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# TECHNOLOGY AND HEDGE FUNDS

## TECHNOLOGY SERVICING AND SHAPING ASSET MANAGEMENT

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# Sharper Technology Offers Nordic Hedge Funds a Valuable Edge in the Battle for Allocations

By Max Eklund – SS&C Advent

Using modelling to accomplish your goals is a well-established practice in human behavioural psychology. Pick someone who has attained the success you want, study how they do it, then create a similar plan of action. And the technique can be just as effective for organisations.

In the Nordic region, as elsewhere, the hedge fund marketplace has become crowded and highly competitive. Fees and margins are under pressure. Outperformance in a central bank dominated environment has been hard to achieve. Regulations have tightened. And institutional investors—the primary source of capital inflows—come with stringent service expectations.

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So what can Nordic hedge fund firms do to attract and retain investor allocations, strengthen their profitability and grow? Emulating successful funds is a good starting point. Talent, teamwork and a solid investment strategy are obviously crucial. But just as important is innovative, efficient technology.

## WHY IT MATTERS

Keeping up with the global industry leaders has become especially vital given Nordic hedge funds are increasingly competing against them.

The Nordic region is highly attractive to international institutional investors. The markets are resilient, provide wide risk diversification, and boast a wealth of tech leaders and growth companies offering investment opportunities and return potential.

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But institutional investors have demanding risk, compliance, business continuity, transparency and reporting expectations, forcing hedge funds from jurisdictions around the world to upgrade their operating set-ups in response. If Nordic funds are to attract that institutional money, they will need similar infrastructures and controls.

## STREAMLINED INVESTMENT MANAGEMENT

Sophisticated front-office solutions—a key ingredient in achieving market-beating performance—are an obvious starting point.

Relying on spreadsheets or simple front-office technology tools to monitor positions no longer cuts it in today's complex, fast-paced trading environment. But with a dedicated trade order management platform, hedge funds can streamline trade creation, get real-time views of their trading data and cash positions, and make and execute better trading decisions that adhere to evolving compliance restrictions.

An order management system with true multi-asset class capabilities also enables funds to diversify into different markets and investment strategies. That provides vital flexibility in the hunt for market-beating risk-adjusted returns, and adds a valuable element of future proofing.

## OPERATING DIFFERENTIATORS

But firms shouldn't stop there.

Traditionally, Nordic hedge funds have entrusted their back offices and maintenance of their book of record to a local third-party fund administrator. Yet many funds lack automated connectivity and data flow between the front and back office, and rely on manual processes to feed information to the administrator.

That may have served in the past. It won't going forward. With international competition and market complexity on the rise, industry participants need to adapt their operating models and take advantage of the modern suite of middle- and back-office tools if they are to differentiate their services, attract institutional clients and achieve a competitive edge.

## EXPLOITING OPPORTUNITIES AND MITIGATING RISKS

Relying solely on an external administrator to deliver the NAV and daily positions brings multiple weaknesses and risks.

Timeliness is one. Administrators are principally interested in producing a valuation, whereas managers can use the datasets to conduct performance and risk analysis and reporting. Having to wait for the administrator to do their work means the fund may lack accurate real-time exposure and P&L information it needs to trade, monitor and manage its investment risks, and report to investors as quickly and directly as it would like.

Accuracy and independence concerns are another. Maintaining your own book of record provides a failsafe. Without the ability to replicate an administrator's figures, hedge funds can't catch any errors that may occur—such as sending an investor too much money on a redemption (as happens, at sometimes debilitating cost). An internal record offers valuable independence in case the administrator suffers any drop or loss of service, and makes it easier to shop around for alternative providers. And since the fund administrator's back-office system may only be built to support simple strategies, having a robust internal infrastructure able to handle complexity gives funds greater investment flexibility.

An integrated front-to-back infrastructure mitigates operational risk as well—whether it's the computational risk of a spreadsheet, or the business continuity risk of relying on a third party. International institutional investors' operational due diligence processes have become a cornerstone of their allocation decisions. Fund firms have to be on point with all their controls and everything they send to clients. Implementing the right support infrastructure, including robust governance and comprehensive reporting capabilities, will make the business more investable and can be a big selling point when attracting capital flows.

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Mirroring the administrator's book of records also opens up opportunities for fund firms to offer, for example, separately managed accounts to institutional clients. With this ability, firms can appeal to a wider range of investors through a variety of routes, further boosting their reach and growth potential.

## HIGH VALUE AT MARGINAL COST

Adding an extra layer of infrastructure and checks may seem like an unnecessary expense to cost conscious hedge funds. But thanks to the new generation of cloud delivered services, the technology is now within reach for even smaller firms. The software itself has become less expensive, and through hosted solutions it is far cheaper to deploy and maintain. Implementation and software update timeframes are much shorter, and firms no longer need costly in-house IT teams to manage the technology.

Commingling the technology with targeted outsourced support services can further ease the operational burden. Using an expert outsourcer to take on key workflows allows hedge funds to benefit from high quality outputs without needing to add in-house operating staff, while freeing the firm to focus on those activities that matter most to its business. And when they want to grow, they will have a technology and support environment that can scale with them to meet their future needs.

An efficient front-to-back operating infrastructure may once have been seen as a needless luxury. Today, it has become an essential value add that will enhance Nordic hedge funds' competitiveness and provide a flexible platform for growth.