



COMMENT&ANALYSIS

THE LONG VIEW

MARINA W LEWIN

on the growing demands for information in the due diligence process, and how it is changing the way investors, managers and service providers work



“THE ALTERNATIVE FUND ARENA IS QUICKLY EVOLVING, WITH NEW REGULATIONS, FUND MANAGERS’ NEEDS, INVESTORS’ DEMANDS AND SERVICE PROVIDERS’ TOOLS”

Information has always been a key differentiator in the alternative investment arena. This remains the same but the type of information that is in demand has changed. As regulation transforms the industry, it has become more and more clear that information is at the centre of the changes.

The key driver is that institutional investors are asking for more and more customised information. Investors, seeking ways to boost returns, are increasing allocations to alternative investments, but as institutional funds flow back into alternatives, they are looking to acquire a better understanding of the funds’ investment strategy, and more importantly, their risk profiles. Investors are asking for information that helps them determine all aspects of risk: performance, operational and global risks. And, certainly, all investors are working hard to avoid headline risk by conducting comprehensive reviews as they select alternative fund managers.

Whereas in the past, the due diligence process would just review the fund, now it often extends to a review of partners and service providers. Today, investors frequently send their own questionnaires to the providers of the funds that they are evaluating, rather than relying on the funds to provide information about their third-party providers.

As part of the overall due diligence, some of the key questions investors are asking include: “How financially secure and solid is the provider?”, “Do they have the team of experts, systems, operational processes to support our tools for information?”, and “Is the counterparty risk sufficiently diversified?” Providers dedicated to meeting the needs of fund manager/investors continue to invest in systems, operations and teams of experts who are always looking for new ways to collect and disseminate data.

In turn, alternative fund managers are certainly providing more reporting to meet investors’ requirements. General partners

(GPs) continue to seek the right tools that offer the level of reporting and ability to customise the information their clients seek. In addition, alternative fund managers are also using additional reporting tools to provide insight into their own business management. They have always had sophisticated performance and risk-analysis tools, but today general partners are also seeking insight into their operational risks. Rather than relying on internal resources, more and more GPs are outsourcing their operations to trusted, independent providers. They want to ensure that they benefit from state-of-the-art systems and processes and free up internal resources to focus on investment management.

Lastly, alternative investment services administrators are being asked for more information tools from their clients. Today, institutional investors often provide input on which service providers they have confidence in and would like to rely upon. For the GPs, it has become a clear competitive advantage to select a service provider that becomes an asset as they seek additional investors.

The alternative fund arena is quickly evolving, with new regulations, fund managers’ needs, investors’ demands and service providers’ tools. All stakeholders are re-evaluating their operating models and their ability to focus on core competencies, and assessing which experts to partner with to achieve their goals. One common theme is the quest for information in order to evaluate performance, mitigate risks and successfully manage businesses.

As Dr Johnson wrote: “Knowledge is of two kinds. We know a subject ourselves, or we know where we can find information upon it”. Investors are increasingly pursuing the latter and alternative fund managers are leveraging service providers with the expertise to help them meet this challenge. ■

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THE WEEK IN QUOTES

“EXPECT US TO DO THREE TO FOUR INVESTMENTS THIS YEAR, AND THERE’S A PROBABILITY ONE OF THEM WILL BE IN ASIA”

PATRIC DE GENTILE-WILLIAMS, COO OF LONDON-BASED SEEDER FIRM CAPITAL ADVISORS, REVEALS AN INTEREST IN ASIAN START-UP

“THE MANAGED ACCOUNT SOLUTION HAS NOW BEEN VALIDATED AS THE WAY FOR THE FUTURE FOR INSTITUTIONAL INVESTORS”

THE GROWTH IN SEGREGATED ACCOUNTS IS A SIGN OF THINGS TO COME, SAYS NATHANAELE BENZAKEN, HEAD OF DEVELOPMENT AT THE LYXOR MANAGED ACCOUNT PLATFORM

“I DON’T BELIEVE THEY WILL MOVE AWAY FROM FUNDS OF HEDGE FUNDS”

DON STEINBRUGGE, CHIEF EXECUTIVE OF THIRD-PARTY MARKETING FIRM AGECROFT PARTNERS, BELIEVES THAT SMALLER, UNDER-RESOURCED PENSION PLANS STILL FAVOUR FoHFS OVER DIRECT INVESTMENT