



The New Wave for Hedge Fund Back-offices and Administrators

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Hedge fund managers are facing newer challenges at work with increased pressure on performance and focus on transparency, compliance and risk management. They realize the need to keep their attention locked on their core competencies of asset gathering, portfolio management and trading, and delegate operational functions to an experienced outsourced partner. Outsourcing back-office functions translates to a higher degree of transparency into the management of the hedge fund, and a significant reduction in operating risks and costs.

Traditionally, back-office operations have encompassed the areas within fund administration. In fact, the typical outsourced functions include, fund accounting, shareholder servicing besides billing, invoicing and post-trade compliance. In the same vein, smaller hedge funds too have been endeavoring to escape the burden of hiring support staff or building back-office infrastructure. Outsourcing has helped maintain operational costs under control, and satisfy the rigorous demand of operations, compliance and support. However, both large and small hedge funds can increase the rigor in their operations and ensure end-investor intimacy and reputational value by considering bespoke engagements than solely engaging traditional administrators. Hedge funds could deploy mix-and-match resources from internal staff with external service providers besides engaging administrators to rejuvenate processes.

Driving Efficiency and Value through a Hybrid Operating Model

Hedge funds can drive higher efficiencies and value through a hybrid model that spans blue-blooded fund administrators and independent third-party service providers.

Not all back-office operations can be entirely outsourced. Hedge fund managers need to closely examine compliance requirements, the existing internal infrastructure, the strain certain functions are putting on the systems, sophistication of

systems / IT platforms and people, and specialist skills required, besides robustness of the processes. The following are the functions, which have been assigned to external entities, usually administrators:

■ Fund administration

Fund administration involves valuation and pricing of the various assets that the fund trades in and budgeting for redemption. Hedge fund assets contain products that are not publicly traded, and fund managers need to offer a transparent valuation policy to address investor concerns over fair market value. Financial instruments are getting more and more sophisticated because of the emergence of new types of fund structures. A sophisticated portfolio of investments requires a higher degree of fund administration, thereby making it a highly resource-consuming activity. The concerns and the thought being given to pricing and valuation standards is increasing with institutional investors. Apart from this, there has been increased focus by regulators and scrutiny from the media.

In the recent past, there has been a trend of administrators creating offshore, remote location service centers providing hedge fund managers with experienced resources to set up and manage administrator functions. There has been a credible history and track record of a select few processes being performed by offshore locations. Some of the processes offshored include: *Fund accounting*: Hedge funds need to follow complex accounting and tax compliance procedures. Fund managers need to furnish Net Asset Value (NAV) certificates, statements of holding and statements of position at regular intervals to investors. They also need to provide investors with annual income tax reports, Form K-1 tax reports and complex tax instructions. These accounting reports form the basis for preparing performance records that are then used to market the fund among prospective investors. It is also the responsibility of fund accountants to keep track of the fund's money and where it is invested.



Fund accounting and tax compliance services are complex functions that cannot be obtained from off-the-shelf consumer accounting programs or by hiring general accounting professionals. It is advisable for hedge funds to take the service of providers experienced in handling hedge fund accounting.

■ **Shareholder servicing**

Shareholder servicing has become a resource-consuming activity. Shareholder servicing, or investor relations, includes all aspects of shareholder dealing, reporting and documentation, apart from registrar and transfer agency services. Streamlining of systems and procedures go a long way in building and maintaining a strong relationship with shareholders. Hedge fund managers today accord high importance to a streamlined back-office infrastructure. Shareholder servicing includes taking requests from shareholders and making recommendations to improve these functions. Another crucial aspect of a healthy investor relationship is to monitor and review the fund's compliance with anti-money laundering regulations.

Next Wave of Specialization and Efficacy

The competition for investor money, creating an unblemished record of investor service and adherence to all compliance and statutory requirements besides clearing all audits are a few non-investment goals that all hedge funds certainly aim for. These goals, while they also existed in the past, have been accentuated further in the light of unscrupulous events, creating a heightened sense of wariness from investors and regulatory zeal. These drivers have been common for both small and large funds alike.

While funds will address these requirements and create plans for achieving these goals, funds could also use this as an opportunity to enhance scalability, specialization in operations, besides rejuvenating processes and generating economic value from operations – typically missing from traditionally outsourced operations. This could be done using a multi-pronged strategy of looking at their current operating model, envisaging target operating models, and defining roles and players for the same.

This will involve change management issues since well-established and oiled relationships with administrators could be re-evaluated. In addition, a strong design of the target operating model would be required to leverage the strengths of all the participants. The model should add value by applying tools such as Lean, Six Sigma, implementing enabling technologies such as imaging, Business Process Management and establishing a geographically diversified global operation. This composite structure will ensure that relevant specializations are leveraged, than merely an outsourcing engagement with the administrator or its offshore location.

These roles will have to be re-distributed in light of their value and economic impact, and ability to achieve the said objectives. The players will have to bring in their suite of best practices, staff and infrastructure.

WNS is a best-in-class partner for managing and sustaining this change. We, at WNS, have managed change for multiple financial services clients, including hedge funds.

Partnering with an established player like WNS ensures the hedge fund will achieve these goals. Operational excellence implemented by WNS will ensure hedge funds benefit from the best practices that the company follows and its reliance on quality management through Lean and Six Sigma methodologies. WNS brings value to the relationship through a world-class infrastructure with access to real-time information 24/7, stress on continued learning and development of its employees, program management, quality management, technology innovation and risk management.

WNS has built strong domain expertise in financial services. Resources trained and experienced in managing back-office operations of financial institutions help bring the pressure down on hedge fund managers. By partnering with WNS, hedge funds can focus on their core competencies and reduce the cost of hiring personnel and running support operations. This will also ensure administrators are most aptly used for the specialized functions, which they are so rightfully competent to manage on behalf of funds.

To learn more, please write to us at info@wns.com