

The second of 2009's *HFMWeek* surveys of hedge fund industry assets under administration paints a very different picture from the first. Six months ago, an industry in the grip of a full-blown financial crisis saw assets plummet by 21%. Now, with performance returning and hedge funds finding new ways to offer investors the assurances they need, assets are up 11% and the general mood is one of cautious optimism for continued growth. **BY KAPILA GOHEL**

## SINGLE FUNDS 6 MONTHS GROWTH

In May this year, the *HFMWeek* Hedge Fund Administrators Survey announced the largest drop in assets under administration (AuA) in its history, as the crumbling of the global financial markets and the hedge fund industry was fully realised.

Between November 2008 and April 2009, single manager hedge fund AuA plummeted 21%, from \$2.7trn to \$2.2trn, a fall of \$580.19bn.

However, in just six months the industry seems to have dusted itself off and is slowly picking up the pieces as it climbs back to positive performance growth. Investor inflows have also returned, clearly demonstrating that a place remains in many portfolios for resilient, transparent and good-quality hedge fund managers.

As performance – and the number of US-based hedge funds seeking third-party administration for the first time – picked up, single manager AuA has recovered well in the second half of the year, increasing

## TOTAL GROWTH IN ASSETS APR 09 - OCT 09



by a healthy 11% since the beginning of May.

While normalcy is clearly resuming, November's results are still mixed for individual administrators. In total, the survey gathered responses from 77 firms with hedge fund administration businesses, including seven newcomers to the survey, and showed that some have been quick to recover, while others have progressed gradually over the six months.

**GLOBAL FINANCIAL TURMOIL** over the past two years led to a flurry of panic redemptions from hedge funds with the impact being fully felt in the industry earlier this year as hedge fund administrators, including those at the top of the pile, saw a fall in the size of their AuA. Citco Fund Services, the largest administrator, reported a 29% loss in assets, a trend that was experienced industry-wide.

Director of Citco Fund Services, William Keunen, said at the time that during this period, "the industry [had] experienced the full impact of the redemption outflow that occurred in December 2008 and the

Age (yr)	position	invoiced (\$/bn)	AUA (\$BN) OCT 09	AUA (\$BN) APR 09	GROWTH (%) APR 09 - OCT 09	
1	1	↓	CITCO FUND SERVICES	375.00	325.00	15%
2	2	–	STATE STREET ALT. INVESTMENT SOLUTIONS GROUP	225.00	195.60	15%
3	3	–	BANK OF NEW YORK MELLON ***	168.50	157.53	7%
4	4	–	GOLDMAN SACHS ***	163.00	155.40	5%
5	5	–	CITY'S HEDGE FUND SERVICES	148.64	135.80	9%
6	6	–	HSBC SECURITIES SERVICES ***	126.46	115.42	10%
7	7	–	SS&C FUND SERVICES	100.00	100.00	0%
8	9	↑	GLOBE OP	100.00	91.00	10%
9	8	↓	CACEIS INVESTOR SERVICES **	84.44	91.72	-8%
10	10	–	FORTIS PRIME FUND SOLUTIONS ***	81.85	90.22	-9%
11	–	–	MORGAN STANLEY FUND SERVICES	77.20	NEWCOMER	N/A
12	11	↓	UBS FUND SERVICES	65.16	61.94	5%
13	12	↓	SEI	65.00	56.00	16%
14	13	↓	NORTHERN TRUST GLOBAL FUND SERVICES	60.40	43.80	38%
15	14	↓	PNC GLOBAL INVESTMENT SERVICES	42.10	40.20	5%
16	15	↓	JPMORGAN HEDGE FUND SERVICES	37.29	35.18	6%
17	17	–	BNP PARIBAS SECURITIES SERVICES	36.50	31.94	14%
18	18	–	OPHEDGE	36.16	31.86	13%
19	16	↓	BUTTERFIELD FULCRUM GROUP	32.00	33.50	-4%
20	19	↓	CUSTOM HOUSE GLOBAL FUND SERVICES	26.90	27.10	-1%
21	22	↑	RBC DEXIA FUND SERVICES	25.70	24.40	5%
22	21	↓	ADMIRAL ADMINISTRATION LTD	25.10	24.90	1%
23	20	↓	OMNIUM *** †	23.25	25.00	-7%
24	23	↓	SPECTRUM GLOBAL FUND ADMIN *	23.00	23.00	0%
25	26	↑	EURO-VL (SGSS) *	18.90	18.90	0%
26	32	↑	TRIDENT FUND SERVICES	17.60	13.90	27%
27	27	–	MAPLES FINANCE	16.55	16.98	-3%
28	28	–	AIS FUND ADMINISTRATION	16.50	15.50	6%
29	25	↓	DEUTSCHE BANK ALTERNATIVE FUND SERVICES	15.27	18.95	-19%
30	30	–	HARMONIC FUND SERVICES	15.15	14.61	4%
31	31	–	DAIWA SECURITIES GLOBAL ASSET SERVICES ***	14.54	14.48	0%
32	33	↑	KAUFMAN ROSSIN FUND SERVICES	14.50	12.00	21%
33	34	↑	LACROSSE GLOBAL FUND SERVICES ***	14.00	10.77	30%
34	39	↑	VARIMAN LLC	10.80	7.80	38%
35	35	–	CIBC	9.00	8.85	2%
36	36	–	MERIDIAN	8.85	8.80	1%
37	42	↑	U.S. BANCORP FUND SERVICES	8.72	6.70	30%
38	41	↑	APEX	8.45	6.79	24%
39	37	↓	SWISS FINANCIAL SERVICES GROUP *	8.03	8.03	0%
40	43	↑	NOTTINGHAM INVESTMENT ADMINISTRATION	7.70	6.70	15%
41	40	↓	ATC FUND SERVICES *	6.82	6.82	0%
42	24	↓	DUNDEE LEEDS MANAGEMENT SERVICES	5.20	5.60	-7%
43	46	↓	ALPS FUND SERVICES	5.18	4.11	26%
44	44	–	CAYMAN NATIONAL *	5.10	5.10	0%
45	50	↑	EUROPEAN FUND ADMINISTRATION	4.92	3.30	49%
46	45	↓	COLUMBUS AVENUE CONSULTING	4.80	4.60	4%
47	47	–	CONIFER SECURITIES	4.40	4.00	10%
48	48	–	UMB FUND SERVICES	4.15	4.00	4%
49	38	↓	VITEOS CAPITAL MARKET SERVICES LIMITED	4.00	8.00	-50%
50	49	↓	STANDARD BANK FUND ADMINISTRATION *	3.75	3.75	0%
51	52	↑	BANK OF IRELAND SECURITIES SERVICES	3.30	3.20	3%
52	51	↓	MADISON GREY FUND SERVICES *	3.29	3.29	0%
53	53	–	MOURANT INTERNATIONAL FINANCE ADMINISTRATION	2.80	3.09	-9%
54	54	–	FOLIO ADMINISTRATORS	2.64	2.52	5%
55	55	–	ISIS FUND SERVICES	2.20	2.20	0%
56	29	↓	CALEDONIAN FUND SERVICES	2.19	15.00	-85%
57	–	–	CAPITA FINANCIAL GROUP	2.08	NEWCOMER	N/A
58	57	↓	CLOSE FUND SERVICES	2.00	2.08	-4%
59	63	↑	TRINITY FUND ADMINISTRATORS	2.00	0.64	213%
60	60	–	INVESTMENT DATA SERVICES GROUP (IDS)	1.93	1.18	64%
61	–	–	IFINA	1.75	NEWCOMER	N/A
62	59	↓	RBC OFFSHORE FUND MANAGERS LIMITED	1.75	1.26	39%
63	58	↓	KINGSWAY TAITZ FUND ADMINISTRATION *	1.55	1.55	0%
64	56	↓	PINNACLE FUND ADMINISTRATION	1.45	2.18	-34%
65	–	–	PHOENIX FUND SERVICES	1.43	NEWCOMER	N/A
66	–	–	IFCE FUND SERVICES	1.23	NEWCOMER	N/A
67	–	–	LEGIS FUND SERVICES	1.23	0.00	100%
68	61	↓	CIRCLE PARTNERS	0.92	0.80	15%
69	66	↓	EQUINOX ALTERNATIVE INVESTMENT SERVICES	0.75	0.45	67%
70	62	↓	BANQUE PRIVÉE E. DE ROTHSCHILD	0.71	0.67	5%
71	–	–	MAITLAND FUND SERVICES ***	0.62	NEWCOMER	N/A
72	65	↓	PANOPTIC FUND ADMINISTRATION	0.58	0.50	16%
73	–	–	VASTARDIS FUND SERVICES	0.53	NEWCOMER	N/A
74	68	↓	VALLETTA FUND SERVICES	0.48	0.23	110%
75	64	↓	G&S	0.45	0.56	-20%
76	69	↓	PRAXIS *	0.21	0.21	0%
77	67	↓	ATU FUND ADMINISTRATION (BVI) LTD	0.14	0.28	-50%
<b>TOTAL ↑</b>			<b>2441.73</b>	<b>2197.45</b>	<b>11%</b>	

first quarter of 2009 timeframe, and, as a result, AuA diminished significantly”.

Citco, still the number one administrator in the industry, has bounced back with a 15% increase in single manager AuA in the past six months as business recuperates. During this period, the firm's single manager AuA increased from \$325bn to \$375bn.

As many in the industry breathe a sigh of relief that inflows are back on track, Keunen comments on Citco's own performance, believing the main catalysts for change to be a year of stellar performance and investor-led pressure for transparency.

“The main drivers for growth have been good performance by the majority of funds, new business from self-administered funds and demand for enhanced services,” he told *HFMWeek*. “We are also seeing some positive capital inflows as the redemption overhang emanating from the financial crisis has finally abated,” he said, adding that an ongoing expansion in demand for more comprehensive service coverage in areas such as financial and transparency reporting will continue to help the business develop.

**WHILE THE NEED FOR TRANSPARENCY** has always been great, global financial market disruption combined with recent cases of investment fraud, has meant hedge funds that have traditionally self-administered have been shaken into action by investors.

This investor activism has actually been the main force behind Citco's recent growth, Keunen reveals. “We have been fortunate to have been appointed by a number of the US-based self-administered hedge funds that have sought an independent fund administrator over the last year.”

In fact, over the course of 2009, several multi-



**MANAGED ACCOUNTS**

As investors are seeking higher levels of transparency from hedge funds, they are also looking at different and safer routes of investing. For many, managed accounts offer that solution. Managed accounts now represent around 2% to 4% of hedge fund industry assets, according to a recent survey, and are growing in number, with managers seeing them as another way to diversify their client base. In addition, funds of hedge funds are also looking at more managed accounts rather than investing directly in hedge funds.

**Top 10 LARGEST ADMINISTRATORS BY AUA (\$bn)**

1	CITCO FUND SERVICES	375.00
2	STATE STREET ALT INV SOLUTIONS GROUP	225.00
3	BANK OF NEW YORK MELLON	168.50
4	GOLDMAN SACHS	163.00
5	CITI'S HEDGE FUND SERVICES	148.64
6	HSBC SECURITIES SERVICES	126.46
7	SS&C FUND SERVICES	100.00
8	GLOBE OP	100.00
9	CACEIS INVESTOR SERVICES	84.44
10	FORTIS PRIME FUND SOLUTIONS	81.85

**Top 10 LARGEST ADMINISTRATORS BY % GROWTH**

1	CITCO FUND SERVICES	15%
2	STATE STREET ALT INV SOLUTIONS GROUP	15%
3	GLOBE OP	10%
4	HSBC SECURITIES SERVICES	10%
5	CITI'S HEDGE FUND SERVICES	9%
6	BANK OF NEW YORK MELLON	7%
7	GOLDMAN SACHS	5%
8	SS&C FUND SERVICES	0%
9	CACEIS INVESTOR SERVICES	-8%
10	FORTIS PRIME FUND SOLUTIONS	-9%

**Top 10 OVERALL ADMINISTRATORS BY % GROWTH**

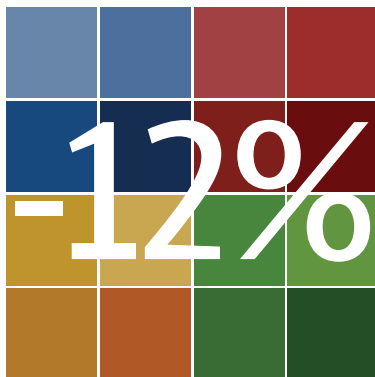
1	TRINITY FUND ADMINISTRATORS	213%
2	VALLETTA FUND SERVICES	110%
3	LEGIS FUND SERVICES	100%
4	EQUINOXE ALTERNATIVE INVESTMENT SERVICES	67%
5	INVESTMENT DATA SERVICES GROUP (IDS)	64%
6	EUROPEAN FUND ADMINISTRATION	49%
7	RBC OFFSHORE FUND MANAGERS LIMITED	39%
8	VARIMAN LLC	38%
9	NORTHERN TRUST GLOBAL FUND SERVICES	38%
10	US BANCORP FUND SERVICES	30%

billion dollar hedge funds with substantial commitments to self-administration, including DE Shaw Group, Caxton, Elliot Management and others, have committed to external administration, points out Gary Enos, executive vice president and head of relationship management at State Street Alternative Investment Solutions.

Hedge fund performance has been strong this year, outperforming benchmark indices through the end of the third quarter, but like Keunen, Enos believes it is the new onus on transparency that has proved equally important in the sector's rebound.

"Inflows have returned and optimism runs strong," he says, "but the hedge fund industry is facing transformative change. Fund managers that once lacked

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confidence that third parties could handle the complexity of their work, today acknowledge that leading administrators can both service their assets and objectively endorse their soundness and security in an era of market uncertainty."

Like Citco, State Street also gained a positive 15% increase in single manager AuA over the past six months. During this period the bank's admin unit grew from \$195.6bn to \$225bn, a welcome return from the 36% drop the firm experienced in *HFMWeek's* last survey.

**DESPITE THIS INEVITABLE EBB** and flow of business, the ten largest administrators remain the same as in the magazine's previous survey, with the exception of one noticeable movement. GlobeOp has now overtaken Caceis Investor Services, who posted negative growth, in the rankings, with its AuA growing to \$100bn [As a public company GlobeOp is unable to split AuA into single manager and funds of hedge funds and Caceis only reports figures in June and December].

Although Citi's Hedge Fund Services reported a 38% decline in AuA last time around, the firm has rebounded and posted a 9% increase in single manager AuA during the last six months. The firm cites hedge

## SINGLE FUNDS 1 YEAR GROWTH

RANK	RANK CHG	FUND	AUA (\$BN)		GROWTH (%) APR 09 - OCT 09
			OCT 09	OCT 08	
1	1	CITCO FUND SERVICES	375.00	455.00	-18%
2	2	STATE STREET ALT. INVESTMENT SOLUTIONS GROUP	225.00	306.70	-27%
3	3	BANK OF NEW YORK MELLON * * * *	168.50	153.20	10%
4	4	GOLDMAN SACHS * * * *	163.00	208.00	-22%
5	5	CITI'S HEDGE FUND SERVICES	148.64	219.05	-32%
6	6	HSBC SECURITIES SERVICES * * * *	126.46	184.01	-31%
7	7	SS&C FUND SERVICES	100.00	115.00	-13%
8	9	GLOBE OP	100.00	102.00	-2%
9	8	CACEIS INVESTOR SERVICES * *	84.44	105.84	-20%
10	10	FORTIS PRIME FUND SOLUTIONS * * * *	81.85	110.00	-26%
11	-	MORGAN STANLEY FUND SERVICES	77.20	NEWCOMER	N/A
12	11	UBS FUND SERVICES * * * *	65.16	76.09	-14%
13	12	SEI	65.00	52.00	25%
14	13	NORTHERN TRUST GLOBAL FUND SERVICES	60.40	32.86	84%
15	14	PNC GLOBAL INVESTMENT SERVICING	42.10	63.60	-34%
16	15	JPMORGAN HEDGE FUND SERVICES	37.29	51.18	-27%
17	17	BNP PARIBAS SECURITIES SERVICES	36.50	11.58	215%
18	18	OPHEDGE	36.16	33.60	8%
19	16	BUTTERFIELD FULCRUM GROUP	32.00	44.00	-27%
20	19	CUSTOM HOUSE GLOBAL FUND SERVICES	26.90	34.80	-23%
21	22	RBC DEXIA FUND SERVICES	25.70	29.70	-13%
22	21	ADMIRAL ADMINISTRATION LTD	25.10	29.40	-15%
23	20	OMNIUM * * * *	23.25	30.00	-23%
24	23	SPECTRUM GLOBAL FUND ADMIN *	23.00	23.00	0%
25	26	EURO-VL (SGSS) *	18.90	18.90	0%
26	32	TRIDENT FUND SERVICES	17.60	25.00	-30%
27	27	MAPLES FINANCE	16.55	20.92	-21%
28	28	AIS FUND ADMINISTRATION	16.50	14.00	18%
29	25	DEUTSCHE BANK ALTERNATIVE FUND SERVICES	15.27	7.70	98%
30	30	HARMONIC FUND SERVICES	15.15	16.69	-9%
31	31	DAIWA SECURITIES GLOBAL ASSET SERVICES * * * *	14.54	21.94	-34%
32	33	KAUFMAN ROSSIN FUND SERVICES	14.50	15.44	-6%
33	34	LACROSSE GLOBAL FUND SERVICES * * * *	14.00	13.13	7%
34	39	VARIMAN LLC	10.80	NEWCOMER?	N/A
35	35	CIBC	9.00	10.80	-17%
36	36	MERIDIAN	8.85	12.80	-31%
37	42	U.S. BANCORP FUND SERVICES	8.72	12.69	-31%
38	41	APEX	8.45	6.69	26%
39	37	SWISS FINANCIAL SERVICES GROUP	8.03	14.50	-45%
40	43	NOTTINGHAM INVESTMENT ADMINISTRATION	7.70	3.05	152%
41	40	ATC FUND SERVICES *	6.82	6.82	0%
42	24	DUNDEE LEEDS MANAGEMENT SERVICES	5.20	5.60	-7%
43	46	ALPS FUND SERVICES	5.18	4.35	19%
44	44	CAYMAN NATIONAL *	5.10	5.10	0%
45	50	EUROPEAN FUND ADMINISTRATION	4.92	3.95	25%
46	45	COLUMBUS AVENUE CONSULTING	4.80	5.00	-4%
47	47	CONIFER SECURITIES	4.40	4.70	-6%
48	48	UMB FUND SERVICES	4.15	0.95	337%
49	38	VITEOS CAPITAL MARKET SERVICES LIMITED	4.00	6.00	-33%
50	49	STANDARD BANK FUND ADMINISTRATION *	3.75	3.75	0%
51	52	BANK OF IRELAND SECURITIES SERVICES	3.30	4.00	-18%
52	51	MADISONGREY FUND SERVICES *	3.29	3.29	0%
53	53	MOURANT INTERNATIONAL FINANCE ADMINISTRATION	2.80	3.65	-23%
54	54	FOLIO ADMINISTRATORS	2.64	3.31	-20%
55	55	ISIS FUND SERVICES	2.20	2.10	5%
56	29	CALEDONIAN FUND SERVICES	2.19	15.00	-85%
57	-	CAPITA FINANCIAL GROUP	2.08	NEWCOMER	N/A
58	57	CLOSE FUND SERVICES	2.00	2.63	-24%
59	63	TRINITY FUND ADMINISTRATORS	2.00	0.44	355%
60	60	INVESTMENT DATA SERVICES GROUP (IDS)	1.93	2.20	-12%
61	-	IFINA	1.75	NEWCOMER	N/A
62	59	RBC OFFSHORE FUND MANAGERS LIMITED	1.75	2.07	-16%
63	58	KINGSWAY TAITZ FUND ADMINISTRATION	1.55	1.40	11%
64	56	PINNACLE FUND ADMINISTRATION	1.45	2.18	-34%
65	-	PHOENIX FUND SERVICES	1.43	NEWCOMER	N/A
66	-	IFCE FUND SERVICES	1.23	NEWCOMER	N/A
67	-	LEGIS FUND SERVICES	1.23	NEWCOMER	N/A
68	61	CIRCLE PARTNERS	0.92	0.98	-6%
69	66	EQUINOXE ALTERNATIVE INVESTMENT SERVICES	0.75	0.40	88%
70	62	BANQUE PRIVEE E. DE ROTHSCHILD	0.71	0.84	-16%
71	-	MAITLAND FUND SERVICES * * * *	0.62	NEWCOMER	N/A
72	65	PANOPTIC FUND ADMINISTRATION	0.58	0.40	46%
73	-	VASTARDIS FUND SERVICES	0.53	NEWCOMER	N/A
74	68	VALLETTA FUND SERVICES	0.48	1.04	-54%
75	64	G&S	0.45	0.36	25%
76	69	PRAXIS	0.21	0.27	-22%
77	-	ATU FUND ADMINISTRATION (BVI) LTD	0.14	NEWCOMER	N/A
<b>TOTAL</b>			<b>2441.73</b>	<b>2777.64</b>	<b>-12%</b>

funds seeking middle-office support as one of the biggest growth areas within its business, as well as custody services and more trade with funds of hedge funds (FoHFs).

“Given the institutional calibre of our business and our focus on providing a full range of services across the value chain, we continue to see strong growth both from existing and new clients,” commented Mike Sleightholme, Head of Hedge Fund Services –North America at Citi.

Meanwhile, Fortis Prime Fund Solutions held onto its position as 10th largest single manager hedge fund administrator, however, the firm is recovering more gradually from the aftermath of the market fallout.

“Fortis Prime Fund Solutions has seen a marked improvement in market conditions,” said Jaron Van Dam, Global Head of Sales and Relationship Management, “with net subscriptions turning positive over the past few months. Following a dip in total AuA in the second quarter of 2009, assets have begun to recover in the third quarter.”

Fortis’ assets totalled \$81.85bn as at the end of September 2009, a small decline of 8% in the past six months. “Although client assets have marginally decreased over the period as a result of expiration of lock-ups, de-gating and the winding down of side-pockets, we believe that we are now at the end of the redemption cycle,” added Van Dam.

**AS INVESTORS EXPRESS A HIGHER** demand for transparency and third-party administration, many of them are also turning to managed account platforms. According to a survey conducted by Deutsche Bank earlier this year, 43% of large investors were considering using managed accounts, the number of which has accelerated over the past year. Man Group was one of the hedge funds to offer a managed account platform for the first time via Credit Suisse.

Van Dam adds that Fortis has found its hedge fund clients are increasingly asking for advice on administering managed accounts and even ‘onshore’ Ucits versions of their existing funds. “Over the past quarter we have won multiple mandates to service new managed accounts and are currently advising on a number of new Ucits funds,” he said.

In fact, most of the firms taking part in the survey have found an increase in the trend for managed accounts driven by investors, including Omnium (formerly Citadel Solutions), which has been mandated on numerous such opportunities, according to a statement from the firm.

Overall, the climate for hedge funds has drastically improved since last year and the beginning of 2009, not only for existing hedge funds, but also for new launches.

“The environment for new fund launches has im-

## INDUSTRY SPEAKS

THE WAY FORWARD FOR ADMINISTRATORS

**“The industry is moving away from the previously popular self-administration model towards the third-party model dominant in Europe, principally driven by investor demand post-Madoff”**

MARC RUSSELL-JONES, MANAGING DIRECTOR, BNY MELLON

**“We have observed that managers’ attitudes towards managed accounts are changing. Many more managers see managed accounts as a way to diversify their client base and business”**

AKSHAYA BHARGAVA, CEO, BUTTERFIELD FULCRUM

**“The industry model is changing with an increased focus on transparency, capital preservation, value for money and above all, security. It is imperative that we continue to build on our core product set and deliver our products efficiently and securely”**

MIKE MARTIN, GLOBAL HEAD OF FUND SERVICES, HSBC SECURITIES SERVICES

proved greatly since earlier in the year,” believes Van Dam of Fortis. “We have yet to see a return to the buoyant conditions of 2007, but we currently have a healthy pipeline of new launches, that have secured seed capital of \$50m-500m. Numerous existing clients are also planning new funds, citing the unprecedented investment opportunities that exist in a number of strategy areas.”

The key driver behind change remains investor pressure. Adapting to these demands and requirements seems to remain crucial to building the industry back to where it once stood. According to Citco’s Keunen, that change is happening: “The industry has re-positioned itself rather well. It has taken note of recent events and re-aligned its objectives more closely to those of the investor community.”

Institutional investors in particular will demand new clarity from hedge funds, says Enos. “The alternative investment industry will emerge from the crisis, perhaps smaller in terms of the number of funds, but eventually larger in terms of assets under management. It is poised today to shift into the mainstream of institutional investor strategies.”

And overall, as Akshaya Bhargava, CEO at Butterfield Fulcrum, concludes, the future of hedge fund administration lies in an operating model that is built on the principles of transparency and flexibility and can adapt to the specific requirements of both investors and fund managers. ■



### TRANSPARENCY

A key theme emerging from the survey is transparency, as investors demand more control, customisation and risk management. While transparency has always been important, post-Madoff, it has become vital for investors. Investor demand for an independent administrator is driving more hedge funds to consider outsourcing and those managers that have previously been self-administered are increasingly moving towards the third-party model.