



SUNGARD ANALYSTS' DAY

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WHAT'S YOUR POSITION?

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TEN IN PRACTICE

Alternatives in the Cloud

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AGENDA

- Alternative investment management in the post-crisis world
 - Drivers for increased transparency
 - Changes in investor base – institutional investors, funds of funds
 - Drivers for more robust operations
- The new economics of alternative investment management
 - The new hedge fund economics and start-up challenges
 - The private equity funding cycle and economics
- “Doing more with less”
 - Offshoring, outsourcing and cloud computing
- SunGard initiatives
 - SunGard hosted solutions for Alternative Investments
 - Hosted platform to support the hedge fund front and middle office
 - A consolidated accounting platform for managers, administrators and institutional investors operating across multiple AI business lines

Drivers for Increased Transparency

- The events of 2008 still overshadow the industry
 - Bear Stearns & Lehman: do hedge funds control their own assets?
 - Credit crunch: what are OTC credit derivatives actually worth?
 - Market crash: are hedge funds in control of their market exposures?
 - Madoff fraud: do the assets even exist?
 - Liquidity crisis: can investors redeem their capital when needed?
- The investor response was immediate and lasting ...
 - The push for position-level transparency became almost irresistible
 - Operational transparency – probing questions about processes, record-keeping, valuation methodologies, proving the assets exist
 - Daily conversations about positions, trading ideas, exposures
- Some hedge fund managers realized they did not have adequate controls or even visibility over their own risks
- And the regulatory response at last starts to materialize

Changes in Investor Base – Institutions

- More hedge fund and private equity investors are institutional, compared with ten years ago
- This will be more true in future
 - 52% of institutional investors intend to increase their allocations to alternative investments in the next 3 years. Only 15% expect to reduce or eliminate their alternatives exposure. *KPMG, June 2010.*
 - 46% of institutional investors plan to increase their hedge fund allocations over the next 3-5 years, with only 10% planning to reduce their allocations. *Preqin, August 2010.*
 - 98% of institutional investors intend to increase or maintain their private equity allocations in the next 3-5 years. *Preqin, Sept 2010.*

Changes in Investor Base – Funds of Funds

- Pre-crisis most institutions invested in alternatives (especially hedge funds) via funds of funds
- Funds of funds are among the biggest losers from the crisis
 - Assets of fund of funds totalled around \$500bn at the end of 2009, down 17% from the previous year, and over 40% below the peak seen two years earlier. *HFR*.
 - The proportion of single manager hedge fund assets originating from fund of funds fell to 30% in 2009 from 40% in 2008. *IFSL*.
 - 67% of investors expect hedge fund of fund investments to decline further over the next three years. *KPMG, June 2010*.

Drivers for More Robust Operations

- Institutional investors demand institution-quality operations
- Risk-aversion dominates their approach to alternatives
 - They are searching for alternative investment vehicles that provide the protection and lower risk that funds of funds claimed to offer
 - Hence the recent growth of separately managed accounts, hedge fund ETFs, UCITS hedge funds (“Newcits”)
 - These impose additional requirements on the manager
 - Recent net inflows have gone to the largest incumbent hedge funds
- All these factors increase the pressure on COOs
 - To respond to investor demands for greater transparency
 - To demonstrate the integrity and robustness of their operations
 - To implement stronger controls over exposures and liquidity
 - To conform to SMA/UCITS etc requirements
 - To comply with new disclosure rules, when they take effect

Hedge Fund Economics

- Hedge fund AUM is still 16% down on its 2007 peak, as at September 2010, and has now caught up only to the level of November 2008. *HFR, 2010*
- 22% of the funds operating in 2007 have since closed, while many others are still below their high-watermarks
- Concentration is increasing. The largest 1% of hedge funds account for 70% of assets. *IFSL, 2010*
- More than 90% of the \$9.5 billion net inflows into hedge funds in the second quarter went into funds with more than \$5 billion under management. *Blackstone, 2010*
- The typical model has been a 2% management fee intended to fund the bulk of ongoing costs, but of course management fee income is reduced in line with AUM

Hedge Fund Start-Ups

- Investors remain very risk-averse. There is very little dynamism in terms of hedge fund start-ups, and huge pressure on them to keep operating costs down.
- Well capitalized start-ups have been few and far between
- Most wannabe hedge fund start-ups face a dilemma
 - Go to market with <2% management fee
 - And/or launch with only \$25-50m of committed capital
- Which does not leave much budget for operating expenses

The Private Equity Funding Cycle and Economics

- The private equity funding cycle remains largely frozen with many funds unable to exit from portfolio companies, with the consequence that capital for new investments remains scarce
- According to Preqin data:
 - As at 2010 Q3, fundraising is over a third down from 2009 Q1
 - Since the beginning of 2010 there has been a decrease of 5% in the number of private equity firms and a 19% reduction in the aggregate capital targeted
 - Many LPs have placed their private equity investments on hold or have reduced the amount of capital available for new commitments
- The focus for many GPs is therefore on performance metrics and monitoring their portfolio companies

Offshoring, Outsourcing and Cloud Computing



Hosted Solutions for Alternative Investments

- Market drivers for hosted solutions
 - Increased pressure on fund managers to run robust operations
 - And provide greater transparency to investors, partners, regulators
 - While simultaneously controlling costs in line with reduced AUM



THE NEED TO DO MORE, WITH LESS.



- Economic benefit of offering hosted solutions
 - Reduced Total Cost of Ownership to the customer, without the requirement to acquire in-house hardware, expertise and support
 - Makes top-quality infrastructure available and affordable to boutique investment managers running leaner operations
 - But the benefits are not confined to smaller fund managers, as the following examples will show

Hosted Portfolio Management Platform

- Drivers

- Operational robustness, real-time risk etc – without increasing costs
- Compliance/reporting, risk management, cloud computing

- SunGard solution

- SunGard's Front Arena for hedge fund portfolio management and operations, traditionally implemented by larger multi-strategy funds

- SunGard response

- Build a hosted Front Arena offering on Infinity Infrastructure with much more pre-packaged configuration and maintenance
- First customer (a London-based capital structure arb fund) went live on the hosted solution in Q3 of 2010
- Theoria Capital (\$100m Singapore hedge fund focused on Japanese equities) implemented Front Arena in 67 days – they chose a non-hosted deployment but are typical of the type of implementation we are targeting with the hosted offering

Hosted Portfolio Management Platform

Minoru Umezaki, president of Theoria Capital Management:

“With aggressive growth targets over the next few years, and planned expansion into new markets and asset classes, we needed a comprehensive platform that would adapt to meet our needs now and in the future.”

“SunGard’s Front Arena covers the broad range of instruments we need, while also giving us accurate, real-time access to exposure, valuations and P&L.”

Hosted Hedge Fund Investor Accounting Platform

- Drivers

- Transparency for the critical area of investor distributions
- Complexity of fee calculations, tax reporting, sidepocket automation

- SunGard solution

- SunGard's InvesTier product for hedge fund investor accounting, fund of hedge fund accounting, and third-party administrators

- SunGard response

- InvesTier is available as an ASP on SunGard Infinity Infrastructure or as a deployed solution, with the same functionality either way
- Client base divides 55:45 between deployed and hosted
- We have partnered with SEI to develop automated functionality for handling sidepocket investments, including incentive fee calculations, capital transfer activity, income and expense allocation

Hosted Hedge Fund Investor Accounting Platform

Phil McCabe, Senior Vice President and Solution Head,
SEI's Investment Manager Services division:

“We are always looking for new ways to reduce risk and expand our operational outsourcing capabilities to support our clients – side pockets is an area where there was a clear opportunity to make an impact.”

“By collaborating with SunGard on this project, 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.”

Hosted Private Equity Platform

- Drivers

- Private equity requirements for streamlined deal pipeline management, portfolio monitoring, accounting, investor reporting
- Reduced cost, sound DR, hardware updates, technical expertise

- SunGard solution

- Investran provides accounting, deal management, portfolio monitoring and reporting functionality for private equity general partners, limited partners and administrators

- SunGard response

- Investran is available as an ASP on SunGard Infinity Infrastructure or as a deployed solution, with the same functionality either way
- ASP customers include small GPs and family offices with <10 users
- But also large TPAs, one of which has well over 100 users
- Prime Fund Solutions selected Investran to underpin third-party administration for its private equity and real estate clients

Hosted Private Equity Platform

Gordon Shaw, global head of administration, banking and custody, Prime Fund Solutions:

“Of paramount importance was choosing a system that was scalable enough to meet our significant rate of growth, was able to keep pace with the existing and future demands of our sophisticated and industry leading client base, and had abundant local support to help us guarantee a robust and cutting edge service.”

Hosted Private Equity Platform

Dan Synk, head of operations, Prime Fund Solutions – Asia:

“The Investran team, both globally and locally in Asia Pacific, has shown tremendous commitment to our business. We believe the combination of the PFS expertise with the Investran solution will provide us with a highly reliable system, with the data integrity and transparency to offer our customers a variety of value added services. This competitive advantage will allow us to capitalize on the growth we are witnessing.”

Hosted Investor Reporting Platform

- SunGard Data Exchange is a hosted platform providing document management, reporting and workflow solutions to assist alternative investment firms in their fundraising, investor relations, portfolio monitoring and M&A processes

Randall Schwed, controller at Paul Capital:

“Our investors are of the utmost importance, and we wanted to ensure they had consistent, secure access to information online. We believe Data Exchange will effectively meet our investor online reporting needs and streamline the flow of information through integration with Investran.”

Hosted Risk Reporting Platform

■ Drivers

- Severe losses in 2008 highlight the importance of understanding portfolio risk
 - “hidden” exposure to common economic factors that drive markets
 - “tail risk” i.e. what happens to correlations etc during extreme events
- Increased pressure from investors for transparency and risk reporting

■ SunGard solution

- APT risk and decision support tools for investment managers at asset management firms, hedge funds, funds of funds, wealth managers and institutional investors

■ SunGard response

- Investing in APT including a new Risk Reporter engine (with a choice of deployed and ASP)
- New online reporting solution for risk and performance attribution

Hosted Independent Valuation Service

- Drivers
 - Post-crisis, more pressure than ever for independent valuation
 - Pressure on banks, from regulators and shareholders
 - Pressure on asset managers, from regulators and investors
- SunGard solution
 - FastVal ASP service for independent valuation of OTC and structured derivatives
 - True independence and true outsourcing – deploying its own data, models and expertise to provide valuations on an ASP basis

Hosted Independent Valuation Service

- Columbus Avenue, a hedge fund administrator already using SunGard's VPM portfolio accounting solution, selected FastVal to help independently value its clients portfolios.

Bonnie Han, partner at Columbus Avenue Consulting:

“We feel that the integration between the two SunGard solutions will save us a great deal of time, in addition to reducing the risks inherent in our manual data entry. As our business grows, and we continue to take on funds with more complex strategies, it is essential for us to have a solution that can provide accurate, transparent pricing and valuation across our entire customer portfolio.”

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