

Survey reveals top five headaches for hedge fund CFOs

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The five most vexing aspects of the investment climate for fund chief financial officers are regulations, transparency, complexity, investor timidity, and efficiency, according to a survey by TKS Solutions.

TKS says a complex regulatory framework has long been a facet of fund life, but this year's abrupt changes have created new challenges for even the most sophisticated shops. Take, for instance, US Form 90.22 (or FBAR). Courtesy of a recent ruling by the IRS, practically all US investors must now file an FBAR report covering both taxable and non-taxable ownership of foreign funds. This accounting also encompasses feeder funds (to determine any ownership in foreign masters). The ruling includes even tax exempt entities, which typically have limited resources for reporting.

New reporting requirements dovetail with a second major issue facing funds: requirements for enhanced transparency. Investors have long pushed for insight into a fund's portfolio. What makes 2009 different is that the reporting requests are now coming from the capital side, as well as the portfolio front. Investors need to know not only their stake in a given fund, but also their ownership percentages in any underlying funds (in the case of fund of funds) or managed accounts (in the case of Madoff concerns). While most investor accounting software presents ownership percentages, few programmes can readily provide this kind of "look-through" ownership.

Dealing with non-performing 2008 investments has added to fund complexity. Many funds have decided to segregate the non-performing assets into side-pockets. This facilitates performance reporting on the rest of the portfolio, without mudding the results with a few non-performing investments. But this practice has created operational headaches. Whereas funds used to maintain a single ownership percentage for each investor, the back-office must now cope with ownership in not only the main fund, but also the side-pockets (many of which have a total net negative value). Managing these sorts of side-pockets almost necessitates upgrading from spreadsheet-based tracking to more robust investor accounting software.

While hedge fund performance has dramatically improved in the first half of 2009, investors are still skittish. To balance this investor sentiment with their need for reliable, long-term capital, funds have recently begun offering creative liquidity gates. Gone are the days of simply locking up investor capital for five years. Investors, while willing to take a longer-term outlook, are unwilling to be wholly at a manager's mercy with regard to suspending redemptions. New offerings now

include such options as: early redemptions with a fee; periodic ability to withdraw partial capital; and/or splitting a single contribution into multiple lock-up schedules.

In addition to driving creative new fund structures, the 2008 crash has led to belt-tightening for everyone. In order to be more nimble, a number of financial organisations realigned their cost structure and many shops reduced staff. While this has helped the bottom line of many management companies, it has also caused a large strain on CFOs and their staff. Operational efficiency, once a nicety, has become a necessity.

Brute force deployments of small armies of staff armed with spreadsheets are no longer an option for handling the many complexities of investment partnership and shareholder accounting. Instead, many CFOs are turning to sophisticated investor accounting systems and are updating their systems more frequently.

"In the past, new clients have waited until year end to get onboard, and existing clients have postponed updates until year end. But this year we've, signed up a record number of funds in the second quarter, and seen an increase in multiple intra-year updates," says Ron Kashden, president of TKS Solutions. "Because we only focus on the issues of the back-office, we address investor accounting challenges as they emerge, and quickly develop and deploy solutions. From FBAR reporting, through look-through ownership, to sophisticated liquidity gates, our Penny software has been able to provide clients with the rapid response tools they need to operate in this unprecedented climate."

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