T
le development of Singapore’s hedge fund industry is often cited as a case study for success in financial services in Asia. This has been especially evident over the past year, with around 250 funds operating in the city in 2015.

Growth over the past decade has been driven by progressively increasing investor, policy, and growing appetite among investors for alternative strategies. There is no reason to believe that this will not, however, continue to raise the profile of alternative funds in Asia.

A range of pressing issues impact the industry’s health this year and beyond. Many of these funds are seeded by private wealth – funds that are currently US$50 million to US$200 million are primarily seeded by private wealth. Increased regulatory requirements, a desire for institutional infrastructure, and raising true operational excellence, including enterprise-wise, institutional-quality technology, from technology is allowing managers to upgrade their operational systems which delivers both cost benefits and efficiencies through streamlined processes.

In today’s hedge fund ecosystem, Singapore investors need to be aware of three key themes to thrive and develop.

Theme 1: Consolidation to a “Single Solution”

While this is not a new theme in the market, there has been a resurgence of demand for consolidation of systems into a single solution. Consolidation is now more important than ever, due to two main factors.

The first is cost pressure. As a hedge fund matures and begins to require different resources, it must look beyond its own traditional systems to reduce costs. Traditionally, this means adopting a new system for operational risk when information is transferred from OMS to CRM and back again. Such systems are often too expensive to maintain or running at a loss.

The second factor is the intangible cost of operational risk when information is transferred from OMS to CRM and back again. Such systems are often too expensive to maintain or running at a loss. Today more than ever, institutional investors such as pensioners and sovereign wealth funds are demanding systems that are better integrated to support the process from end to end. As a result, higher risk is reduced and more cost-efficient.

Hedge funds also need to consider what is often referred to as a “complementary business-to-business and operational efficiency, and profitability. Industry costs are increasing, mostly due to additional reporting requirements in the wake of global regulations. Fund managers need to ensure that they are highly cost-effective to remain competitive in the market. Today’s hedge fund ecosystem, Singapore investors need to be aware of three key themes to thrive and develop.

Theme 2: Increase of capital inflow into Asian funds

Asian funds are experiencing strong capital inflow since they have seen a rise in the last couple of years. In 2014, more than 10% of Asian hedge funds reported increases in assets under management, with a 5.6% increase in assets under management for Singapore hedge funds.

Many of these new models are using an out-of-the-box approach, using a plug-and-play solution for hedge funds converting into family offices. This 35 million dollar hit is a further blow to the industry.

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The challenge for new and smaller funds, including those operating in Singapore, is how to attract large amounts of capital and stand out from peers in an increasingly crowded market. Many of these new models are using an out-of-the-box approach, using a plug-and-play solution for hedge funds converting into family offices. This 35 million dollar hit is a further blow to the industry.