

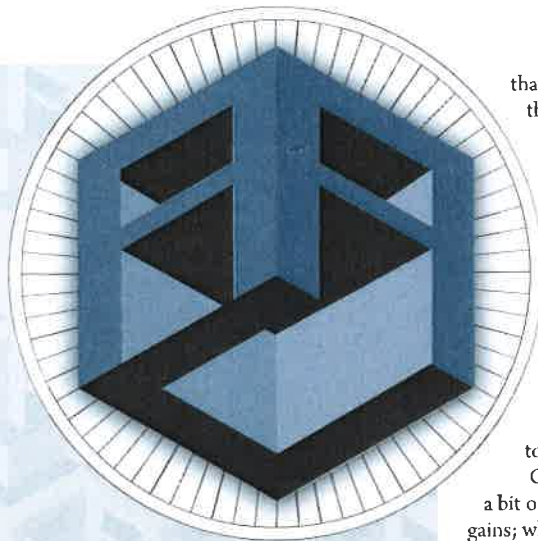
HFMWEEK

16th

BIANNUAL

ASSETS
UNDER
ADMINISTRATION
SURVEY

PART TWO
FUNDS OF HEDGE FUNDS



The health, or otherwise, of the fund of hedge funds sector has been the source of much recent debate, as FoHFs have sought to recover from the financial crisis. But as the second part of *HFMWeek's* AuA survey shows, a consolidated FoHF space has proved to be adaptable and resilient, and still fulfils an important role for investors seeking diversification

BY TONY GRIFFITHS

Despite a diminishing group of naysayers, the fund of hedge funds (FoHF) sector has found it difficult to shake free from the shackles of negative publicity. However, there have been shards of light of late, with improving returns and fresh inflows (especially to the larger players), helping to counteract stories of a rapidly emerging preference for direct investing, and performance lag. Now, the results of *HFMWeek's* latest Assets under Administration (AuA) Survey can add to the feeling of progress. According to the survey, assets at FoHF managers have grown 4% in the six months ending 31 April 2011, up to \$1.11trn from \$1.065trn. It is a more modest advancement than the 15% jump experienced by single managers, but one that, in some ways, is of greater significance.

Whereas single manager hedge funds have been seeking to return to previous highs, FoHFs have been battling to prove their relevance to an investor set growing in confidence. To put it in perspective, the 4% rise is not only the largest since a 10% gain in October 2007, and the first time since the same point that the sector has seen consecutive halves of growth, but the largest biannual net dollar gain (\$45bn) since the survey began in October 2005.

"The results of the survey demonstrates that there's still a significant place for the FoHF model in the current market, and, I believe, the key comes down to diversification," says Toni Pinkerton, global head of fund services at Maples Fund Services, "particularly for some institutional investors

that may not have the infrastructure in place to manage the trading and operations around a diverse book of strategies to which they want exposure."

She adds: "The demands from institutional investors and regulators are driving the need for infrastructure. Many managers don't have it and they don't want to redirect their resources to build it, so they're looking to fund administrators with global operations and robust technology, for outsourcing solutions."

Maples' six-month growth of 11% is one of the stronger examples on the list. A few administrators have recorded triple-digit growth – topped by Apex's 341% surge – but all are among the sector's smaller players.

Growth among the list's ten largest administrators is a bit of a mixed bag. Only four of the top ten experienced gains; while four saw a drop (two – Credit Suisse and Euro-VL – did not report). As a result, the group's net gain was only \$5.79bn. That said, the top three all made progress: Citco Fund Services is up \$5bn to a total of \$130bn; Bank of New York (BNY) Mellon is up \$3.7bn to \$98bn; and UBS, gaining a chart-topping \$9.36bn – up to \$96.46bn, displaces Credit Suisse (formerly Prime Fund Solutions) as the sector's third-largest FoHF administrator.

"While the firm has seen strong growth across the full product suite over the last year, the biggest growth area for BNY Mellon Alternative Investment Services (AIS) has been the FoHF sector, where AIS has been particularly successful, winning a number of significant mandates as well as enjoying the benefits of growth from our existing client base," says Marina Lewin, BNY Mellon's global head of sales.

To find the survey's biggest movers, dollar growth is perhaps the best place to start. Here, the top three are UBS, HedgeServ and Northern Trust; whose FoHF AuA totals have grown by \$9.36bn, \$8.9bn and \$8.4bn respectively. Between them, these three account for about 60% of the list's \$45bn net gain.

"The figures demonstrate there is still a strong market for the FoHF model, however it is a competitive business," says Ian Headon, senior vice-president for hedge fund and FoHF product development at Northern Trust. "The FoHFs that survive will be those that can attract and retain institutional money – and from what we can see, the primary concern expressed by those investors is around transparency; of process, data, controls and governance."

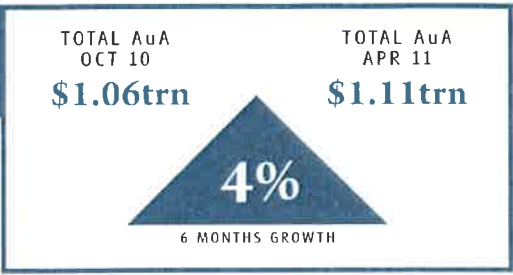
Investor appetite for increased transparency is a trend with a long history. Along with Headon, survey participants were adamant that it remains a defining factor. "FoHFs continue to invest in any capability that generates a significant benefit in transparency, reporting and straight-through-processing," Lewin agrees.

"Transparency seems to be the 'hot' word now, adds Brian Desmond, COO of Bermuda and US-based administrator ISIS Fund Services. "Clients and investors are both

KEY THEME
FUNDS OF ONE

Appetites for diversification, transparency and segregation have combined to prompt growth in single investor FoHFs, or 'funds of one', as Maples' Toni Pinkerton calls them. "With managed accounts, there's an operational infrastructure that needs to be built around them to digest the details. With a fund of one you're getting institutional standard reporting flowing straight to the investor. She explains: "It's being driven by the pension funds that have the assets and want exposure in the alternative space, but don't want the risks associated with being tied to the liquidity needs of all the investors that are sitting in that fund with them."

6 MONTHS
FoHF GROWTH FROM OCT 10 - APR 11



		AUA (\$Bn) APR 11	AUA (\$Bn) OCT 10	GROWTH (%) OCT 10 - APR 11
1	CITIC FUND SERVICES	130.00	125.00	4%
2	BANK OF NEW YORK MELLON ¹	98.00	94.30	4%
3	UBS FUND SERVICES **	96.46	87.10	11%
4	CREDIT SUISSE ¹	92.24	92.24	0%
5	SEI	73.00	78.00	-6%
6	STATE STREET ALT INV SOLUTIONS GROUP **	60.70	57.00	6%
7	CITI HEDGE FUND SERVICES	56.62	60.90	-8%
8	EURO-VL ISGSSI *	51.76	51.76	0%
9	HSBC SECURITIES SERVICES ¹	46.81	48.90	-4%
10	BNP PARIBAS SECURITIES SERVICES	44.20	45.20	-5%
11	SS&C FUND SERVICES	36.00	34.00	6%
12	JPMORGAN HEDGE FUND SERVICES	35.70	34.00	5%
13	BUTTERFIELD FULCRUM GROUP *	35.00	35.00	0%
14	NORTHERN TRUST	27.20	18.50	45%
15	DEUTSCHE BANK ALTERNATIVE FUND SERVICES ⁴	27.00	21.72	24%
16	HEDGESEVY	26.00	17.10	52%
17	BANQUE PRIVÉE E. DE ROTHSCHILD	24.55	23.38	5%
18	CACEIS INVESTOR SERVICES **	22.81	16.63	37%
19	UMB FUND SERVICES	17.06	15.06	13%
20	VASTARDIS FUND SERVICES	16.95	15.16	12%
21	SWISS FINANCIAL SERVICES GROUP **	10.09	9.96	1%
22	ADMIRAL ADMINISTRATION LTD	8.90	7.60	17%
23	EUROPEAN FUND ADMINISTRATION	8.75	8.75	0%
24	RBC DEXIA FUND SERVICES	8.28	8.91	-7%
25	MAITLAND FUND SERVICES	4.93	4.00	23%
26	APEX	4.84	1.10	341%
27	RBC OFFSHORE FUND MANAGERS LIMITED **	4.45	4.36	2%
28	MAPLES FINANCE	3.73	3.36	11%
29	KAUFMAN ROSSIN FUND SERVICES	3.10	3.10	0%
30	CUSTOM HOUSE GLOBAL FUND SERVICES *	2.79	5.61	-50%
31	BANK OF IRELAND SECURITIES SERVICES	2.00	2.10	-5%
32	ALPHAMETRIX360 ¹	2.00	2.00	0%
33	DAWA SECURITIES GLOBAL ASSET SERVICES **	1.90	2.15	-12%
34	INVESTMENT DATA SERVICES GROUP (IDS)	1.73	1.63	6%
35	OMNIUM ¹	1.69	1.60	5%
36	ISIS FUND SERVICES	1.60	0.40	300%
37	ALPS FUND SERVICES	1.50	1.88	-20%
38	CIRCLE PARTNERS	1.35	1.20	13%
39	MERIDIAN	1.31	1.31	0%
40	WOODFIELD FUND ADMINISTRATION	1.22	1.04	18%
41	FOLIO ADMINISTRATORS *	1.13	1.13	0%
42	LACROSSE GLOBAL FUND SERVICES	1.10	NEWCOMER	N/A
43	CLOSE FUND SERVICES ¹	1.01	1.01	0%
44	EQUINOX ALTERNATIVE INVESTMENT SERVICES	1.00	1.20	-17%
45	ATC FUND SERVICES	0.90	1.15	-22%
46	COLUMBUS AVENUE CONSULTING	0.90	0.90	0%
47	PANOPTIC FUND ADMINISTRATION	0.84	0.71	18%
48	U.S. BANCORP FUND SERVICES	0.62	0.45	37%
49	PRAXIS *	0.51	0.51	0%
50	CONIFER SECURITIES	0.50	0.20	149%
51	PINNACLE FUND ADMINISTRATION *	0.50	0.50	0%
52	TRIDENT FUND SERVICES	0.40	1.00	-60%
53	IFCE FUND SERVICES	0.33	0.25	34%
54	G&S	0.31	0.20	55%
55	LEGIS FUND SERVICES	0.30	0.22	35%
56	CIBC	0.30	0.80	-63%
57	CAYMAN NATIONAL	0.25	0.40	-38%
58	TRINITY FUND ADMINISTRATORS	0.25	0.20	25%
59	VALLETTA FUND SERVICES	0.22	0.42	-48%
60	HARMONIC FUND SERVICES	0.20	0.20	0%
61	PSG ACTIVE FUND SERVICES LIMITED *	0.16	0.16	0%
62	CALEDONIAN FUND SERVICES	0.11	0.14	-17%
63	ATU FUND ADMINISTRATION (IBV) LTD *	0.08	0.08	0%
64	NOTTINGHAM INVESTMENT ADMINISTRATION	0.06	0.06	0%
65	VITEOS CAPITAL MARKET SERVICES LIMITED	0.06	0.10	-40%
66	PORTAL FUND ADMINISTRATION *	0.04	0.03	17%
67	IFINA	0.00	0.25	-98%
68	VARIMAN LLC ²	0.00	0.10	-100%

The big, it seems, are not getting bigger when it comes to FoHF administrators – combined AuA for the top ten stands at 68%, down from almost 70% six months ago.

“There continues to be consolidation as well,” Lewin adds. “We do see the assets continuing to go up from their lows, but also the average fund size going down. For me that might be driven by the fact that there appears to be a higher percentage of customised or single investor portfolios in the FoHF space because of the investor demand for customisation and transparency.”

Lewin isn't the only one to see growth in single investor FoHFs. “We are seeing a demand for ‘funds of one,’” says Pinkerton. “It basically offers the same benefits as a managed account, but with less of the complexity for investors – a single fund set up for a single investor.”

Initiatives in the FoHF space have been forthcoming, of course. Funds of Ucits hedge funds and funds of managed accounts have become increasingly popular as investors look to marry their diversification needs with the new breed of product.

Mike Hughes, managing director, head, Deutsche Bank Alternative Fund Services – Emea and Asia, expects these hybrid fund structures to continue to drive growth. “Look out for customised FoHF managed accounts which give investors more transparency and control as well as omnibus structures that allow asset managers to rebalance positions between accounts,” he says. “While asset-raising for small managers continues to be a challenge, there seems to be a trend of successful niche managers that demonstrate expertise in small market segments which may be able to offer non-correlated alpha to FoHFs and other multi-manager funds/platforms.”

At ISIS Fund Services, Kristin Steele, head of marketing and business development, has seen the benefits for administrators

looking to the prime brokers and fund administrators to provide them with greater transparency, and have been for a while. In our experience, they're most concerned with receiving portfolio transparency, corporate governance for their offshore entities, and evidence of solid internal controls and procedures of their service providers (i.e. SAS 70). Therefore administrators are being relied on more heavily than ever before to ‘beef up’ their internal controls and also report greater detail to investors.”

Growth at the top ten FoHF administrators only accounts for 13% of the list's total dollar increase, compared to 77% for the top ten single manager administrators

1

YTD

FoHF GROWTH FROM APR 10 - APR 11

TOTAL AuA
APR 10
\$1.04trnTOTAL AuA
APR 11
\$1.11trn6%
1 YEAR GROWTHKEY THEME
IMPACT OF REGULATION

Deutsche Bank's Mike Hughes believes the impact of regulation has been one of the most significant trends of the last six months. "As alternatives managers speculate on the implications of various regulatory changes, such as Dodd-Frank, the amended '40 Act Custody Rule 206 and Fatca, a great deal of effort will be expended to ensure that administrators' systems are prepared to cope with new reporting requirements and services that will help clients in their new compliance obligations." Questions surrounding infrastructure will drive business to globally focused administrators, while the challenge of meeting the reporting and transparency needs of FoHF investors in particular is one that most administrators are still grappling with.

from such a trend. "Large FoHF managers are looking to increase their exposure to smaller managers and we are seeing some potential for extra services for the FoHF administrator around gaining comfort on the smaller manager's Nav procedures," she says.

Growth over the last six months may have put the FoHF industry on surer footing, but no one is getting carried away. "Like many alternative asset managers, some FoHF managers struggled during the financial crisis, while others thrived and are now stronger as a result," says Northern Trust's Headon. "The good news is that institutional investors are, in the main, retaining or increasing their hedge fund exposures. The question then becomes how to access hedge funds."

Although a few doubts about the sector's future still linger, the feeling that FoHFs have turned a corner is equally appealing. If nothing else, Pinkerton expects the modest improvement to continue: "I would say the next six months will see consistent growth," she says. "I think it's going to continue to lag behind single manager growth, but, while there are indeed reasons why some people have shied away, there is still very much a place for this type of investor." ■

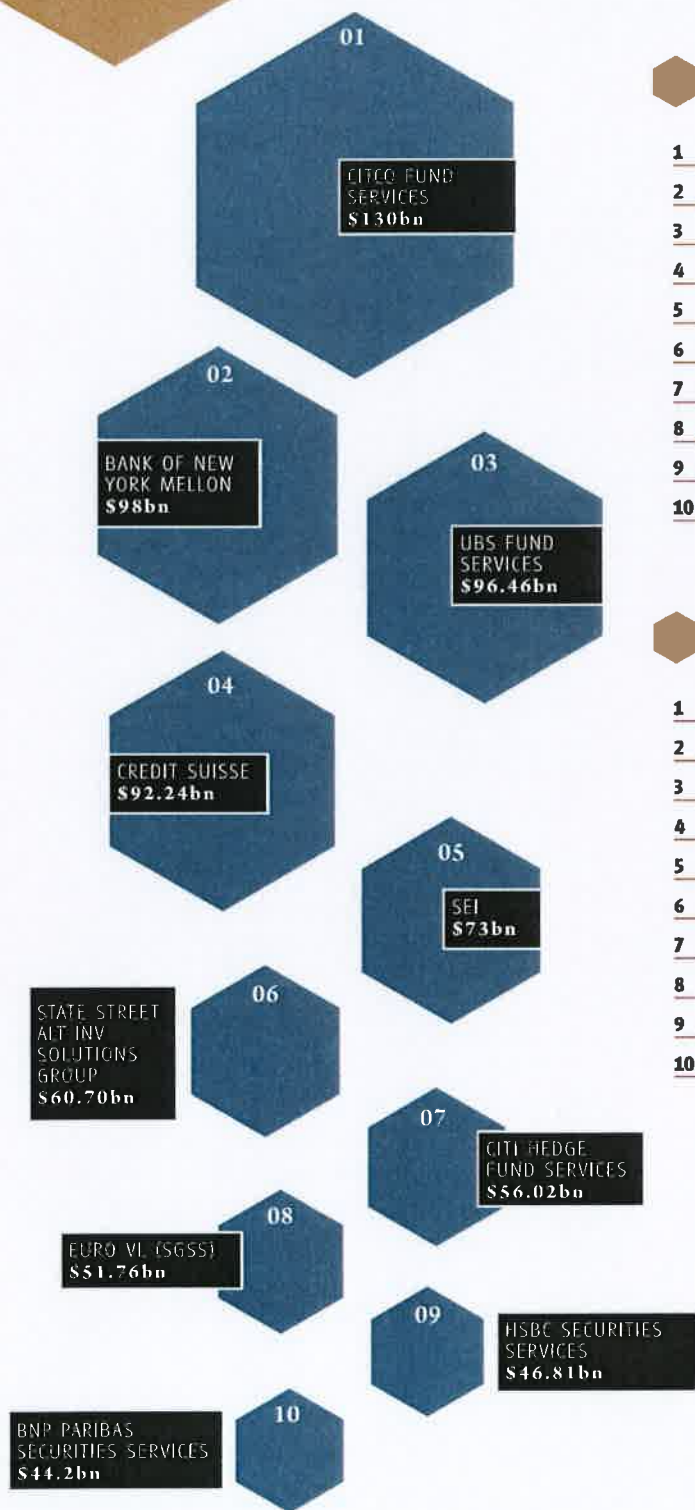
APR 11 RANK	APR 10 RANK	NAME	AUA (\$BN) APR 11	AUA (\$BN) APR 10	GROWTH (%) APR 10 - APR 11
1	1	CITCO FUND SERVICES	130.00	110.00	18%
2	5	BANK OF NEW YORK MELLON ¹	98.00	42.80	129%
3	3	UBS FUND SERVICES **	96.46	89.39	8%
4	2	CREDIT SUISSE ²	92.24	101.75	-9%
5	4	SEI	73.00	85.00	-14%
6	6	STATE STREET ALT INV SOLUTIONS GROUP **	60.70	54.00	12%
7	5	CFI HEDGE FUND SERVICES	56.02	61.13	-8%
8	7	EURO-VL (SGSS) ³	51.76	51.76	0%
9	8	HSBC SECURITIES SERVICES ⁴	46.81	49.80	-6%
10	10	BNP PARIBAS SECURITIES SERVICES	44.20	42.00	5%
11	14	SS&C FUND SERVICES	36.00	30.00	20%
12	13	IPMORGAN HEDGE FUND SERVICES	35.70	34.00	5%
13	12	BUTTERFIELD FULCRUM GROUP ⁵	35.00	35.00	0%
14	18	NORTHERN TRUST	27.20	18.60	46%
15	16	DEUTSCHE BANK ALTERNATIVE FUND SERVICES ⁶	27.00	18.40	47%
16	22	HEDGESERV	26.00	11.00	136%
17	17	BANQUE PRIVÉE E. DE ROTHSCHILD	24.55	22.09	11%
18	15	CACEIS INVESTOR SERVICES **	22.81	25.05	-9%
19	21	UMB FUND SERVICES	17.06	14.19	20%
20	11	VANSTADIS FUND SERVICES	16.95	14.30	18%
21	21	SWISS FINANCIAL SERVICES GROUP **	10.09	11.59	-13%
22	26	ADMIRAL ADMINISTRATION LTD	8.90	7.00	27%
23	24	EUROPEAN FUND ADMINISTRATION	8.75	8.41	4%
24	25	RBC DEXIA FUND SERVICES	8.28	8.02	3%
25	29	MAITLAND FUND SERVICES	4.93	3.00	64%
26	44	APEX	4.84	0.92	426%
27	27	RBC OFFSHORE FUND MANAGERS LIMITED **	4.45	4.05	10%
28	28	MAPLES FINANCE	3.73	3.68	1%
29	30	KAUFMAN ROSSIN FUND SERVICES	3.10	2.70	15%
30	23	CUSTOM HOUSE GLOBAL FUND SERVICES ⁷	2.79	9.00	-69%
31	32	BANK OF IRELAND SECURITIES SERVICES	2.00	2.30	-13%
32	35	ALPHAMATRIX360 ⁸	2.00	2.00	0%
33	35	DAVIA SECURITIES GLOBAL ASSET SERVICES	1.90	1.63	17%
34	36	INVESTMENT DATA SERVICES GROUP (IDS)	1.73	1.47	18%
35	55	OMNIA ⁹	1.49	0.39	333%
36	57	ISIS FUND SERVICES	1.60	0.38	321%
37	34	ALPS FUND SERVICES	1.50	1.68	-20%
38	37	CIRCLE PARTNERS	1.35	1.25	8%
39	38	MERIDIAN	1.31	1.16	13%
40	52	WOODFIELD FUND ADMINISTRATION	1.22	0.47	160%
41	41	FOLIO ADMINISTRATORS ¹⁰	1.13	1.13	0%
42	--	LACROSSE GLOBAL FUND SERVICES	1.10	NEWCOMER	N/A
43	31	CLOSE FUND SERVICES ¹¹	1.01	2.35	-57%
44	42	EQUINOX ALTERNATIVE INVESTMENT SERVICES	1.00	1.10	-9%
45	40	ATC FUND SERVICES	0.90	1.15	-22%
46	47	COLUMBUS AVENUE CONSULTING	0.90	0.60	33%
47	53	PANOPTIC FUND ADMINISTRATION	0.84	0.43	95%
48	51	U.S. BANCORP FUND SERVICES	0.62	0.49	27%
49	49	PRAXIS ¹²	0.51	0.51	0%
50	63	CONIFER SECURITIES	0.50	0.18	178%
51	56	PINNACLE FUND ADMINISTRATION ¹³	0.50	0.39	28%
52	39	TRIDENT FUND SERVICES	0.40	1.15	-65%
53	59	IFCE FUND SERVICES	0.33	0.31	6%
54	58	G&S	0.31	0.37	-16%
55	--	LEGIS FUND SERVICES	0.30	NEWCOMER	N/A
56	46	CIBC	0.30	0.80	-63%
57	54	CAYMAN NATIONAL	0.25	0.40	-38%
58	64	TRINITY FUND ADMINISTRATORS	0.25	0.20	25%
59	67	VALLETTA FUND SERVICES	0.22	0.19	14%
60	60	HARMONIC FUND SERVICES	0.20	0.20	0%
61	--	PSG ACTIVE FUND SERVICES LIMITED ¹⁴	0.16	NEWCOMER	N/A
62	43	CALEDONIAN FUND SERVICES	0.11	0.94	-85%
63	62	ATU FUND ADMINISTRATION (BVI) LTD ¹⁵	0.08	0.08	0%
64	70	NOTTINGHAM INVESTMENT ADMINISTRATION	0.06	0.05	10%
65	65	VITEOS CAPITAL MARKET SERVICES LIMITED	0.06	0.10	-40%
66	71	PORTAL FUND ADMINISTRATION ¹⁶	0.04	0.03	17%
67	--	IFINA	0.00	NEWCOMER	N/A
68	64	VARIMAN LLC ¹⁷	0.00	0.10	-100%

FOOTNOTES

- ¹ No new figures available
- ² Data as at 31 March 2011
- ³ Data as at 31 March 2011
- ⁴ Formerly Prime Fund Solutions; No new data available due to consolidation
- ⁵ Data as at 31 December 2010
- ⁶ Data for Oct 10 and Apr 10 have been updated
- ⁷ Formerly aspects of Global Fund Admin
- ⁸ Data as at 28 Feb 2011
- ⁹ Business in process of being sold
- ¹⁰ Hedge fund administrator



LARGEST ADMINISTRATORS BY AUA (\$BN)



TEN LARGEST ADMINISTRATORS BY % GROWTH

1	UBS FUND SERVICES	11%
2	STATE STREET ALTERNATIVE INVESTMENT SOLUTIONS GROUP	6%
3	CITCO FUND SERVICES	4%
4	BANK OF NEW YORK MELLON	4%
5	CREDIT SUISSE	0%
6	EURO VL (SGSS)	0%
7	HSBC SECURITIES SERVICES	4%
8	SEI	6%
9	CITI HEDGE FUND SERVICES	8%
10	BNP PARIBAS SECURITIES SERVICES	8%

OVERALL ADMINISTRATORS BY % GROWTH

1	APEX	341%
2	ISIS FUND SERVICES	300%
3	CONIFER SECURITIES	149%
4	G&S	55%
5	HEDGESERV	52%
6	NORTHERN TRUST	45%
7	US BANCORP FUND SERVICES	37%
8	CACEIS INVESTOR SERVICES	37%
9	LEGIS FUND SERVICES	35%
10	IFCE FUND SERVICES	34%

RATIONALE

HFMWeek's AuA figures are carefully compiled using data supplied by individual administration companies. Each reporting body is expected to strip out leverage, private equity and property numbers to give an accurate picture of the current size of the hedge fund universe. Figures are rounded to two decimal places, whereas percentage growth expresses the full six month figure.