

MAKING MANAGED ACCOUNTS MANAGEABLE

A VPM AND INVESTIER WHITEPAPER

Making Managed Accounts Manageable

KEY COMPONENTS

- Unique double-sided physical general ledger
- Comprehensive, multi-currency back-office solution and transaction repository
- Supports virtually any asset type including equities, fixed income, futures, bank debt, rpos and swaps
- Easy-to-use navigation and the ability to integrate with a variety of systems

With liquidity continuing to stabilize, alpha-seeking institutional players have shown increased confidence in alternative strategies such as hedge funds, fund of hedge funds, OTC derivatives products and private equity. Post-Madoff, however, these participants continue to clamor for greater control of their investment capital. Program oversight practices have evolved, reflecting investors' heightened risk awareness and ratcheting up the level of transparency required.

These and other factors have led to a surge in demand for managed accounts within the hedge fund space over the past several years. Using a managed account, investors can gain additional insight into a fund's activities and holdings, are afforded an extra layer of liquidity protection should the fund be hit by a spate of redemptions, and, by utilizing a segregated account, can achieve greater control over their assets while minimizing counterparty risk.

In its recent report entitled "Managed Accounts: Helping to Restore Investor Confidence," Citi found that managed accounts "are now increasingly an option for investors who are under pressure from their own stakeholders to demonstrate they are doing all they can to minimize the risks of fraud, illiquidity and style drift." Since 2004, managed account usage has nearly tripled; according to Citi, some 85 percent of hedge fund managers have seen an increase in requests for managed account structures. As of last year, estimates put managed account Assets Under Management in the vicinity of \$41 billion.

Widely available since the 1990s, managed accounts have seen a surge in popularity due to the many benefits they offer, "such as access to liquidity and ownership of assets," affirms Joanne Job, Moody's analyst and author of the report "Hedge Funds: Investing Through Managed Accounts." "The financial crisis, coupled with many hedge funds imposing liquidity restrictions, prompted investors to look for fund offerings that gave them more control over their investments and managed accounts filled this market need."

"It takes a well designed infrastructure and know-how to successfully run a managed account. This quickly became an emerging theme across our customer base, as managers began to fully understand the operational implications of deploying these kinds of strategies, particularly in the aftermath of the credit crisis."

Scott Alintoff, *chief operating officer for SunGard's VPM investment management solution*

Managed Account Demands

Increased back-office functionality, as well as more stringent reporting detail required by plan sponsors in particular, have placed a unique set of demands on fund managers offering managed accounts.

In addition to equity investors, managers must also cater to those using multi-strategy, multi-currency, bank-debt and other types of products, necessitating the use of separate agreements for each account. The issue is further compounded by the relatively small asset size of the average managed account, which "can make the operating costs as a percentage of assets look relatively high," according to Citi. Additionally, the enhanced-liquidity benefit of a managed account may require managers to utilize operational mechanisms capable of covering redemptions on short notice, which only adds to the expense proposition.

"Since the managed account may limit or prohibit the amount of exposure to the common pool that is actually available, this kind of set-up can act as a hindrance for the fund manager," says Alintoff. These costs and complexities may help explain why hedge fund managers in general have traditionally shied away from managed accounts services. While more managers may be offering these types of accounts, "they are still perceived by many as an operational headache, and therefore many hedge fund managers remain reluctant," asserts Moody's Job.

Times have changed, however, and the massive capital inflows from large institutional investors are needed to help keep the fund industry's engines stoked. "And if the right investor comes along asking for a managed account, chances are the fund manger is going to want to comply," says Alintoff.

In certain instances, investors with enough clout, such as large public-pension funds, have been able to negotiate steep management fee discounts to go along with their managed account offering. With fee-based margins continuing to tighten, this kind of customization can put added pressure on the fund, making the already difficult task of maintaining a managed account business even more challenging.

Considerations

"Given the multitude of investor strategies, risk profiles and levels of tolerance associated with managed accounts, fund managers have been increasingly willing to explore outsourced technologies and core platforms covering a wide range of strategies, including both traditional and alternative products, rather than build costly internal platforms from scratch. Leveraging the available technology of third-party vendors with a long history of service in the managed account space can bring considerable value to the table at a fraction of the cost," says Gayle Alexander, chief operating officer for SunGard Investier, a partnership and investor-accounting and reporting solution.

Qualified third-party providers bring to the table robust valuation capabilities, reconciliation, risk reporting, performance and analytics services, and other hedge-fund management essentials. Additionally, the open architecture platforms offered by these vendors improves straight-through processing and boosts operational efficiency, thereby giving managed-account seeking investors the level of transparency they require.

Additionally, using a vendor-provided, open architecture platform allows investors to access a wider array of prospective funds when seeking a managed account, while giving asset managers the ability to simplify customization procedures and optimize straight-through processing, boost operational efficiency and provide institutional clients with the required amount of transparency.

"In addition to having the right kind of infrastructure, offering systems that are fully scalable allows firms to capture the entire available market, which, from a fund manager's point of view, makes a very compelling case for outsourcing these activities."

Gayle Alexander, *chief operating officer for SunGard Investier*

“Having a proven track record within this space is great, however, providers must also be able to demonstrate a willingness to continually invest in different types of products and technologies, while offering new functionalities as needed.”

Scott Alintoff, *chief operating officer for SunGard's VPM investment management solution*

Conclusion

Once reserved for wealth management investors and traditional asset managers, managed accounts continue to gain traction in the hedge fund world, prompted by an increased desire for transparency among institutional investors, including managers of large pension plans seeking greater alpha to cover unfunded liabilities. Going forward, many alternative asset managers will face considerable operational challenges tied to managed-account usage.

Because they can be expensive to support and operationally complex to run, managed accounts can easily impact a hedge fund manager's scalability. Hence, outsourcing the operational infrastructure to a third-party service provider with the intellectual capital and level of expertise within the managed-account space can relieve the manager of these responsibilities, notes Citi in its report.

How SunGard Can Help

Faced with increased disclosure and more stringent reporting requirements, hedge funds will likely continue to seek vendors that are equipped to assist with managed-account functionality, providing investors with the level of transparency they demand.

To achieve this, SunGard offers several solutions designed specifically for the alternative-investment sector. A comprehensive, multi-currency back-office solution and transaction repository, SunGard VPM supports a wide range of investment products (including equities, fixed-income, futures, bank-debt, repos and swaps), can be seamlessly integrated with external data and information vendors, and is scalable enough to meet the needs of the individual user. Additionally, SunGard's InvesTier, combines multiple levels of accounting functionality (portfolio, fund-level and partnership/shareholder) within a single open-architecture type platform that simplifies integration with and extension to other applications. Together, these solutions can provide hedge funds with all the technology they will need to successfully work within the managed-account space.

SUNGARD'S VPM AND INVESTIER

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About SunGard's VPM

SunGard's VPM is a comprehensive, multi-currency back-office solution and transaction repository, and is designed specifically for hedge funds. VPM supports virtually any asset type including equities, fixed income, futures, bank debt (including multi-currency revolvers), repo and swaps. In addition to managing virtually any asset type, VPM provides easy-to-use navigation and the ability to integrate with a variety of systems, as well as external data and information vendors.

www.sungard.com/vpm/learnmore

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About SunGard's InvesTier

SunGard 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.

www.sungard.com/investier/learnmore

www.sungard.com/assetmanagement