	47 ↑	PANOPTIC FUND ADMINISTRATION*	0.84	0.84	0%
45	48 ↑	U.S. BANCORP FUND SERVICES**	0.65	0.62	4%
46	–	INTERTRUST 2	0.58	N/A	N/A
47	49 ↑	PRAXIS*	0.51	0.51	0%
48	50 ↑	CONIFER SECURITIES	0.50	0.50	0%
49	51 ↑	PINNACLE FUND ADMINISTRATION*	0.50	0.50	0%
50	60 ↑	HARMONIC FUND SERVICES	0.50	0.20	150%
51	52 ↑	TRIDENT FUND SERVICES	0.39	0.40	-3%
52	54 ↑	G&S	0.33	0.31	6%
53	58 ↑	TRINITY FUND ADMINISTRATORS	0.30	0.25	20%
54	55 ↑	LEGIS FUND SERVICES	0.28	0.30	-7%
55	53 ↓	SFT FUND ADMINISTRATION 6	0.25	0.33	-24%
56	57 ↑	CAYMAN NATIONAL	0.25	0.25	0%
57	59 ↑	VALLETTA FUND SERVICES*	0.22	0.22	0%
58	61 ↑	PSG ACTIVE FUND SERVICES LIMITED*	0.16	0.16	0%
59	62 ↑	CALEDONIAN FUND SERVICES*	0.11	0.11	0%
60	56 ↓	CIBC *	0.10	0.30	-67%
61	63 ↑	ATU FUND ADMINISTRATION (BVI) LTD*	0.08	0.08	0%
62	65 ↑	VITEOS CAPITAL MARKET SERVICES LIMITED	0.08	0.00	N/A
63	64 ↑	NOTTINGHAM INVESTMENT ADMINISTRATION	0.05	0.06	-9%

1
YEAR

TOTAL AuA
OCT 10
\$1.06trn

TOTAL AuA
OCT 11
\$1.11trn

4%

1 YEAR GROWTH

FoHF GROWTH FROM OCT 10 - OCT 11

larger as increased regulatory requirements make it the data and knowledge centre of a fund of hedge fund's operating model," he says.

Customisation is a trend Credit Suisse's Lynch highlights. "Investors will continue to demand more bespoke-type funds that will expand the fund of hedge funds' investment remit, which will require administrators to be more flexible," he says.

Unsurprisingly, technology was a theme mentioned by a number of interviewees. Formed in 2007 and one of the newest administrators on the list, HedgeServ has concentrated on its technology platform as a selling point, especially as "funds of funds were getting the short straw in terms of the administrative technology and service perspective," says Leo LaForce, the firm's head of marketing and communication. "If you look back at administration, most of the technology platforms started out as an accounting or custody engine and they didn't fundamentally have the ability to support fund of funds workflows – to have the capability to handle an investment in a hedge fund as an actual instrument class," LaForce explains.

According to Citco's Keunen, many FoHFs are reviewing administrators' capabilities and considering what suits them best in terms of an outsourced infrastructure where the administrator dovetails well with the FoHF. "This represents both an opportunity for administrators but also raises the bar," he says.

LaForce agrees: "In the past, funds of funds tried to build their own infrastructure as a competitive advantage. Now they've realised that by outsourcing to a high-quality administrator they can focus on their investment process, which is really their core differentiator. I think their resources are better focused right now."

Driven by a savvy investor base, expectations in the FoHF world are as high as they have ever been. In turn, FoHF administrators are finding that to flourish requires a service offering increasingly defined by flexibility, sophistication and diversity. ■



HedgeServ saw
the biggest dollar
advance in the
list with growth of
\$13bn

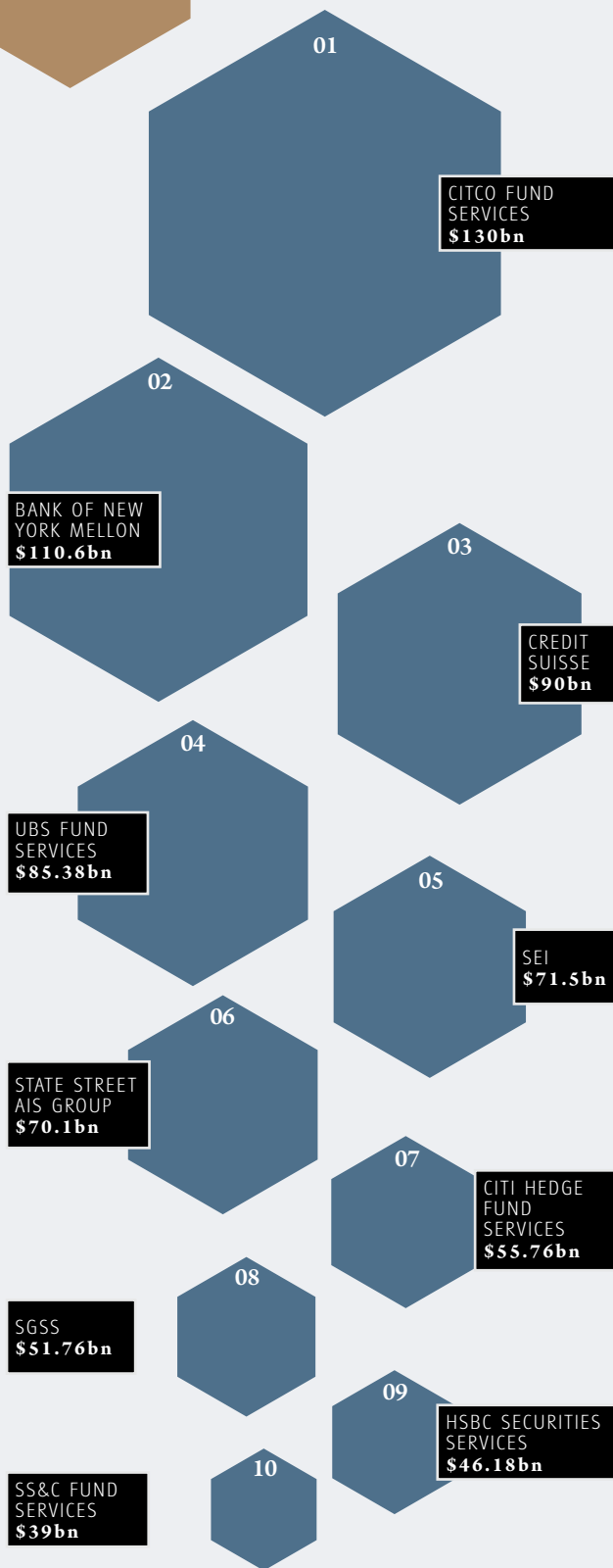
	OCT 10 position			AUA (\$BN)	AUA (\$BN)	GROWTH (%)
				OCT 11	OCT 10	OCT 10 - OCT 11
1	1	–	CITCO FUND SERVICES	13000	12500	4%
2	2	–	BANK OF NEW YORK MELLON**	11060	9430	17%
3	–	–	CREDIT SUISSE 3	9000	N/A	N/A
4	4	–	UBS FUND SERVICES **	8538	8710	-2%
5	5	–	SEI	7150	7800	-8%
6	7	↑	STATE STREET AIS GROUP**	7010	5700	23%
7	6	↓	CITI HEDGE FUND SERVICES	5576	6090	-8%
8	8	–	SGSS*	5176	5176	0%
9	9	–	HSBC SECURITIES SERVICES 1	4618	4890	-6%
10	13	↑	SS&C FUND SERVICES	3900	3400	15%
11	17	↑	HEDGESERV	3900	1710	128%
12	10	↓	BNP PARIBAS SECURITIES SERVICES	3880	4820	-20%
13	11	↓	BUTTERFIELD FULCRUM GROUP*	3500	3500	0%
14	12	↓	IPMORGAN HEDGE FUND SERVICES	3420	3400	1%
15	16	↑	NORTHERN TRUST 3	3003	1880	60%
16	14	↓	DEUTSCHE BANK ALTERNATIVE FUND SERVICES	3000	2172	38%
17	15	↓	BANQUE PRIVEE E. DE ROTHSCHILD	2479	2338	6%
18	18	–	CACEIS INVESTOR SERVICES 1	1823	1663	10%
19	20	↑	UMB FUND SERVICES	1746	1506	16%
20	19	↓	VASTARDIS FUND SERVICES	1707	1516	13%
21	24	↑	ADMIRAL ADMINISTRATION LTD	880	760	16%
22	23	↑	EUROPEAN FUND ADMINISTRATION	840	875	-4%
23	22	↓	RBC DEXIA FUND SERVICES	813	891	-9%
24	25	↑	CUSTOM HOUSE GLOBAL FUND SERVICES	572	561	2%
25	27	↑	MAITLAND FUND SERVICES	470	400	18%
26	26	–	RBC OFFSHORE FUND MANAGERS LIMITED	415	436	-5%
27	28	↑	MAPLES FUND SERVICES	379	336	13%
28	29	↑	KAUFMAN ROSSIN FUND SERVICES*	310	310	0%
29	–	–	ALPHAMETRIX360*	200	200	0%
30	–	–	INVESTMENT DATA SERVICES GROUP (IDS)	183	163	12%
31	30	↓	DAIWA SECURITIES GLOBAL ASSET SERVICES**	170	215	-21%
32	55	↑	ISIS FUND SERVICES	158	040	295%
33	33	–	ALPS FUND SERVICES	150	188	-20%
34	39	↑	ATC FUND SERVICES	140	115	22%
35	36	↑	MERIDIAN	131	131	0%
36	37	↑	CIRCLE PARTNERS	120	120	0%
37	38	↑	EQUINOXE ALTERNATIVE INVESTMENT SERVICES	120	120	0%
38	41	↑	APEX	116	110	6%
39	40	↑	FOLIO ADMINISTRATORS*	113	113	0%
40	42	↑	WOODFIELD FUND ADMINISTRATION	110	104	6%
41	–	–	LACROSSE GLOBAL FUND SERVICES**	110	NEWCOMER	N/A
42	45	↑	COLUMBUS AVENUE CONSULTING	100	090	11%
43	–	–	CAPITA FINANCIAL GROUP	095	011	764%
44	47	↑	PANOPTIC FUND ADMINISTRATION*	084	071	18%
45	52	↑	U.S. BANCORP FUND SERVICES**	065	045	43%
46	–	–	INTERTRUST 2	058	N/A	N/A
47	49	↑	PRAXIS*	051	051	0%
48	59	↑	CONIFER SECURITIES	050	020	149%
49	51	↑	PINNACLE FUND ADMINISTRATION*	050	050	0%
50	61	↑	HARMONIC FUND SERVICES	050	020	150%
51	44	↓	TRIDENT FUND SERVICES	039	100	-61%
52	60	↑	G&S	033	020	65%
53	62	↑	TRINITY FUND ADMINISTRATORS	030	020	50%
54	58	↑	LEGIS FUND SERVICES	028	022	26%
55	57	↑	SFT FUND ADMINISTRATION 6	025	025	2%
56	54	↓	CAYMAN NATIONAL	025	040	-38%
57	53	↓	VALLETTA FUND SERVICES*	022	042	-48%
58	63	↑	PSG ACTIVE FUND SERVICES LIMITED*	016	016	N/A
59	64	↑	CALEDONIAN FUND SERVICES*	011	014	-19%
60	46	↓	CIBC 4	010	080	-88%
61	68	↑	ATU FUND ADMINISTRATION (BVI) LTD*	008	008	0%
62	67	↑	VITEOS CAPITAL MARKET SERVICES LIMITED	008	010	-20%
63	70	↑	NOTTINGHAM INVESTMENT ADMINISTRATION	005	006	-17%

FOOTNOTES

* No new figures available
 ** Data as at 30th September 2011
 1 Data as of end of June 2011.
 2 Acquired Close Fund Services. First time reporting in survey.
 3 First time as an administrator - deal for PFS (as previously listed) was in effect a purchase of assets only from ABN (formerly Fortis).
 4 CIBC no longer calculates Fiduciary assets when serving as a trustee or director.
 5 Acquired BoISS and Omnium. Data as of end of June 2011.
 6 Formerly IFCE Fund Services.



LARGEST ADMINISTRATORS BY AUA (\$bn)



TEN LARGEST ADMINISTRATORS BY % GROWTH

1	STATE STREET AIS GROUP	15%
2	BANK OF NEW YORK MELLON	13%
3	SS&C FUND SERVICES	8%
4	CITCO FUND SERVICES	0%
5	SGSS	0%
6	CITI HEDGE FUND SERVICES	0%
7	HSBC SECURITIES SERVICES	-1%
8	SEI	-2%
9	UBS FUND SERVICES	-11%
10	CREDIT SUISSE	N/A

OVERALL ADMINISTRATORS BY % GROWTH

1	HARMONIC FUND SERVICES	150%
2	CUSTOM HOUSE GLOBAL FUND SERVICES	124%
3	HEDGESERV	50%
4	EQUINOXE ALTERNATIVE INVESTMENT SERVICES	20%
5	TRINITY FUND ADMINISTRATORS	20%
6	STATE STREET AIS GROUP	15%
7	BANK OF NEW YORK MELLON	13%
8	DEUTSCHE BANK ALTERNATIVE FUND SERVICES	11%
9	COLUMBUS AVENUE CONSULTING	11%
10	NORTHERN TRUST	10%

RATIONALE

HFMWeek's AuA figures are carefully compiled using data supplied by individual administration companies. Each reporting body is expected to strip out leverage, private equity and property numbers to give an accurate picture of the current size of the hedge fund universe. Figures are rounded to two decimal places, whereas percentage growth expresses the full six-month figure.