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State Street acquisition could create fund admin superpower

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It has been reported that State Street is on the cusp of buying Goldman Sachs's hedge fund administration business.

A source close to the issue said that Goldman Sachs is set to let go of its fund administration division due to declining revenues, and it is focusing its efforts on core trading and investment banking.

The source added that it will be interesting to see if Citi, which is one of the world's largest fund administrators, follows Goldman Sach's lead.

If State Street did acquire the division, which looks after assets of roughly $200 billion, the bank would be the largest hedge fund administration provider in the world, as it currently has $506 billion assets under administration. State Street would surpass Citco, which has held the top spot for years.

State Street currently services 21 percent of the $2 trillion hedge fund market, according to a 30 April investor presentation. The third largest custody bank added $170 billion of hedge fund and private equity assets when it bought Jersey-based Mourant International Finance Administration in 2009.

Goldman Sachs has made some acquisitions, such as Bermuda-based Ariel Reinsurance on 10 April. However, the Wall Street firm is seeking outside investors for its REDI Technologies trading-software business, which is used by Goldman Sachs's hedge fund clients, asset managers and brokers that employ the firm's electronic-trading services.

It has also been curtailing its investment portfolio, recently selling $1.2 billion of its stake in Kinder Morgan and $2.3 billion of its stake in Industrial & Commercial Bank of China.

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ASTINBRIEF

Argonaut drops Ignis and welcomes IFDS

Ignis Asset Management has lost its role as the administrator to Argonaut Capital Partners's fund range, with IFDS now taking on the role as of 16 July.

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DST lends China a hand with RQFII scheme

DST Global Solutions is helping its Chinese asset management clients prepare for participation in the recently launched RQFII scheme through its asset servicing solution HiPortfolio.

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State Street acquisition could create fund admin superpower

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New regulations have also put additional risks on Goldman Sachs's fund administration unit.

The upsurge in oversight of companies that do business with hedge funds is in response to Bernard Madoff's Ponzi scheme and industry losses in 2008.

Goldman Sach's fund administration unit is currently number four in an industry ranking, behind BNY Mellon.

York Capital, Och-Ziff Capital Management and Bill Ackman's Pershing Square Capital Management use Goldman Sachs as their administrator.

"As a matter of policy, we don't comment on rumour or speculation," a State Street spokesperson said. A Goldman Sachs spokesperson also declined to comment.

Argonaut drops Ignis and welcomes IFDS

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The £292 million Ignis Argonaut European income fund will now be known as the IM Argonaut European income fund, and the £269 million Ignis Argonaut European alpha fund will be the IM Argonaut European alpha fund.

Argonaut is a concentrated European high alpha boutique that was set up as a 50/50 joint venture between fund managers Barry Norris and Oliver Russ, and Ignis Asset Management. It currently has £1.1 billion of funds under management.

DST lends China a hand with RQFII scheme

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China launched a RQFII pilot scheme at the end of 2012 to hasten Chinese yuan renminbi internationalisation and further facilitate backflow of the currency.

The RQFII guidelines were released in late 2011, with an initial investment quota of RMB 20 billion allocated to nine Chinese asset managers and 12 securities brokerages.

In April 2012, China expanded its RQFII scheme by increasing the investment quota to RMB 70 billion.

Geoff Harries, the global head of asset servicing at DST Global Solutions, said: "With the launch of the RQFII scheme, our clients in the fund management industry require a solution that is designed to work in global markets as well as help them meet the requirements of the Chinese fund management industry."

DST Global Solutions has been operating in China since 2003.

Eagle Investment Systems release V12.0

Eagle Investment Systems, a subsidiary of BNY Mellon, will release Eagle Version 12.0 at the end of June.

John Lehner, the president and chief executive officer of Eagle, said: "Whether clients leverage our secure private cloud, Eagle ACCESS, BNY Mellon's OnCore service offering, or have software installed on premise, we are committed to providing solutions that can help them operate more efficiently."

"We significantly invested resources in V12.0 on enhancing and developing all aspects of our suite to address the demands global market changes are imposing on investment managers," said Jeremy Skaling, the head of product management at Eagle.

Numerix welcomes financial software provider Dion

Dion Global Solutions has joined the Numerix partner programme to offer Numerix Powered Analytics within its valuation and risk management solutions.

Numerix is a provider of cross-asset analytics for derivatives valuations and risk management.

Steve O'Hanlon, the president and COO of Numerix, said: "Dion's conscious decision to leverage Numerix model libraries, rather than build their own, for pre-trade pricing, yield curves, payoff and horizon analysis, extends the reach of Numerix analytics through a new and innovative web-based interface."

"Powering our solution with Numerix revolutionises the way in which traders, sales professionals, and risk and IT managers, price, structure and manage risk," said Ralph Horne, the global CEO and managing director of Dion.

Vermeg acquires a stake in BSB

Vermeg, which specialises in securities processing and fund administration software, has acquired an equity participation in the capital of BSB

BSB is a provider of business solutions and IT services for insurers, private bankers, portfolio managers, wealth managers, holding companies, independent financial advisors and investment funds.

Under this agreement, Vermeg subscribes to a capital increase of €5 million and will own 24.45 percent of BSB's capital. The company will join BSB's board of directors.

All hands on deck for Ultimus linkup with LLR Partners

LLR Partners, a middle market private equity firm with more than $1.4 billion under management, has put an undisclosed amount into Ulti-

mus Fund Solutions, a provider of fund accounting, fund administration, distribution, transfer agent and shareholder services to the mutual fund industry.

Co-founders of Ultimus Bob Dorsey and Mark Seger will maintain control of the company. “LLR was the only firm we talked to that looked at Ultimus as a partner, not just another transaction,” said Dorsey. “The team’s expertise in financial and business services enabled them to understand our business quickly and speak our language.”

“Their willingness to craft a deal that provides the capital and strategic guidance we need to grow, but allows Seger and I to continue to run the business we created.”

Jim Ashton, the former CEO of the financial systems division of SunGard Data Systems, Mitchell Hollin, a partner at LLR Partners, and Michael Bishof, the president of Independence Capital Partners, will join the Ultimus board of directors.

Migdal Stock Exchange Services joins SunGard

Migdal Stock Exchange Services, the brokerage arm of Israeli investment group Migdal Capital Markets and a member of the Tel-Aviv Stock Exchange (TASE), now offers trading services and research expertise on the Israeli capital markets via the SunGard Global Network.

Philippe Carré, global head of connectivity for SunGard’s capital markets business, said: “Buy- and sell-side firms are expanding their trading activities to reach dynamic economies such as Israel.”

“As the addition of Migdal shows, SunGard continues to extend its emerging markets connectivity to help customers reach more trading destinations quickly and efficiently, helping them capitalise on trading opportunities in these countries.”

SEI to provide middle-office services for Credit Suisse

SEI will provide Credit Suisse’s asset management division with middle-office services for the firm’s municipal bond portfolios.

These will include fixed-income analytics, trade processing, investment accounting, end-client invoicing and reporting, as well as amortisation and updated portfolio positions and pricing.

SEI also provides daily security reference and position data to support Credit Suisse asset management’s order-management system, as well as their internal data warehouse.

Additionally, Credit Suisse’s asset management division will access comprehensive data management, performance, and risk reporting for all middle-office services that are performed by SEI via its online manager dashboard.

“We’re seeing more and more firms look to outsourcing, not only as a means of gaining efficiencies and technology, but as a way to gain access to timely and accurate information that can better inform critical investment decisions,” said John Alshefski, senior vice president of SEI’s investment manager services division.

SunGard extends algorithms to Canadian market

SunGard has extended its suite of algorithms to cover the Canadian equities market, as well as the US.

Traders can trade in one currency and settle in another, providing access to traditional and non-traditional trading venues in both regions.

Sang Lee, the managing partner at research and advisory firm Aite Group, said: “As the Canadian equities markets accelerate the use of electronic trading and move beyond the cash equities market, trading firms are looking for sophisticated algorithms.”

“The buy side is becoming accustomed to leveraging more advanced trading tools, such as smart order routing, which is adding to that demand. The quality of the algorithms will become a critical factor for the buy side when they select platforms, putting the impetus on brokers to provide them.”

NexPoint to administrate Pyxis fund

NexPoint Advisors is the new investment adviser and administrator to the Pyxis Credit Strategies Fund.

NexPoint is an affiliate of Pyxis Capital, the fund’s current investment adviser and administrator. In connection with the change, the fund will be renamed NexPoint Credit Strategies Fund.

However, a statement from the company said that the change would not result in any alterations to the identity of the fund’s portfolio managers, the advisory or administrative services fees that are paid by the fund, or the services to be provided to the fund.

Pyxis is a non-diversified, closed-end management investment company that invests in secured and unsecured floating and fixed rate loans, bonds and other debt obligations, debt obligations of stressed, distressed and bankrupt issuers, structured products and equities.

Sun International looks to BNY Mellon for ADR programme

South Africa-based Sun International has appointed BNY Mellon as the depositary bank for its American depositary receipt (ADR) programme.

Each Sun International ADR represents one ordinary share and trades on the OTC market in the US.

Sun International invests in and manages businesses in the hotel, resort and gaming industries. It focuses on the development, management and operation of hotels, resorts and casinos in South Africa, other parts of Africa, and South America.

Rob Becker, the CFO of Sun International, said: “We are delighted to partner with BNY Mellon in establishing a Sun International ADR programme and to be traded on the US OTC market. This is a key initiative in building offshore market awareness of Sun International as we look to grow our business in international markets and facilitate a new source of potential investors in our company.”

“By establishing its new [ADR programme], Sun International has confirmed its commitment to attracting greater investment from the US market,” said Michael Cole-Fontayn, the CEO of BNY Mellon’s depositary receipts business.

Alliance Bernstein begins clearing OTC IRS

Asset management firm Alliance Bernstein has started clearing OTC interest rate swaps (IRS) through LCH.Clearnet’s SwapClear service.

Citi executed and cleared the initial trades, which were affirmed using MarkitSERV.

Alliance Bernstein’s decision to begin clearing its OTC IRS comes ahead of regulatory changes in the US that are aimed at pushing OTC derivatives into clearinghouses.

James Wallin, senior vice president, fixed income, at Alliance Bernstein, said: "Clearing ahead of the regulations makes sense for us. It means we can plan for the changes in market structure and optimise our clearing solutions in line with our portfolio requirements."

"Alliance Bernstein is the latest in a rapidly growing and diverse group of clients to adopt central clearing. These firms are reaping the capital and operational efficiencies of being at the vanguard of change," said Daniel Maguire, the head of SwapClear US. "We are delighted that they—like the others—selected SwapClear as their clearing service of choice for our broad product range, unrivaled liquidity, and superior risk management capabilities."

Christopher Perkins, the global head of OTC clearing at Citi, added: "Mandatory central clearing for some members of the buy side is rapidly approaching, and we're seeing many clients, like Alliance Bernstein, making an early transition ahead of regulation because they believe it makes commercial sense."

Canadian mutual fund manager re-signs with Citi

Citi has renewed its agreement with Chou Associates Management and will continue to provide fund accounting, transfer agency, custody, and trust and securities lending services for the $600 million that it oversees in mutual fund assets.

Chou Associates Management, which became a Citi client in 2007, has agreed to a five-year deal.

Gurmeet Ahluwalia, the head of Citi's securities and fund services business in Canada, said: "The renewal of this mandate with such a respected market participant is a compliment to the individuals on our team, who work so diligently to ensure our level of service remains unmatched."

"It is also a testament to our bundled investor services offering, which we are able to constantly enhance by leveraging Citi's operations around the world, where we are in more markets than any other competitor."

Euroclear's eurozone trio sign up to T2S

Eurozone CSDs Euroclear Belgium, Euroclear France and Euroclear Nederland will sign up to the eurosystem's T2S project.

Euroclear Belgium, Euroclear France and Euroclear Nederland are a group of CSDs within the eurozone that process client transactions on a shared platform and operate with harmonised market rules and practices.

The three CSDs used the ESES (Euroclear Settlement of Euronextzone Securities) platform to settle €87 trillion of securities transactions in 2011, representing 31 million transactions, and to hold approximately €6 trillion of assets for clients.

The aim of T2S is to provide a single pan-European platform for securities settlement in central bank money.

The parent company of the three CSDs, Euroclear, has provided its support and their boards have agreed for each CSD to sign the T2S Framework Agreement.

They engaged in extensive market consultation and dialogue with national regulators before committing to T2S.

They intend to finalise their assessment of CSD outsourcing arrangements with relevant regulators before signing the T2S Framework Agreement.

Euroclear Belgium, Euroclear France and Euroclear Nederland will outsource settlement transaction processing to T2S. Clients of the three CSDs will continue to have accounts directly with the respective CSD and receive the full range of post-trade services from that CSD.

The migration date and fees for connecting to and using T2S will be determined after completion of market consultation.

Joël Mérère, the chairman of the boards of Euroclear Belgium, Euroclear France and Euroclear Nederland, said: "The three Euroclear group central securities depositories are reflecting local market sentiment by taking the decision to sign the T2S Framework Agreement."

"As the first and only group of markets in continental Europe to have consolidated and harmonised transaction settlement and custody services on a shared platform, we appreciate the benefits of large-scale processing consolidation and harmonisation that T2S has the capacity to provide."

Valérie Urbain, the CEO of the three CSDs, added: "Euroclear has been preparing to operate within a T2S environment for some time. Our asset servicing capabilities are expanding, and we are introducing collateral management services for clients in the Belgian, French and Dutch markets, as well as with some local central banks."

"The depth and breadth of the domestic and cross-border post-trade services we offer will clearly help clients get the most out of the new operating environment in the easiest way possible."

CSDs such as the Bank of Greece Securities Settlement System (Greece), Clearstream Banking (Germany) and Iberclear (Spain) have also agreed to sign up to T2S.

J.P. Morgan offers sec lending services in Malaysia

J.P. Morgan Worldwide Securities Services has rolled out its securities lending capabilities in Malaysia.

It is the first international lender in the Malaysian market to offer a securities lending product, according to the bank.

J.P. Morgan now offers securities lending solutions to major prime brokers and clients with Malaysian assets.

Its customised solutions allow lenders to define their own structures to meet their risk/reward requirements, and its comprehensive indemnification programme against borrower default allows lenders to mitigate counterparty risk across their programmes, according to J.P. Morgan.

Shaun Parkes, the CEO of Asia (excluding Japan) and Australia at J.P. Morgan Worldwide Securities Services, said: "The future for securities lending in Asia Pacific continues to demonstrate significant potential. Malaysia represents an important part of our regional growth strategy, and is a key value-add for our institutional client base that is looking to diversify their investments and mitigate their risk."

BNY Mellon wins $1 billion Baton Rouge custody mandate

BNY Mellon's asset servicing arm has been named custodian for the Employees' Retirement System of the City of Baton Rouge and Parish of East Baton Rouge, Louisiana, which is worth approximately $1 billion.

BNY Mellon will provide custody and administration, accounting, and cash management services for the employees' defined benefit pension plan.

Created in 1953, the plan covers 3,500 active and 3,400 retired members. It provides lifetime pension benefits to both non-public safety and public safety employees of the combined city-parish government.

Jeff Yates, retirement administrator for the City of Baton Rouge, said: "BNY Mellon's level of quality and attention to client service was apparent throughout the custodian bidding process. We're confident in their ability to help us effectively manage and administer system assets for the benefit of our many active employees and retirees."

Samir Pandiri, executive vice president and head of asset servicing-Americas at BNY Mellon, added: "In today's more complex and regulated environment, municipal employee systems like Baton Rouge rely on us for a wide array of securities services as well as the technology infrastructure that allow them to focus on investment management."

Budapest bound

AST was at NeMa 2012, which brought some familiar faces together as the key concerns of the industry were revisited

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Key players from the central banks, global and sub-custodians, investment strategists, CSDs and CCPs, consultants and brokers met at NeMa's conference in Budapest to network and discuss the major issues facing the industry today.

On day one, Júlia Király of the National Bank of Hungary explained policies to reduce external vulnerability in Hungary, stating that the ideal is an export-led growth model that is based mainly on internal saving.

"Since the crisis, the Hungarian economy has gone through a sizable adjustment process. Domestic demand dropped due to higher risk premia and looser labour market conditions moderated wage growth, increasing export competitiveness. The banking system accelerated the adjustment process—to an extent that may even be detrimental to growth."

Colin Brooks of HSBC talked of the need to reduce costs for sub-custodians, and with a sub-custodian bill of $2.5 billion annually, it would appear that the time is ripe for change. Insourcing to save costs was one strategy, with Brooks indicating the pros of saving custody fees, a visible presence in market and regulator contact, were only offset by disadvantages including high cost of entry, high ongoing costs, market interfaces, upgrades and loss of economies of scale.

BNP Securities Services's Alan Cameron asserted that network managers can reshape the operating model, arguing that improving return of earnings is vital, even if revenues do not increase. "Network managers must deliver process simplification, economies of scale and capacity planning … the selection of which services are sought from vendors will be driven by the usage of capital, collateral and liquidity," he said.

It wouldn't be a conference without regulation discussion, and Tim Reucroft from Thomson Murray led the talk. Of AIFMD, he said:

"This is effectively the hedge fund directive. This was highly controversial for its attempts to make the custodian of the hedge fund completely responsible for the safety of the assets of the hedge fund and inverting the burden of proof. [Custodians] fought this vigorously and managed to gain some concessions."

Tomasz Grajewski of UniCredit expounded the benefits of the Central and Eastern Europe region, such as its cost advantage over much of EU, and markets adopting EU harmonisation, meaning better governance, improved transparency, but still "exciting" developing markets. However, he did admit that substantial diversity remains across the region.

Clearstream's Phil Brown discussed the next evolution in the post-trade space, stating that while 1980 to 2000 was about de-regulation, globalisation and consolidation, the current decade would be about profit hunting. When asked where we go from here, he answered: "After four years of challenged earnings, the industry needs a shot in the arm. 'Waiting for higher interest rates' is not a credible nor sustainable business strategy, and regulatory pressure will exacerbate the earnings challenge. Acquiring scale is a questionable strategy, especially if it just means acquiring new cost problems. Partnering with specialist suppliers is the next logical step for our still immature industry."

Finally, John Byrne of Information Mosaic talk was entitled Asset Servicing 2.0—Redefining the Global Operations Landscape. He argued the case for a global hub and offered a solution by playing with the words of Jimi Hendrix: "If you want to change the world, you have to get your hub together." **AST**

Bottom line:

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Business unusual

AST talks to Lisa Martensson of HSBC Securities Services about fund administration in Ireland and further afield

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How has the financial crisis affected the market in Dublin?

There is no doubt that the market environment in the financial services sector over the last few years has taken its toll, and the fund sector is not immune to it. That said, the impact has not been as significant as with some other sectors. We see the Irish fund industry growing both in terms of assets managed and number of funds serviced. That's testament to the way the industry in Ireland has positioned itself over the last twenty years and the body of experience that has been developed. HSBC Securities Services in Ireland has some major ongoing projects in migrating new business to our Dublin office, which will establish us as the hub for alternative fund services globally. This is a strategic decision that enables us to continue to invest the significant sums we need to invest in our product, in an ever-changing regulatory environment where demands on service providers will increase exponentially.

In my view, Ireland will continue to have a reputation for being the European domicile of choice. This is especially true for alternative fund managers, for a number of reasons. Firms are now operating in a tougher financial environment and the previous challenges we had in Ireland around staff turnover and cost base control have eased considerably. The knock-on benefit is that it has enabled firms here to become more competitive in the global fund industry. This is supported by the fact that managers continue to gravitate to a jurisdiction where the regulator is considered efficient and the service providers understand their product. The absence of a language barrier also helps. If you look at things from an investor perspective, managers that are targeting an institutional European investor base require regulated or listed products. This leads to the final point, which is related to the regulations coming downstream, and which plays nicely into the product set on offer in Ireland.

The statistics would appear to reinforce the above view. According to Irish Funds Industry Association figures, Ireland is the number one centre globally for the servicing of hedge funds, serving some 40 percent by assets of the world's hedge funds. In fact, Ireland attracted nearly twice as much as all the other jurisdictions put together during 2011.

What's your opinion on AIFMD and its effect on the industry?

At HSBC, we are pressing ahead with our preparations for implementation because our clients will need to know our response. We have until 22 July 2013 to put AIFMD into practice across our European network. As a large universal bank with a substantial network of sub-custodians, we are well placed to deal with the liability requirements as many of our own HSBC entities are acting as sub-custodians, and the operational complexity and oversight responsibilities that will be thrust on the depositary. Oversight, look-through, reconciliations and cash monitoring are all functions that the traditional administrator has not had to focus on too deeply because the board of the fund had responsibility.

The relationship between the depositary and the prime brokers has not yet been fully defined and so there will be grey areas where people will be guessing for some time. The legislation promises complete investor protection but it comes at a cost, a cost which the industry has not yet fully surfaced. Whether investors wish to have this level of protection remains to be seen. Proportionality and relevance has been largely ignored.

There will undoubtedly be managers who choose not to market to European investors due to the additional cost of these regulatory requirements. At the same time, there will also undoubtedly be managers who re-domicile funds into Europe to attract investors who demand they are AIFMD compliant. Although fund re-domiciliation is not a requirement of AIFMD, it is a trend that is gathering pace.

What additional services are asset managers looking for?

The hedge fund industry continues to move towards the institutional model, driven in many cases by regulation, risk management and investor demand. Correspondingly, there is an increased focus on managers seeking to maximise their variable cost base and minimise their fixed cost base.

We have witnessed an increased appetite for our alternative middle-office offering, an area where we are making significant investment. Managing the changes to the OTC derivative model on the back of the US Dodd-Frank Act and the EU's EMIR provisions will be key. Similarly, FATCA requires significant attention for managers and service providers alike and will require additional support with investor classification, withholding and annual reporting requirements.

An ability to fully service managed accounts is now a basic requirement for any hedge fund administrator, enabling our clients to respond to the increasing investor demands for transparency. In such cases, a cost effective operating model is key and an ability to leverage global talent pools represents an increasingly important component of the offering.

Are asset servicing firms becoming more specialised?

Most of the bigger servicing firms are broadening their offering rather than becoming more specialised. As managers are focusing on producing alpha and managing tail risk, they are looking for their administrator to provide a broader offering (the build-out of middle office and collateral management services being a typical example).

Outsourcing from the big providers are more driven by the aim to create efficiencies in the processes, for example, by using offshore locations for processing, vendors for distribution of investor statements and annual reports. To reduce valuation risk and provide truly independent pricing, there is probably also an increased use of external pricing vendors, along with the development of internal pricing capabilities, which only the top-tier providers can accommodate (and at that, only those with a global markets division can claim to be leveraging an existing infrastructure/knowledge base).

How do you cope with very illiquid assets in terms of valuation?

HSBC has significant experience in this area, with a dedicated OTC valuation function, headquartered in Dublin since 2005.

This function works with our expanding complex client base to ensure that the valuation of illiquid assets is undertaken in a manner that meets the increasing needs of regulators, auditors and ultimately investor requirements for valuation transparency and increased independence.

Are administrators developing their own independent pricing models?

Only the top-tier providers have the ability to attract the intellectual property and technology to enable them to put in place pricing models for complex instruments. Even then, only a select few can claim to leverage off of the pricing models in place in their global markets divisions. At HSBC, our dedicated valuation function leverages complex instrument valuation expertise and knowledge from our quantitative risk and valuation group, within our global banking and markets division. This includes independent model review and development of analytic solutions.

Clients require service providers that can assist with the need for increased price transparency and have the ability to calculate independent internal valuations, as opposed to relying solely on external vendors.

Significant investment has been made in our operating model, implementing Calypso (a cross asset class platform) that allows us to handle large volumes of OTC instruments. It allows multiple valuation points intra-day and growing scale without large increases in headcount. Some fund administrators have attempted to address instrument complexity by building spreadsheet solutions rather than addressing the technology gaps. At HSBC, we are moving onto a fully STP technology platform, which improves turnaround time for responses that go back to our NAV accountants and verify complex instrument valuations, both for net asset values and collateral management purposes.

Previously, supplying the mark to market of an instrument would satisfy client and auditor requirements. In exceptional circumstances, additional assumptive data behind that price would be required. Much more data is now the standard requirement.

How much value can a third-party administrator add?

The last couple of years have been very challenging for managers, in terms of market conditions, compliance burden and regulation. A fund or money manager needs to be able to focus on what they are doing best—to generate alpha and value for their investors.

This is where a third party administrator can add value to your business. Firstly, consider counterparty risk. We continue to see increased scrutiny of administrators including more due diligence of their processes, controls and reporting. A strong brand is crucial. It gives investors a level of comfort that the organisation they are dealing with is a reputable organisation with an appropriate risk governance and compliance culture, that ultimately removes a headache for investment managers when it comes to investor due diligence. Brand and reputation remains key for hedge fund managers hoping to raise additional or new capital from investors, especially managers targeting experienced institutional investors.

Secondly, consider an administrator with a full service offering—core administration topped up with a full middle-office solution, so that clients can outsource partial or full back- and middle-office functions. The investment manager maintains the oversight function, but is able to leverage off the strength and scale of what the fund administrator can offer. Many of the top-tier administrators can offer end-to-end services similar to what we provide ourselves.

Thirdly, is the administration solely a product offering or can it be extended to a broader suit? Many managers find it valuable to partner with a provider that can offer access to global markets (for execution, financing and prime), corporate bank account and treasury services, wealth management solutions for the managers' partners, and so on.

Will fund administrators have become 24-hour providers?

It depends on what client base the administrator is targeting. The number of hedge and absolute return funds requiring daily NAVs have increased and the pressure to deliver a flash NAV as early as 7 to 8am, makes it necessary to provide extended hours. Many providers, including us, leverage off offshore centres of excellence to support the NAV process overnight. At HSBC, we also have staff on early and late shifts on the ground in Dublin, in order to deal with the extended time coverage that is demanded by our client base.

Do you think consolidation will improve or reduce competition?

From a service provider's perspective, I think the competition will intensify. The smaller independent players have been able to offer a nimble, often cheaper and more flexible product offering that has been attractive to alternative managers. They have built up a worthy client base over the years that is now appealing to the larger banks. By acquisition, the banks can get a better product, increase their asset base further and the economy of scale will drive down costs.

In summary, the fund service providers can expect to face a more competitive market with broader and better products that are offered at a reduced price. In contrast, for funds captured by AIFMD, it is generally expected that costs will rise to reflect the increased liabilities being sought by regulators. From a fund manager's perspective, they may have fewer service providers to choose from in the future due to new capital requirements.

What's the outlook for the hedge fund administration business?

The increased burden of fund manager compliance represents a challenge for the hedge fund industry, and in some cases an opportunity for the administration business.

The burden is such that it is likely to drive consolidation of hedge fund managers and service providers. Service providers that already have scale in their operations and infrastructure alongside highly developed compliance and risk capabilities will be particularly well placed.

The increasing requirement for service providers to demonstrate very strong capital credentials will also drive the service provider model toward the large global banks.

Generally, the cost of compliance across the value chain is going to raise the barriers to entry for smaller managers, and perhaps drive the market towards fewer, but larger, hedge funds. **AST**

Asia's a-changin'

AST talks to Keith Hale of Multifonds about the latest happenings in Asia

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In Asia, how popular are UCITS funds?

My view is that UCITS funds continue to gain popularity in Asia, but I don't think that they are as ubiquitous as Europeans seem to think, although UCITS have a good structure and a good reputation.

The financial transaction tax is a disaster, and purely politically-inspired. All it will do is put additional basis points on the cost of a structure. A fund administration charge is usually five to 15 basis points, and you're looking at doubling that. If the financial transaction tax happens, it will kill UCITS outside of Europe—in Asia for example.

Looking at distribution statistics, Taiwan is quite an interesting market for UCITS. In the short term, Taiwan as a growing market represents a less risky opportunity. It doesn't have the exponential potential of mainland China, but is already more open and accessible to local investors. In a recent report by Cerulli Associates, Taiwan was found to be the only Asian (excluding Japan) market in which the sale of offshore funds exceeded those of locally-based funds. Around 62 percent of total assets under management were in offshore funds at the end of June 2011 compared with 53.2 percent in 2007. This put it ahead of South Korea, China and India.

In the same report, as of the end of November 2011, Taiwan boasted 1,103 offshore funds with assets under management of NT$ 2.4 billion (US$81.43 million), while onshore funds numbered 550 with assets of NT$1.9 billion. The other main centres for UCITS are Singapore and Hong Kong, but these countries are small in size compared with the likes of Taiwan.

What are technology services like in Asia?

The maturity of technological services differs from country to country in Asia. We follow our clients as they build their fund administration services across the region. Some are global players, such as BNP Paribas and RBC Dexia, which traditionally focused on supporting UCITS distribution in the region, whereas some others are more focused on domestic Asian markets, such as HSBC and Standard Chartered.

Singapore and Hong Kong are the most mature markets, particularly for cross border funds, and therefore are perhaps the most technologically advanced, but quite small relatively. It may sound strange to call China an 'emerging' market, given that it is the second largest economy in the world, but countries like China and India are less technologically mature in areas such as fund administration, and they often rely on a local system that may not have the global coverage or efficiency of more global technology platforms. In these countries, where traditionally the labour cost was much cheaper, automation and efficiency was not as important; hence the lack of maturity of the technology.

What about the regulatory landscape?

There's been a lot of talk of regarding an Asian passport, but whether it sees the light of day is another question.

The recently launched Chinese yuan renminbi-denominated QFII (Qualified Foreign Institutional Investor) had significant interest, but in fact there hasn't been the overwhelming rush into these funds as expected, perhaps due to investor cautiousness of Chinese corporations and the yuan renminbicurrency situation.

The whole world, not just Asia, is becoming stricter about regulation in the wake of the financial crisis. From an Asian perspective, traditionally their concern has been, 'Does the UCITS regulation give appropriate investor protection for the Asian investors?', but I think that globally regulators are over-reacting. These changes may have unexpected knock-on effects. For example, FATCA was not intended to discourage Asian investors from investing into funds with US investment or direct into US corporations, but that is what ultimately could happen. **AST**

Keith Hale
Executive vice president for client and business development
Multifonds

Industry appointments

Societe Generale Securities Services (SGSS) has made two new appointments, both of whom will be reporting to Mathieu Maurier, global head of sales and relationship management at SGSS.

Michael Le Garignon, formerly of J.P. Morgan, will be head of sales, business development and relationship management in the UK.

Le Garignon has spent the past 25 years working within the finance sector, and will be responsible for developing SGSS's overall product and services offering to its UK clients, which are made up of institutional investors, asset managers, insurance companies and alternative investment managers.

Andrew Duffin, will be the new head of sales for emerging markets. Prior to this appointment, Duffin was a senior sales and global relationship management executive for SGSS.

In his new role, Duffin will be responsible for developing the commercial franchise of SGSS in the 13 emerging markets where it is currently present.

Bernie Hughes has joined Mercer Investments as a senior consultant in the annuity settlement Group, as Mercer seeks to expand its capacity to support pension risk transfer assignments.

"Mercer is well positioned as a market leader in pension risk transfer," said Rich Nuzum, the head of Mercer's investment business in the US. "As we expand our capacity to support such assignments, hiring Bernie Hughes is tangible evidence of our commitment to invest in this business."

"Hughes joins Mercer after working for Towers Perrin, and later Towers Watson, for nearly 20 years. He is one of the most experienced specialists in this field."

Automated data management solutions provider Confluence has created three senior vice president positions, as well as a HR leadership role.

Dave Moore, **James Smith** and **Dan Torrens** have been promoted to fill the roles, while **Janis Shaw** has joined Confluence to fill the HR role.

Moore has become senior vice president of professional services. He joined the company in 2007 and previously held financial services technology management positions with Metavante Corporation, Corillian, Visa and Fiserv.

Smith, who has been at Confluence since 2010, is now senior vice president of product development. He previously worked as a senior technology and operations executive with Fiserv and J.P. Morgan.

Torrens has become senior vice president of client services. Before joining Confluence, where he has been since 2001, Torrens held fund accounting and administration positions with BISYS Fund Services (now a part of Citi) and Federated Investors.

Shaw has joined Confluence from Germany-based Draeger Safety, where she was vice president of human resources. In the role of vice president of people, she will oversee human resources globally for Confluence.

The Singapore Exchange's (SGX's) board of directors has renewed the contract of the exchange's CEO, **Magnus Böcker**.

His current contract was due to expire on 30 November, which he signed when he joined SGX in June 2009.

Böcker's new contract extends his stay at SGX until 30 June 2015 and becomes effective 1 July.

SGX chairman Chew Choon Seng said: "Given that the tensions and anxieties that have weakened global financial markets are likely to persist for some time yet, we are appreciative that Böcker has signed on for another term in office. He will provide known leadership for the SGX organisation in the uncertain times ahead."

SGX revealed that Böcker's new deal gives him a fixed base salary of S$1,000,000 per year. **AST**

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