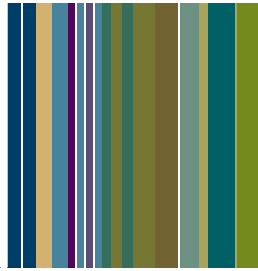




SUNGARD INVESTIER



CASE STUDY

*SunGard's InvestTier Enhances SEI's
Side Pocket Processing*

SunGard's InvesTier Enhances SEI's Side Pocket Processing

At a Glance

The Challenge

SEI needed to stay ahead of the curve as the hedge fund market was evolving. Side pocket investments were on the rise, and SEI's process was labor-intensive and tedious. SEI needed a more streamlined solution that would enable it to process side pocket investments for fund managers.

The Solution

SEI collaborated with SunGard to further extend functionality in InvesTier, which would enable SEI to automate the separation of liquid and illiquid assets held by the investor. The end result was a fully integrated solution to meet hedge fund manager's needs.



The Benefit

- Increased efficiency and productivity
- Automated process of side pockets
- Smooth implementation

Customer Profile

SEI is a leading independent provider of comprehensive outsourcing services to investment management organizations worldwide. Through its subsidiaries and partnerships in which it has a significant interest, SEI administers \$380 billion in mutual fund and pooled assets (as of June 30, 2010).

SEI's clients are investment managers with global offerings that span the investment management industry, including alternative investments, regulated investment vehicles, separately managed accounts and institutional accounts.

Background

Facing the challenge of an evolving market, SEI needed to provide fund managers with greater processing control of their investments while reducing the overall risk associated with accounting for side pocket (illiquid) investments.

Processing a side pocket investment is often rigorous and very manual as the methodologies can be complex and unique across fund managers. Since the liquidity crisis began in 2008, hedge funds have continued to increase the number and variety of side pocket investments to be tracked, furthering SEI's need for a solution.

SEI was looking for a way to add more internal controls and system automation to the painstaking manual and often spreadsheet-driven processes of income allocations and fee calculations for illiquid investments within a side pocket. The company also needed to easily isolate the liquid and illiquid assets held by the investors, as well as provide comprehensive detailed reporting to the fund manager.

The Challenge

Fund structures were emerging where the fund's investment strategy offered illiquid investments alongside their more traditional liquid investments. By their nature, illiquid investments are not easily valued and the accounting treatment investing in them can be quite different from the liquid asset portion of the portfolio. The accounting and reporting requirements can vary from fund to fund, but in general there are a few main areas of complexity.

- **Tracking and accounting:**
How is the illiquid portion segregated from the liquid capital, and how is the relationship between them maintained? What calculations are used to determine the profit/loss and fees for the illiquid side pocket, and do they differ from the liquid portion?
- **Reporting:**
Based on the side pocket structure, what specific reporting requirements will each manager need? How can SEI best present the fund level and the investor level allocations to the client? What sort of custom reporting needs are there?
- **Liquidity:**
What effect will the side pocket investment have on the high water mark for redemptions? How will side pockets be factored into investor redemption requests, if at all? What are the differences in fees and payment timing between liquid and illiquid investments?

Since most investors typically maintain an investment within the main pool of liquid

assets, it is critical that a link be established between their main investment and assets that have been segregated as illiquid. SEI needed an automated solution that would enable them to process side pocket investments for fund managers within the accounting system.

The Solution

Having a long standing relationship, SEI and InvesTier collaborated to identify functionality that would automate and extend InvesTier's capabilities. Based on a review of SEI's client base that had side pocket investments with InvestTier, both firms developed standard best practices around automating the separation of liquid and illiquid assets within a fund's portfolio as well as its investor capital transfer activity, incentive fee calculations and income and expense allocation methodologies.

"The ability to provide our clients with automated processing of side pockets enhances our ability to stay at the forefront of the market and reduce risk," said Phil McCabe, Senior Vice President and Solution Head, SEI's Investment Manager Services division.

By adding a few new features and modifying or enhancing existing functionality, InvesTier was able to fully automate the side pocket accounting process. A few of the key changes that made this possible were:

- Supporting the concept of an investor's main account versus their side pocket account and maintaining that relationship throughout the life cycle of the investment and redemption
- Supporting the ability to designate investors that wish to be excluded from all or certain side pocket investments
- Adding the ability to look across a set of books to calculate the management and incentive fees



“SEI is the first InvesTier client to license and implement the new side pocket processing functionality enhancements on behalf of our clients. In the end, it’s about giving our clients more confidence in SEI’s calculations and eliminating the need for them to run parallel processing in-house.” said Phil McCabe, Senior Vice President and Solution Head, SEI’s Investment Manager Services division.

- Allowing for rule-based transfer of investor assets based on a fixed percentage, fixed amount, or ownership percentage from and to their main account and side pocket account; i.e. Funding, Follow-On Funding, Distributions, Rebalancing and Partial and Full Realization
- Allowing for full control of the crystallization of fees on the movement of investor assets

This automation has dramatically reduced the level of risk and amount of time required to track and report on a fund that utilizes side pockets from an operational perspective.

A Better Operating Environment for Hedge Fund Managers

The enhancement to InvesTier enabled SEI to automate the process of side pocket investment accounting, allowing SEI to provide its clients with greater processing control, efficiencies, and risk reduction capabilities.

“We are continually looking for ways to reduce risk and expand our operational outsourcing capabilities to support our clients and side pockets is an area where there was a clear opportunity to make an impact,” notes McCabe. “We are pleased that we were able to collaborate with InvesTier to deliver an improvement to the industry.”

www.sungard.com/investier/learnmore

About SunGard's InvesTier

SunGard's InvesTier is an investor accounting and reporting solution for the alternative investment industry that provides domestic and offshore hedge funds, funds of funds and fund administrators with partnership accounting, fee calculation, share series and equalization accounting capabilities.

For more information on InvesTier and SunGard's portfolio of alternative investment solutions, visit www.sungard.com/investier/learnmore.

About SunGard

SunGard is one of the world's leading software and technology services companies. SunGard has more than 20,000 employees and serves 25,000 customers in 70 countries. SunGard provides software and processing solutions for financial services, higher education and the public sector. SunGard also provides disaster recovery services, managed IT services, information availability consulting services and business continuity management software. With annual revenue exceeding \$5 billion, SunGard is ranked 380 on the Fortune 500 and is the largest privately held business software and IT services company.

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