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BREAKING THE MOULD

IN A STEADILY DEVELOPING MARKET, *HFMWEEK* LOOKS AT HOW BROADRIDGE TAKES THE LEAD IN PROVIDING ALTERNATIVES FOR FUND INFRASTRUCTURES

BY TOM SIMPSON



Since the 2007 global recession precipitated a sea change for hedge funds and mutual funds, one of the greatest challenges facing fund managers has been managing ever-growing operational burdens accompanied by escalating costs, more stringent regulatory requirements and complex data management.

For many managers, these new challenges are daunting and detract focus from the fund's main goal of

delivering returns. To cope, many fund and asset managers are considering outsourcing some specialised services to third parties. While this is an expected response, it raises unanticipated questions about system compatibility, transparency and performance. According to Brian Crowley, head of product management for investment management solutions at Broadridge: "There is an ever-increasing need for fund managers to support virtually any asset class, the changing

regulatory landscape, and reference data providence and reporting. Systems generally do not anticipate the need to provide such a high degree of flexibility.”

Crowley said that Broadridge has developed its platform specifically to manage these operational variables, especially the complexity of assets that sophisticated funds typically hold within their portfolios.

“Many platforms are strong in one or two asset classes, but we have grown organically considering the eventuality that funds will seek returns across a wide spectrum of investable securities,” Crowley said. “This is seen as one of our key strengths in the marketplace by our clients and competitors alike.”

Managing these variables is also a way to maximise the huge investment funds are making in financial technology to support trading and other operational advantages that will help them remain competitive. A 2012 Citi hedge fund study projected that the hedge fund industry will spend \$14.1bn year-over-year on technology, including internal resources, hardware, software, data and third-party IT services.

These will fund critical functions, such as investment management and support; back, middle and front office operations; finance and accounting and business management like human resources and real estate. To manage them, hedge funds are expected to increase their technology budgets; according to a 2016 KPMG study, 39% of funds expect to spend over \$1m per year in the next five years on technology, up from the 35% of funds that did so in the past five years. These technology expenses are so high that the study said one-quarter of a large hedge fund’s management fee is dedicated to covering these expenses before charging back to customers and paying for the management team.

RECONSIDERING IN-HOUSE STAFF

With increasingly complex systems, fund managers also face significant cost pressures that can require the mutualisation, or cost-sharing, of infrastructure, accompanied by the consolidation of platforms. Crowley said: “We see fund managers increasingly ask for hosted ASP or managed service solutions. This means funds no longer need as much IT-related staff to operate systems within their own data centres. Instead, they can redeploy capital on alpha-generating activities.”

Broadridge’s solution allows for the maintenance of real-time positions and balances, while also providing fully integrated reference and pricing data and full order management, asset valuation and risk management capabilities. Crowley noted that these same applications provide fund operational staff with the ability to manage processes, including end-of-day trading and investor reporting.

“All of these functions are carried out on a single platform. This capability allows a fund to engage a single vendor while funds with multiple providers have to maintain sufficient staff to manage the various relationships while at the same time ensuring that all systems talk to each other seamlessly,” he added.

Broadridge provides investment managers, banks, broker-dealers, and service providers with more comprehensive services and expertise addressing complex business needs ranging from global multi-asset class support, front, middle and back-office integration, and high-quality data to support improved decision making. Broadridge serves clients globally, with offices across North America, EMEA and Asia.

When taken in total, managing these various outside service providers creates the need for excess, non-alpha-producing staff, which adds organisational complexity. In fact, 60% of the staffs of a large fund might be involved in operations, technology, data management, reconciliation and related trade functions, none of which contribute directly to asset growth.

One study of hedge funds by Citicorp found there was “a one-to-one relationship between the ratio of investment personnel (portfolio managers, research analysts and traders) to portfolio-focused support personnel (marketing and investor relations, risk and compliance, operations and technology) across hedge funds of all sizes — even franchise firms, in which a large AuM might have been expected to allow for some economies of scale.” The Citi report then asked whether these firms are making sufficient use of strategic outsourcing options.

Yet while outsourcing these specialised services makes sense, it can also increase operational risk from assigning these services to various outside providers without the level of oversight and system integration that should be part of any firm’s proprietary infrastructure.

THE BROADRIDGE APPROACH

Specialised outsourcing is a valid, cost-effective management method that is easier with a comprehensive, modular suite of investment management solutions that allow managers to consolidate and streamline their operational infrastructures from a single console.

Broadridge’s consolidated platform allows managers to combine portfolio, order, risk and reference data management and data warehousing under a single relationship. It also provides funds with tools to assist with business scheduling and data distribution and integration. They can reduce their total cost of ownership (TCO) of an asset with minimal system integration and manage vendor risk by cutting down on non-essential relationships, often to one or two vendors that can provide all the capabilities a fund needs to operate.

While the industry trend has been to assemble an array of outside specialised managers to manage various funds, asset classes and service levels, or even to have firewalls separating different service providers, Broadridge takes a very different approach. It provides investment management solutions that address the real-time, front to back-office needs of hedge funds, asset managers, fund administrators and prime brokers. Since Broadridge is FINRA’s only regulated managed service provider, the firm regularly works with prime brokers, fund managers and administrators to develop seamless, integrated solutions to both every day and global problems.

“We have a very deep and talented team who have worked in our industry for many years,” Crowley highlighted. “We understand the complexities of the fund, asset management and prime broker businesses and work with our clients to provide more streamlined solutions to complex problems.” ■

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Liquid alternative funds are playing a larger role in investor portfolios and asset managers of all types are responding by developing more liquid alternative products and strategies. This, in turn, is creating more demand for services to help asset managers create and administer. BNY Mellon has a solution to fill this need. BNY Mellon is a global investments company dedicated to helping its clients manage and service their assets throughout the investment lifecycle. We deliver investment management and investment services in 35 countries and more than 100 markets and currently have \$30.5 trillion in assets under custody and/or administration, and \$1.72 trillion in assets under management. BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation (NYSE: BK). Additional information is available on www.bnymellon.com. Follow us on Twitter @BNYMellon or visit our newsroom at www.bnymellon.com/newsroom for the latest company news.



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Broadridge offers a suite of advanced real-time transaction processing services that automate the securities transaction lifecycle, from desktop productivity tools, data aggregation, performance reporting, and portfolio management to order capture and execution, trade confirmation, settlement, and accounting. Broadridge Investment Management Solutions is the leading provider of next generation investment management solutions. Broadridge offers its integrated front-, middle- and back-office platform to hedge funds, asset managers, fund administrators, and prime brokers. The modular suite includes order management, portfolio management, reference data management, data warehouse reporting and reconciliation, and is complemented by a number of preferred strategic partnerships with leading software and market data firms. The solution can be delivered onsite or via Broadridge's industry-leading application service provider solution. Broadridge is the leading provider of investor communications, technology-driven solutions, and data and analytics for wealth management, asset management and capital markets firms. We help clients drive operational excellence to manage risk, accelerate growth and deliver real business value.



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Eze Castle Integration is a global provider of private cloud solutions, technology and cybersecurity services to more than 650 alternative investment firms. From implementing IT platforms for new fund launches to supporting multi-billion dollar funds, Eze Castle Integration's team is experienced and focused on great client experiences. Eze Castle has offices in the United States, United Kingdom, Singapore and Hong Kong. Contact us today or visit www.eci.com to learn more.



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