

Managers Pressure Hedge Admin Shops for Juiced-Up Tech

By Lydia Tomkiw February 20, 2019

Growing investor demands to make the most of all their data is speeding ahead, putting pressure on administrators and causing some hedge funds to re-evaluate their admin relationships.

That pressure for upgraded technology is mounting after the busiest year on record in merger and acquisition activity in the fund administration space.

Hedge fund managers are looking for middle office, trading and onboarding support as well as fund reconciliation, asset level transparency, data operations work, and the ability to offer limited partners deeper insight into their holdings, says Bill Salus, CEO of Paddock Consultancy, which focuses on the fund administration market.

“I think the new landscape is not fund administration as a lead core product but as a part of a larger technology stack that addresses the broader needs of the manager,” he says.

The focus on data has only grown with the expectation that top tier admins should have a data offering and dashboards that give immediate access to status on fund net asset value (NAVs), reconciliation, and daily profit and loss (P&L), says Peter Sanchez, head of Northern Trust Alternative Fund and Omnium Business Services.

“The big theme is the rush to have a data service and an expectation that you won’t take on a client without the ability to share the data and give informed context around it,” he says.

As the marketplace grows more competitive, many large hedge funds are also reviewing the long-term, existing relationships they have with administrators. “It’s the result of trying to squeeze out as many services as possible,” Sanchez says, as well as fee compression on the manager side and hedge fund clients looking for an enhanced experience.

Another trend is fintech companies increasingly offering components of services and technologies that administrators are also building up.

“You see standalone companies and fintech companies coming around pointed specifically at those different problems and capabilities,” Salus says.

Vendors will have to offer an attractive price, but it also puts pressure on admins to continue investing in their systems to stand the test of competition, Sanchez says.

One company offering standalone services is **Arcesium**, a post-trade tech and professional services firm, which was launched by hedge fund D.E. Shaw Group in 2015 as an independent company. Blackstone Alternative Asset Management (BAAM) provided equity backing and became the firm's second client. Arcesium announced last week four parts of its tech platform are now being offered as standalone products for alts managers, including financial data stack tools, reconciliation, swaps management, and a treasury suite. The firm - which has over 700 employees and supports over \$100 billion in assets - plans to hire over 100 employees in the next year with a focus on software engineers, according to a source familiar with the matter.

"The standalone offerings are a natural evolution of our business. We built our full technology platform to better support the most complex operation demands of some of the largest asset managers in the industry," said **David Nable**, head of commercial strategy at Arcesium, in an email to *FundFire*. "This demand for innovative technology in the fund admin space will only increase, and, by offering portions of our technology platform á la carte, we're responding to the challenges that managers face when it comes to operations and data management."

The focus on technology comes after a record year in merger and acquisition activity that saw large players including Apex Group, State Street and SS&C Technologies all make moves. And the start of 2019 has already seen some activity with Apex Group and its private equity backer Genstar Capital announcing the acquisition of Link Group's corporate and private client services and Throgmorton businesses at the end of January, according to a release.

And more acquisitions are likely to come as firms look to expand their geographical reach and product lineups, including in areas such as the private client space and corporate securities, Salus says.

"The momentum, the desire, the money is there. It's just sifting through and finding the right opportunities to take advantage of," he says.