



THOUGHT LEADERSHIP FROM TECHNOLOGY LEADERS

Operational support for hybrid funds: A changing market drives innovation

The alternative marketplace has never been the quiet corner of the investment world. Change and innovation have been its hallmarks since the earliest derivatives were created. Arguably, that's why it exists.

It took a few years for the industry to regain its footing after the meltdown of 2008. Even in today's less freewheeling, more regulated environment, participants need to be agile, stay ahead of the market and adapt to new opportunities as they arise. With heightened regulation, hedge funds have seen returns drop precipitously from their pre-crisis highs. Private equity funds, meanwhile, have seen an infusion of capital from institutional investors who expect exceptional returns but also demand a greater measure of transparency and discipline. Jonathan Eldridge, Senior Director of Product Management at SS&C Advent remarks "we see our clients faced with these challenges, however, it has not stifled their ability to innovate. On the contrary, one could argue that performance pressures call for even more ingenuity and new ideas to satisfy investor demands."

A prime example in recent years is the emergence of hybrid fund structures. These vehicles tend to focus primarily if not exclusively on illiquid investments, such as distressed debt, collateralized loan obligations, bank debt and the like. "We are seeing a growth with strategies entailing longer lockups of investor capital and closed-end structures associated with

private equity funds, but pursue trading and hedging strategies in the style of open-end hedge funds—hence the term hybrid," confirms Scott Price, Maitland's Head of Business Development and Client Management, North America. Willing to forego short-term liquidity for the prospect of higher returns, institutional investors are allocating more of their alternative investment capital to closed-end hybrid funds.

An operational challenge

While hybrid funds hold the potential for substantial returns for patient investors, they can also be an operational challenge for fund managers and administrators. Accounting for hard-to-value assets is extremely challenging. Credit instruments in particular can vary widely in terms of liquidity, custody, valuation, and settlement processes. Investor accounting and P&L allocations are also much more complex than with a straightforward hedge fund structure.

Reporting is a challenge as well. Limited partners want to know more on how their capital is invested and they expect reporting that will give them an accurate and consistent picture. For example, the Institutional Limited Partners' Association

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This piece was written in partnership with Maitland—an independent third-party fund administrator and one of the early adopters of Geneva World Investor.

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(ILPA) has developed best practice principles on governance, transparency and reporting guidelines resulting in a higher level of uniformity.

Along with this trifecta of emerging challenges - more and more capital is flowing into closed-end structures forcing increased pressure to fund managers and administrators to address these challenges in a systematic way. Some have resorted to spreadsheet workarounds to handle closed-end funds outside of their core portfolio management systems. Such stop-gap solutions are a drag on efficiency and invite human error, and won't satisfy limited partners in the long run. As investor due diligence focuses increasingly on operations and controls, fund managers will need to demonstrate that they have the functionality in place to support sophisticated hybrid fund structures, whether in-house or outsourced to their fund administrators.

Shared goals

Propelled by this new and evolving technology challenge, SS&C Advent's Geneva® World Investor leveraged core product tenets to develop an innovative portfolio management and investor accounting platform. With a long-standing reputation in the hedge fund arena, Geneva World Investor has more recently made inroads into the private equity market, particularly among administrators who service both types of funds. As per

Jonathan Eldridge, "when the term 'hybrid' emerged, our product development team was proactive at molding a solution to support this new asset class. Geneva World Investor is a natural fit for fund managers and administrators to account for and report on closed-end funds within the same platform that already supports their traditional hedge fund business."

Meanwhile, Maitland, a global fund advisor and administrator operating in 13 countries with four institutional operational centers globally, also recognized that the traditional fund administration operating model needed to change to keep up with the market. When Maitland saw the new closed-end fund capabilities in Geneva World Investor, it became clear that the two firms shared a common goal. Seeing it as an opportunity to gain an advantage with a new offering to support this new generation of hybrid structures, Maitland teamed up with SS&C Advent to integrate Geneva World Investor with Maitland's proprietary CRM platform—Avatar Fund Manager or AvatarFM.

Maitland envisioned an all-encompassing system with the flexibility to handle portfolios holding a combination of closed-end and open-end fund structures. Maitland also happened to be an SS&C Advent client, having used Geneva for its hedge fund business since entering the US market through an acquisition in 2012.

It all comes together

It simply made sense to collaborate and avoid the need for a third system to accomplish the shared goal.

SS&C Advent's work came to fruition in 2016, with the unveiling of the latest version of Geneva World Investor, the built-in investor accounting and servicing component of Geneva. The product continues to focus on the closed-end space and includes a range of functionality to automate and streamline associated processes including capital call notices, notional balance tracking, subsequent close processing, waterfall calculations, opt-in/opt-out capabilities, XIRR calculation by investor and investment, and exposure reporting for investors. With support for standard Institutional Limited Partners Association (ILPA) templates, Geneva World Investor helps managers and fund administrators follow ILPA guidelines.

This enabled Maitland to integrate Geneva World Investor with the AvatarFM system's data warehousing, client reporting and CRM capabilities, creating an end-to-end solution for the administration of hybrid structures on a single integrated platform.

"The result of this collaboration is a seamless front-, middle- and back-office platform. The front-office module (powered by AvatarFM) encompasses partner contact management, fundraising and investor relations. It includes a web

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portal for limited partners and an interactive module for the general partner,” explains Lenin Perumalsamy, Maitland’s Senior Manager, Product Solutions. The middle- and back-end (powered by Geneva World Investor) covers portfolio management, transaction accounting, allocations, waterfall and carried interest calculations, reporting at the limited partner, fund and portfolio levels, and performance measurement.

This is an example of the coordinated response between technology and service providers that’s needed in a market in which change is constant. This collaborative effort leverages existing, proven technology to build an entirely new solution to support an emerging and still evolving product. The solutions built today also need to be “future-proof.” The industry needs to be prepared not only for what’s new, but also for what’s next.

About SS&C Advent

Advent, a business unit of SS&C, is helping over 4,300 investment firms in more than 50 countries—from established global institutions to small start-up practices—to grow their business and thrive. Delivering unparalleled precision and ahead-of-the-curve solutions for more than 30 years, we help our clients minimize risk, work together seamlessly, and shape the future of investment management. For more information visit www.advent.com.

About Maitland

Maitland is one of the fastest growing independent third-party fund administrators. Through our award-winning global fund administration platform we provide our clients with the best-of-breed in technology alongside a truly client centric team, a formula that is at the roots of our firm’s growth to over \$280 billion of assets under administration. www.maitlandgroup.com

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