

What to Expect From a Fund Administrator

Confronted with an undeniable recession, a full-scale global economic crisis and what looks to be a long period of economic uncertainty, hedge fund managers are adjusting their investment strategies and operations in order to capitalize on the opportunities that will emerge from the current economic environment.

Hedge funds, private equity firms and the financial industry as a whole are under the microscope of the Obama administration and, therefore, convincing potential clients to invest in your fund is more difficult than ever. Even still, allowing for the 2008/9 financial crisis, hedge fund assets have increased from \$820 billion to \$1.4 trillion today (an increase of 76%), the number of funds has

grown by 47% to almost 9,000¹ and there are things a fund manager can do that will help encourage potential investor confidence while living in the spotlight.

As an emerging fund manager, getting through all the legal hurdles and understanding all of the industry guidance and standards for operating a hedge fund can be a huge burden and easily overwhelming. The AIMA strongly recommends that hedge fund managers employ an independent administration firm to assist in ensuring sound practices are utilized when operating and reporting your fund.²

What should you look for in a good fund administration firm?

The main service a hedge fund manager should look for in an administration firm is monthly or quarterly reporting of your profit and loss for the period, as well as accounting for contributions and withdrawals by your investors. This sounds simple enough, but there are some important things to consider when relying on a third party to calculate your performance. One of the most important considerations is the administrator's technology platform. The administrator's technology should be able to:

- ✓ Interface with the prime broker
- ✓ Accurately value & price holdings
- ✓ Calculate various types of management fees

¹ *Guide to Sound Practices for Hedge Fund Administrators* September 2009

² *Id.*

- ✓ Calculate various types of incentive fees
- ✓ Accommodate for hurdle rates
- ✓ Account for high water marks
- ✓ Manage side pocket investments
- ✓ Calculate time weighted returns (TWR)
- ✓ Accommodate for various fund structures

Other items to consider when looking for an administration firm are as follows:

- High quality and range of management reporting
- Systems for tracking subscription documents for completion and compliance
- Provides KYC/AML services
- Acts as primary liaison with external auditors and helps ensure audit is timely
- Provides tax accountant with all necessary information to produce annual K-1's on a timely basis
- Services investors with field calls concerning administrative questions

It is also important that you have solid and timely customer service and that you have good communications with your service representative. Don't underestimate the importance of meshing well with your administration firm. Additional services offered by the administrator can also be of value to the emerging manager. Services such as web site development capabilities, marketing tear sheet services, pitch book development and other service provider referrals can all be of added value to the emerging manager.

As an emerging manager there is always a balance between the expenses of the fund that need to be accommodated for versus the type of provider you choose and the value of service you obtain from them. Although it is often times tempting to choose the lowest cost provider in this space, with the expectation that the service is purely a commodity service, it is wise to balance that temptation against the value and comprehensiveness of the service that you will be receiving. By taking a longer term perspective, although you may pay a slightly higher fee upfront, your fund will be well positioned, administratively, for its future growth and will serve both the manager and the fund's investors well.