



Asian hedge funds' admin evolution

The growth of Asian hedge-fund products is mirrored by a dramatically expanding set of criteria to support their smooth operation, according to Alexis Fosler and Jeb Altonaga of Northern Trust Hedge Fund Services.

Q What is the key trend in the Asian hedge-fund administration sector?

A *Fosler:* Scrutiny from regulators and investors alike has put middle-office functions firmly under the spotlight. In response, COOs are looking to align themselves with a provider that can assist with this growing administrative burden.

Expanding beyond their historic back-office role, today's Asian based administrators are increasingly asked to support middle-office functions including trade management, strategy tagging, daily P&L reporting, regulatory and financial reporting, risk analytics and cash and collateral management.

A *Altonaga:* For smaller funds in Asia, the infrastructure and expense of keeping up with these demands is becoming prohibitive and hence they are turning to third parties. For larger funds, the domain expertise and capabilities that the administrator brings to the table is key, as is the scalability and robustness of their platforms.

Q What are some impediments to best practice for administrators in Asia?

A *Altonaga:* As an administrator, we believe the use of stub trades to represent complex product types presents a major issue. Stub trades lack the necessary attributes to support reconciliation, independent valuation, or robust reporting, limiting the administrator's abilities significantly. Best practice is to take in complete details of trades every day, and the result is better, more accurate, and more flexible data with fewer inconsistencies.

A *Fosler:* Some administrators over-rely on manual processes and ancillary systems bolted onto a platform. In our view, best



Alexis Fosler



Jeb Altonaga

practice requires that all data be stored in one system across functions and product types. You then have one data set and no internal reconciliations. Funds with enough capital can take this philosophy further and have a front-to-back solution with OMS/PMS, pre-trade compliance and portfolio risk aggregation under one data set to support front-to-back consistency of data.

Q What about custody?

A *Altonaga:* Global financial conditions have compelled Asian hedge-fund COOs to explore options to hold cash or securities away from their counterparty's (prime broker's) balance sheet. Northern Trust is increasingly being asked for integrated custody solutions for unencumbered assets and has developed solutions for sovereign wealth and large pension funds, as well as for smaller funds looking for safe harbour.

A *Fosler:* Operationally, there are certain key differences between how a prime broker services assets versus a custodian. We have developed a "bridge" service that helps address these differences without adding an administrative burden to the client. Investors need to be aware of these differences

and understand their impact if they are considering holding unencumbered assets with a custodian.

Q What about regulation?

A *Fosler:* As Asian hedge-fund COOs distribute and market their products globally they need support to navigate an increasingly complex regulatory environment. Administrators need to have solutions not only for regional procedures but also for pertinent global regulations such as the United States' CFTC rules, Form PF and Fatca; and Europe' Alternative Investment Fund Manager's Directive.

Q How is Northern Trust responding to these trends?

A *Altonaga:* We empower the client to access all data from their desktop, giving them complete transparency down to the tax lot level. Our technology interface delivers real-time transparency into trade processing, P&L, valuations and lifecycle events, so our process doesn't just start at month end, but is an everyday, ongoing dialogue, which provides a cleaner, more accurate book and fewer issues during the month-end close.

A *Fosler:* Technology innovation enables greater engagement, but it's also important for administrators to have significant domain and industry expertise and to leverage this advantage. Our teams in Hong Kong and Singapore have groups of domain experts focused on valuation, P&L, trade affirmation, and complex assets, for example. Clients can engage these teams in addition to their relationship managers, so they are in touch with individuals who uniquely understand their requirements.

This specialist support structure enables our clients to reduce the time spent on operational matters and focus on executing their investment strategies and generating alpha. ■

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