

FOCUS ON

ASIA

Peter Sanchez and Alexis Fosler of Northern Trust Hedge Fund Services explore the rapidly growing criteria for building efficient outsourced partnerships in Asia



Peter Sanchez is CEO of Northern Trust Hedge Fund Services (NTHFS), responsible for the management, strategic planning and development of Northern Trust's hedge fund administration business. Prior to this, Peter served as global head of business development and client service for Omnium. He has more than 20 years of experience in the industry.

Q HFMWEEK (HFM): WHAT ARE THE KEY CHALLENGES FACING ASIA-BASED HEDGE FUND MANAGERS?

A ALEXIS FOSLER (AF): Asia-based hedge fund managers face much the same challenges as their global counterparts: volatile markets, rapidly growing investor demands and regulatory scrutiny. The result is an unprecedented number of transparency and fiduciary requirements which must be met in an efficient and cost-effective way. If not, these demands can detract managers from their primary objective – generating alpha for their investors.

A PETER SANCHEZ (PS): These challenges are changing the character of the manager/outsourcer partnership in important ways. Far from just delivering a monthly NAV package, today's administrator delivers an integrated front-to-back model that incorporates more transparency, more controls and daily interaction with the front office.

Q HFM: WHAT SERVICES ARE MANAGERS NOW LOOKING TO OUTSOURCE?

A AF: Traditionally, hedge fund administrators were restricted to a clearly defined set of 'back-office' functions such as striking monthly NAVs and maintaining accounts and financial records. However, sophisticated providers have now expanded into the middle-office, which had once been the precinct of the manager. Services such as trade capture and matching, strategy



tagging, daily P&L reporting, regulatory and financial reporting, risk analytics and cash and collateral management are now handled by the outsourcer and integrated with month-end activity.

Q HFM: HOW CAN OUTSOURCING HELP MANAGERS ACHIEVE EFFICIENCY AND COST CONTROL?

A PS: For start-ups, the staffing and expertise required to meet today's operational challenges are cost-prohibitive. Teaming up with the right outsourcer provides scale and operational strength. The outsourcer also bears the expense of enhancing technology, so managers can focus on investors and strategy and know that robust controls are in place and overhead costs are tied to assets under management.

For larger funds, a sophisticated administrator can deliver quality support for complex portfolios and investors in a real-time operations environment. Being able to access live data and have instant transparency into exposures across asset classes and positions means they can make decisions faster and more efficiently.

A AF: Increasingly, we are approached by large institutional investors who are looking for administrators for the funds they invest in. They want to ensure their investments are managed with appropriate controls and independent verification. As a consequence, Asian funds that wish to attract large institutional investors are increasingly looking at outsourcing as a means to

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PETER SANCHEZ



NORTHERN TRUST HEDGE FUND SERVICES
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Alexis Fosler

is head of sales for Northern Trust Hedge Fund Services in the Asia Pacific region. Prior to her appointment at Northern Trust Hedge Fund Services, Alexis was the international head of sales for Omium responsible for the build out of the Omium franchise in the region. She has 20 years of experience in the financial markets.

provide the necessary control infrastructure.

Q HFM: HOW CAN MANAGERS KEEP TRACK OF THEIR OUTSOURCED RELATIONSHIPS?

A PS: From our perspective, engagement and interaction are key. We use the same systems and screen views as our clients, fostering transparency and collaboration. For example, our technology interface accessed from our clients' desktops provides real-time transparency into trade processing, P&L valuations and lifecycle events. This daily interaction results in more accurate data and a smoother month-end close. The entire process is very efficient because our employees are looking at the same views as our clients. This means the discussion is very focused and interactive.

A AF: As Peter points out, technology is important but so is the discussion. An efficient relationship means speaking to people who understand your requirements and are proactive in anticipating and addressing these. In Asia, we support our clients through domain experts in both Hong Kong and Singapore, in addition to relationship managers. This makes it easier for managers to get the best value from the relationship.

Q HFM: HOW CAN MANAGERS ENSURE ADMINISTRATORS MEET THEIR CHANGING REQUIREMENTS

A AF: Asian hedge funds are increasing in complex-

ity and demanding more automated and scalable administration solutions. For example, a credit fund with high concentrations of bank debt and complex fixed income instruments requires more systematic support.

A PS: Administrators that struggle to take on new asset types or automate processing can impede a manager's ability to execute their strategy. Systemic inability to properly support complexity will, at best, slow the month-end close due to reconciliation breaks; at worst, it can result in material NAV errors.

The optimum approach is for controls and procedures to be tailored to each asset class, and supported on one system which captures and maintains all of the key attributes for a given security type. This is what supports efficient processing: the ability to appropriately handle cash flows, as well as the ability to validate/substantiate valuations.

Q HFM: IN SUMMARY, HOW WOULD YOU DESCRIBE BEST PRACTICE FOR ACHIEVING AN EFFICIENT OUTSOURCED RELATIONSHIP?

A PS: It all comes down to three main themes. Daily engagement ensures seamless information flows and interaction. Operational expertise – both through technology and people – ensures a robust foundation. And finally, but perhaps most importantly, it's the commitment of both parties to forge a collaborative relationship. ■