

# Technology and independence remain fund admin buzzwords



Declan Quilligan

**T**he pace of change does not look set to slow in the next 20 years, says Declan Quilligan, European head of hedge funds in Citco's fund services division.

## How has hedge fund administration changed in the last 20 years?

**DQ:** Fund administration has been transformed in several ways, not least the extent of services provided to the hedge fund industry and the technology and tools required. As the industry has grown significantly, the trend has been to outsource more to top-tier admin firms, which have earned the trust of investment managers. In the nineties, not every fund structure used an independent fund admin – now it is highly unusual not to. The trend towards independent admin has been driven by many factors: their enhanced capabilities and technology; regulation; and a changing investor base with strict requirements for independent calculation of valuations.

## In what ways has fund admin remained the same?

**DQ:** The critical importance of technology, and the need to remain at the cutting edge of innovation, have not changed. By focusing on proprietary solutions and core systems, we have led the changes in the industry when it comes to technological innovations. We launched Aexo Technology in 2002, our proprietary front-to-back technology, and Aexo Investor (AXI) transfer agency and allocation system in 2009. More recently, we have launched CitcoOne, our new web portal and our Citco Waterfall and Citco Treasury technologies, while our latest technology CitcoConnect helps investors manage their allocations through a secure online environment. Technology and our people were the key factors for clients and prospects 20 years ago and that remains unchanged. Staying

close to our clients, understanding their needs and aligning our strategy to that of our clients has been critical.

## What is the most important industry change you have observed in the last 20 years?

**DQ:** The shift towards independence stands out. When I joined the Citco group of companies in 1996, it was in the era of the so-called “10 Commandments” where offshore funds managed by US managers had to have their administration performed outside of the US to avoid the fund being subject to US taxation. Upon its repeal a year later, independence in the NAV-striking process, especially for US LP structures was viewed as a “nice-to-have” rather than an essential. The change towards independence has been driven mainly by the shift towards institutional allocators, which now dominate the investor base. Transparency reporting has become common practice with institutions who demand it from administrators independent of the investment manager. There is no tolerance whatsoever for operational risk – excellence in operations is essential for managers and their administrator.

## In what ways has fund admin grown?

**DQ:** There has been significant consolidation in the fund admin sector, with M&A deals regularly reshaping the rankings. Consolidation continues apace with admins affiliated with investment banks selling out, given the challenges and perceived conflicts. Our strategy has been to grow organically and not to have to deal with the distractions of integrating teams and technologies etc. We have carried out a limited number of deals over the years but only for strategic reasons. We also believe our position as an “independent” provider is enhanced by the fact we are not part of a larger investment

bank or institution. Asset servicing is our core business, as a result we understand clearly our risks and there are no conflicts of interest. Even if acting as independent valuer under AIFMD is not commonplace amongst service providers, we understand the risks involved – and the benefits to clients and investors – and are happy to offer this service.

## Do the events of the last decade make you confident or worried for the future of hedge funds?

**DQ:** I'm very confident. The industry bounced back from 2008 and investors continue to show faith in the industry to hit their return targets. Start-up activity is not at historically high levels but we are seeing more activity and some pedigree names launch. Producing good performance has been more difficult in the era of low interest rates but a changing market environment should provide better trading opportunities. Assets are still near record highs. With investment in technology so critically important, I am guarded that increasing focus on total expense ratios should not lead to a race to the bottom in terms of fees. Nevertheless, the industry continues to brim with talent and is continually innovating – I have no doubt it has an exceptionally bright future.

## What is your priority now?

**DQ:** We intend to remain at the forefront of all technological changes while continuing to provide industry leading service. Data is so critical these days, hence us concentrating on a data services offering. Ensuring data is used in an efficient, secure and timely fashion is critical. We are actively implementing machine-learning and artificial intelligence solutions. Citco group companies have had a ringside seat for all the twists and turns for as long as EuroHedge has been covering hedge funds and we are preparing now for the next 20 years. ■