



## Elise Coroneos finds that technology providers are tweaking existing products to make them more useful to hedge funds

Tailoring technology for hedge funds and their service providers is fast becoming big business. Until recently, hedge funds typically had to develop their own back-office systems in order to meet the breadth and depth of their functionality requirements. Nowadays, however, more and more technology providers are catering to hedge funds with customized technology.

SunGard Investment Management Solutions, which has historically focused

on portfolio management, has tailored its flagship product for hedge funds. The firm's INVEST ONE®, an investment accounting solution that originated in the mid-1980s, now has a hedge fund module that can process and value underlying hedge fund instruments such as stocks, bonds, futures and swaps. It processes some \$9 trillion in assets globally every year.

However, INVEST ONE® does not address investor needs such as keeping track of each investor's contact and

investment details, the effect of profit and loss on individual accounts, reporting and fees. To plug this product hole, SunGard acquired the InvesTier™ business in the latter part of 2002. "InvesTier gives us the capability of offering a full suite of products that really address a range of the back-office processing demands of the hedge industry," says Carol Kaufman, president of InvesTier™.

Among its functions, InvesTier™ enables a hedge fund to export or customize information for its investors via

the use of more than 200 standard reports encompassing such areas as balance sheets, income statements, capital spread reports and investor statements.

For funds of funds, InvesTier™ keeps a check on liquidity, subscriptions and redemptions. In addition, it allows a fund of funds to track its investments and value them in three ways: as a value of the fund-of-funds investment, as a price per share or as a rate of return.

Funds of funds need to use INVEST ONE® only if they have multicurrency share classes. "In such a case, a fund of funds would need to hedge the multicurrency component, which means they would go into the marketplace and buy forward contracts," says Kaufman.

As an illustration of its attention to the needs of the hedge fund industry, SunGard has developed InvestHedge, a module of INVEST ONE® specifically for the hedging of foreign exchange.

### Integration vs interface

Some of SunGard's 600 hedge fund clients use both INVEST ONE® and InvesTier™; however, the firm has not sold the two as a single hedge fund solution – until now. The firm is set to release its HedgePower™ interface, which seamlessly integrates both INVEST ONE® and InvesTier™ as an automated back office solution, in the fourth quarter of this year.

Kaufman says that HedgePower™ is not an interface for the directional flow of data one way, but an integrated solution. This means that the information captured by INVEST ONE® will flow to InvesTier™ and vice-versa.

Hedge funds will benefit from not having to enter the same information twice, in different systems. For example, a manager who wants to add \$1 million to a fund need only log this information into the investor solution, InvesTier™, from where it will flow to the firm's INVEST ONE® trading account.

On the other hand, when a manager buys and sells instruments using its INVEST ONE® trading account, the profits or losses associated with those trades will flow back to InvesTier™ where the effect on each investor's account can be gauged. "So they work hand in hand to create a complete back office for a hedge fund manager," says Kaufman.

In addition, the tax ramifications of the various trades automatically flow through

to InvesTier™, which can then generate a K1 in the case of US hedge funds.

SunGard is also working on a shareholder registry product for the alternatives industry that will allow communication within a hedge fund regarding the progress of a single investor's application. This includes watching the application go into escrow, keeping track of the interest earned in escrow and then seeing it flow through to the fund itself.

The new application is in the specification stage, according to Doug Morgan, president of SunGard Investment Management Solutions. "We've evolved and are developing new product capabilities as opportunities to deliver efficiency and value to investment management companies have changed over time, especially in the case of hedge funds," says Morgan.

### New additions

Advent Software is another company that has taken technology originally developed for traditional asset managers, and tweaked it to cater to the growing hedge fund sector. The new version of the firm's trade order management system, Moxy, has been optimized to meet the unique needs of hedge fund traders. Its release was imminent at the time of this writing.

Moxy, which has been on the market since 1995, is designed to bridge the front and middle office. Of the 685 active client firms that use the product, only 40 are hedge funds – a number Advent is hoping will increase with its latest release.

"Historically, the product has lacked the pieces of functionality that are most interesting to hedge fund traders and managers," says Mike Gamson, Advent's trade order management and compliance marketing manager. "So over the last 10 months, we went on location with hedge fund clients and prospective clients and then overhauled the product to make enhancements based on their specific requirements."

These requirements include the ability to look at the real-time P&L and to trade in almost every type of security, whether it is the complicated derivatives or traditional equities, fixed income or foreign securities.

After spending time with hedge fund traders, Advent's Moxy development team also identified traders' need to be able to execute almost all the functions of the product using one

hand. "We saw that hedge fund traders live with their phone up against their ear, so we developed the new version of Moxy with that in mind," says Gamson, who noted that while traditional traders also spent a lot of time on the phone, this increased in the hedge fund industry because of the sheer volume of trades.

Moxy is also able to send information to a hedge fund's back-office system by way of two Advent products. One is Axys, a portfolio management system introduced in 1993 that currently counts over 400 hedge funds among its clients. Axys is largely used by smaller hedge funds or those with fairly simple strategies.

Advent's other back-office solution is Geneva, a high-end portfolio accounting system launched in 1997 to cater to hedge funds with very sophisticated strategies. According to Advent, Geneva is currently used by 22 of the largest hedge fund firms including HBK, DE Shaw and Moore Capital; 60% of the leading prime brokers, including Goldman Sachs, Merrill Lynch and CSFB; and 60% of the top 10 global fund administrators, including Fortis, Rothstein Kass and Bank of Bermuda.

To complement Moxy's trade order management and the back-office capabilities of Axys and Geneva, Advent also offers a partnership accounting and client reporting tool named Advent Partner.

While Geneva takes a hedge fund's complex transactions and compiles them into a ledger of macro net asset changes, Advent Partner allows a hedge fund to provide a statement to a single investor regarding his allocation to that fund from an economic and tax perspective.

"At the fund level, there is a certain level of accounting that needs to occur," says Kyle Stadt, the product manager for Advent Partner. "Hedge funds have to perform another level of accounting so investor statements and performance figures reflect the fund's activity."

Advent Partner allows hedge funds to provide a more robust level of customer service, so they can turn around investor reports in a timely manner, which prior to having the system was difficult to do, says Stadt. "As a firm we are seeing an increased need to service fairly aggressive asset managers and frequently those asset managers are hedge funds dealing with sophisticated strategies," he says. □