



INSIGHT REPORT

GROWTH 2020:

THE CHANGING CHEMISTRY BETWEEN HEDGE FUNDS AND INVESTORS

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Growth 2020: The Changing Chemistry Between Hedge Funds and Investors

Aranca Research Group, sponsored by FIS

What are the top challenges facing the hedge fund industry today and in the future? Why do investors continue to invest in hedge funds, despite the negative perceptions and performance issues cited in the media? Where is the upside for hedge funds in this current climate? In a crowded marketplace, how do hedge funds differentiate themselves?

We asked 258 executives from hedge funds, administrators, prime brokers, custodians, consultants and investors for their perspectives on the challenges facing the hedge fund industry today and in the future. Their answers expose a complex mix of issues that are reshaping the way hedge funds conduct business in a competitive environment.

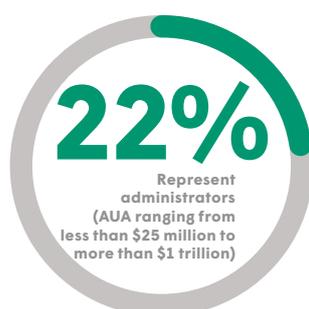
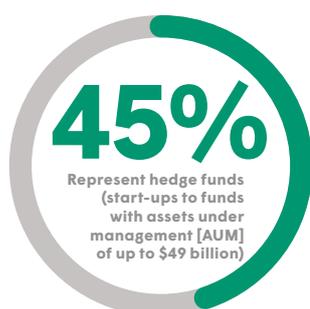
The research reveals that the key to a hedge fund's survival is its ability to balance not just macro pressures but the often differing needs of its clients. The success of a hedge fund turns on the chemistry between the fund and its investors.

Overall we found that those funds performing well are expected to continue to capture institutional investment. HNWI's in emerging markets will contribute to future growth but with differing objectives to the institutional investors.

Millennials will determine the way in which hedge funds communicate with their investors and broaden their investor base. An increased emphasis on risk reduction, driven by institutional investment and ongoing regulatory burden, is building the pressure on funds to develop a unified view of risk. The demand for transparency from investors will also drive this trend.

Further operational developments, including risk management as a service and portfolio optimization, will be underpinned by a strengthening of funds' infrastructure in the front- middle and back office, consolidated with a single service provider. The need to reduce costs and leverage external expertise are driving the adoption of third-party fund accounting and increasing acceptance of outsourcing across functions.

Respondents



KEY FINDINGS SUMMARY:

1. Different hedge fund investors have strikingly different objectives.
2. Fund managers' planned range of products/strategies do not tally with investor interest.
3. Investors perceive disruptive, innovative strategies to be enablers of growth.
4. Regulation is hampering investment strategies.
5. Demographic shifts will change the way hedge funds attract new business.
6. Hedge funds must improve their technology to support growth and client relationships.
7. Fee structures will impact fund profitability based on performance/asset growth.

Top Challenges Facing the Hedge Fund Industry

Respondents cite a variety of challenges, but the top three are:

- Growing AUM
- Keeping pace with regulatory change
- Fee pressure (see Figure 1).

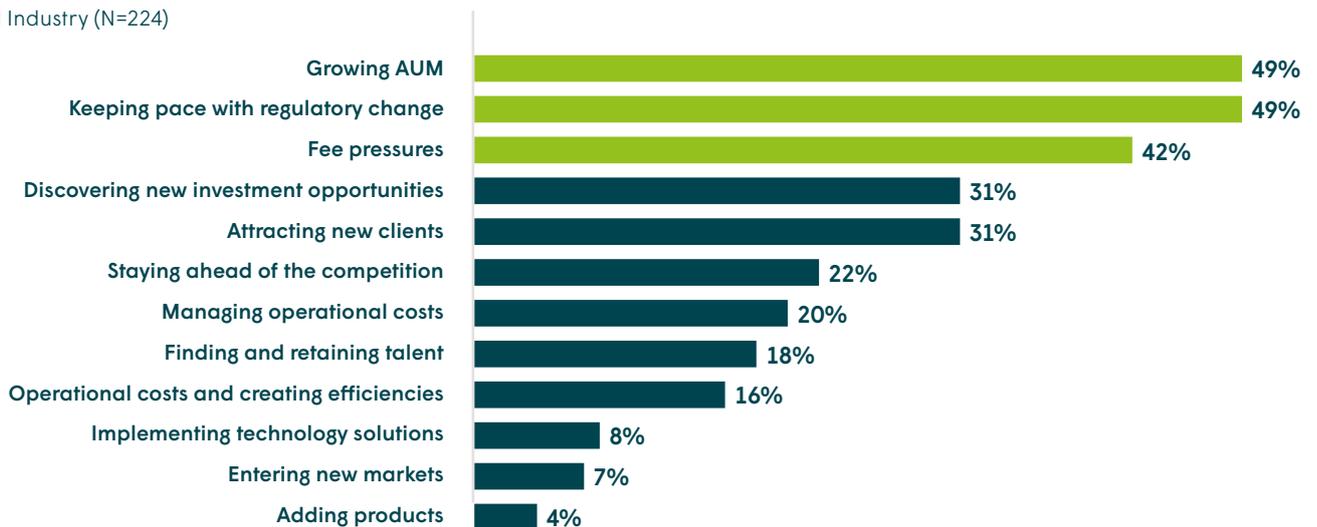
Other challenges include discovering new investment opportunities, intensifying competition due to new market entrants and a shortage of talent.

Performance issues have meant some hedge funds have failed to meet their investment objectives, leading to some funds exits, intense competition within the industry, and downward fee revisions. Furthermore, fund managers report that it is difficult to offer differentiating strategies and products, which makes it harder to attract investors. Additionally, a series of events across the globe hit many of the markets that hedge funds trade in, resulting in challenges to generating returns for hedge funds not seen since the 2008 financial crash.

Hedge funds responded to the question on top challenges by placing emphasis on growing AUM and keeping pace with regulatory change (Figure 1).

Figure 1: What are the top three challenges faced by the hedge fund industry?

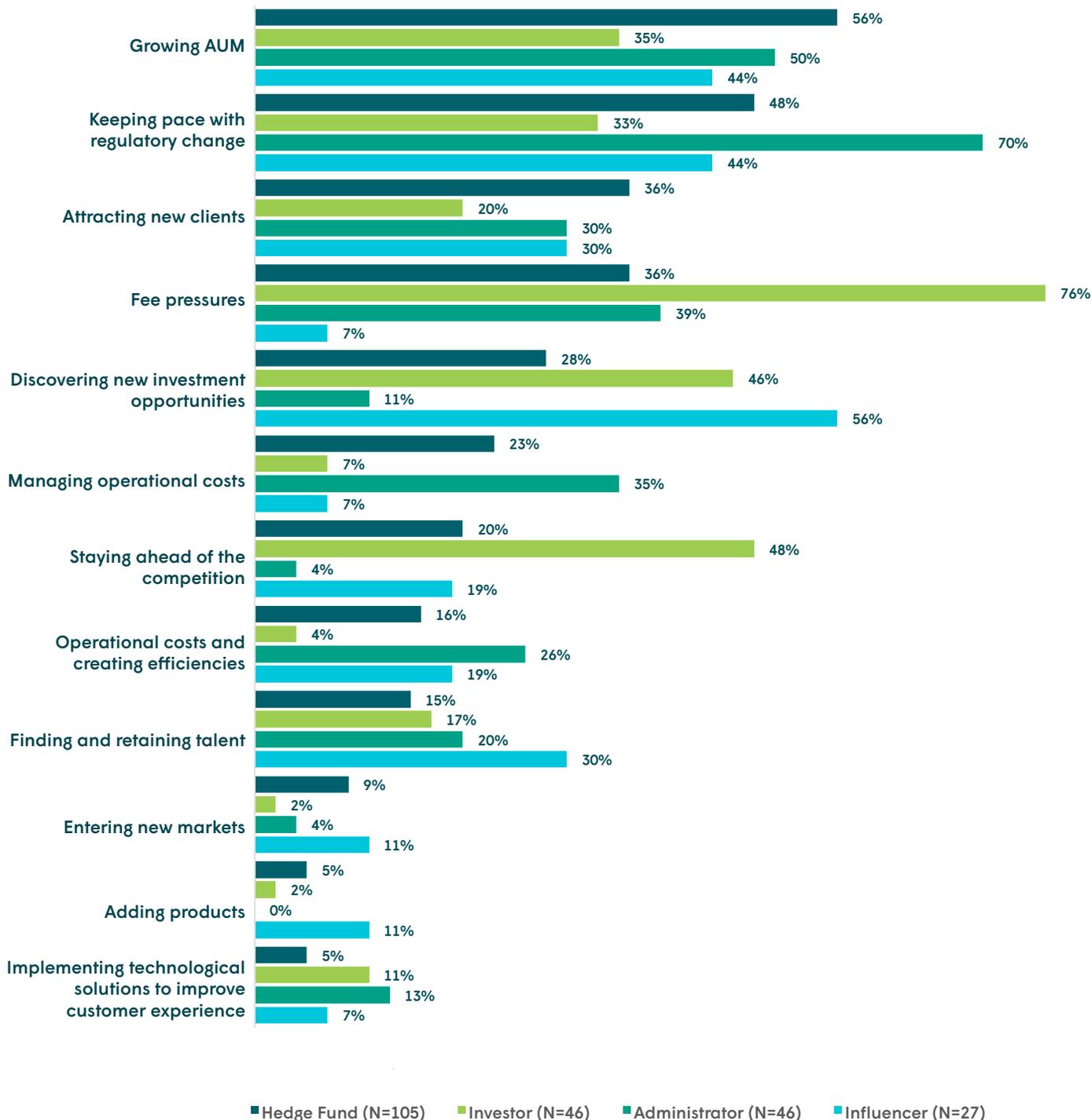
Overall Industry (N=224)



The cost associated with running a hedge fund is very high. Funds are not able to allocate sufficient capital for marketing and business development activities, which makes growing AUM a challenge for them.

PRESIDENT,
U.S.-BASED INVESTMENT FIRM

Figure 2: What are the top three challenges faced by the hedge fund industry?



Key Findings

1. Different hedge fund investors have strikingly different objectives.

Investors collectively indicate that portfolio diversification 80 percent, return enhancement 59 percent, risk reduction 54 percent and niche specialism 41 percent, are their main reasons for investing in a hedge fund.

However, as hedge funds grow, their investor base changes, with the greater proportion of investor money moving away from high net worth individuals (HNWIs), who want superior return enhancement, and towards institutional firms, who seek greater levels of risk reduction.

Institutions therefore represent a greater proportion of investors in large hedge funds, while HNWIs are more dominant in smaller funds.

While both HNWIs and institutional investors are motivated by performance and portfolio diversification, there are some notable differences to their objectives. HNWIs generally choose hedge funds for return enhancement and portfolio diversification, while institutional investors cite portfolio diversification and risk reduction (see Figure 3).

For institutional investors, investing in hedge funds as part of their overall portfolio strategy reduces their risk exposure by balancing a broad range of assets.

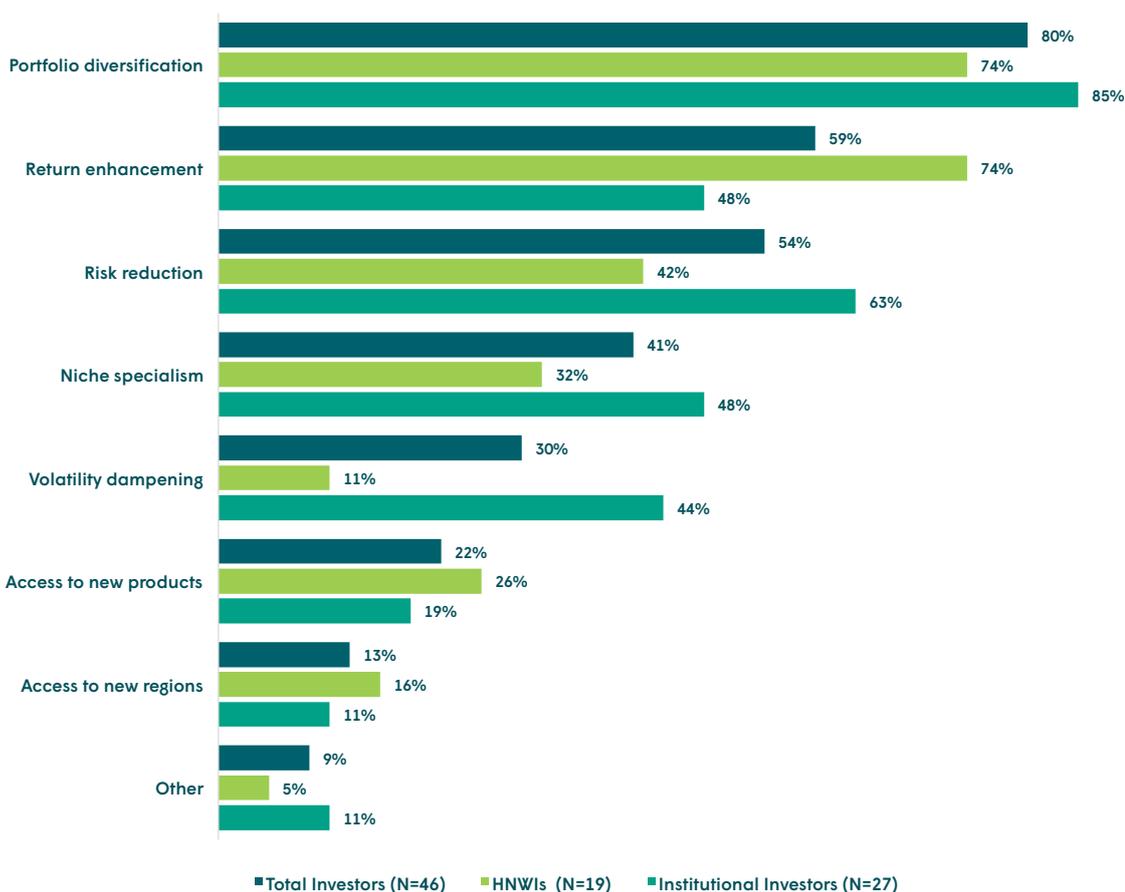
They also value hedge funds' ability to dampen volatility far more than HNWIs, who see return enhancement as a greater driver for hedge fund investment. Increasingly, the drive for yield in the era of low interest rates is leading institutional firms into more diverse strategies, so investing in hedge funds has become relatively mainstream.

For fund managers, this creates a dilemma because they need to support all of these requirements simultaneously. For example, asset selection based on low volatility must be re-examined frequently since this property is not a "fundamental" property of a security but is essentially dependent on market sentiment.

Moreover, if institutional investors are motivated by risk reduction – which itself seems to be a paradox considering hedge funds are perceived to be risky – hedge funds must constantly monitor their risk reduction, hedging and low-volatility strategies. Hedges that are not properly calibrated after market moves do not provide effective risk reduction. This creates an additional risk management challenge for hedge funds.

To maintain the chemistry between investors with differing objectives, hedge funds must develop joint strategy objectives and balance the needs of their investors.

Figure 3: Why have investors chosen to invest in a hedge fund?

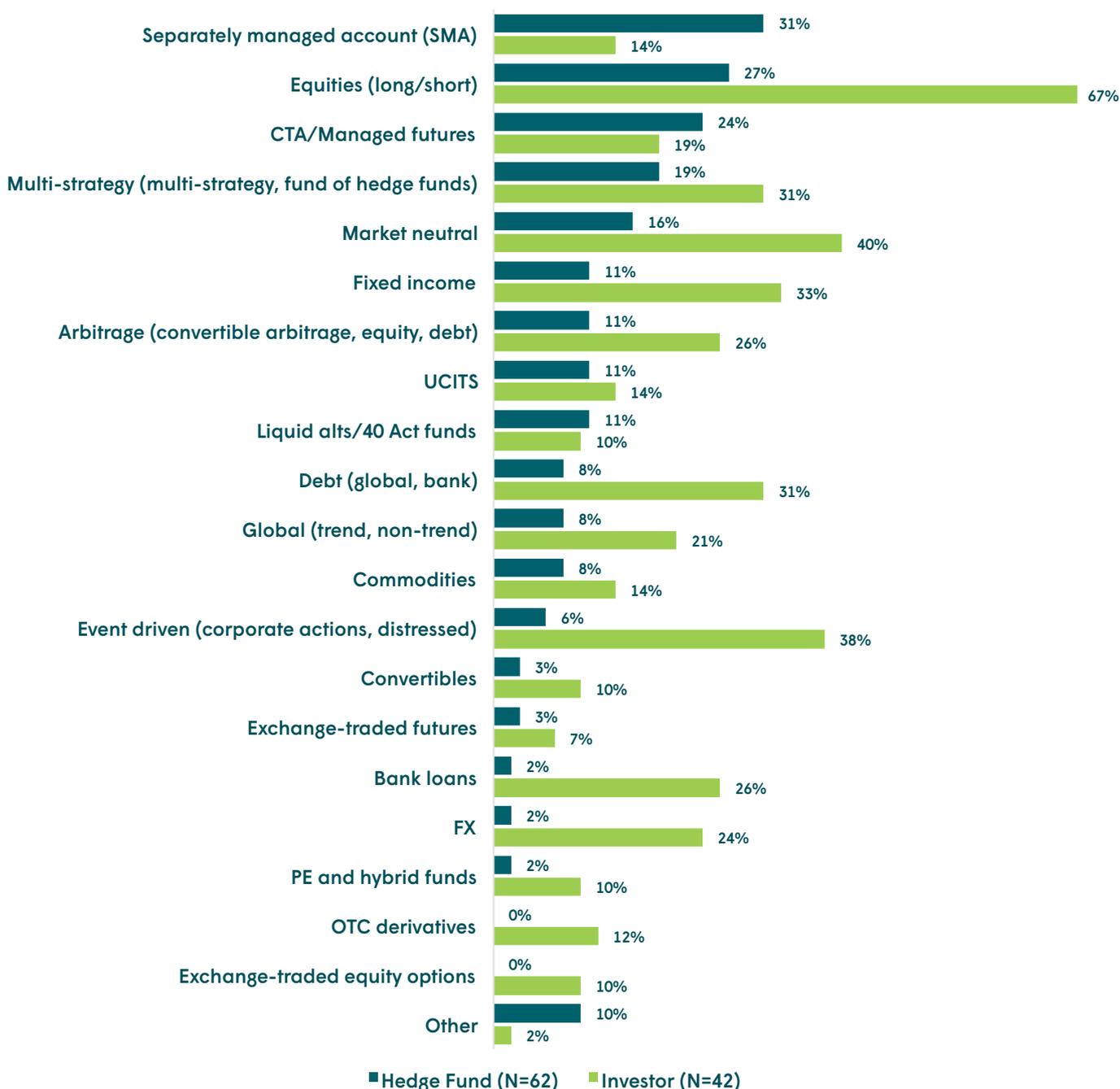


2. Fund managers' planned range of products/strategies do not tally with investor interest.

Collectively, investors show a preference for equity long/short (67 percent) market neutral (40 percent) and event driven (38 percent) strategies, while hedge funds plans are primarily for separately managed accounts (31 percent), equity long/short (27 percent) and commodity trading advisor/managed futures (24 percent) (see Figure 4). This suggests that many funds must be flexible if they are to capture client capital.

Figure 4: What additional strategies and products do hedge funds/investors intend to launch/invest in the next two years?

Split - By Respondent

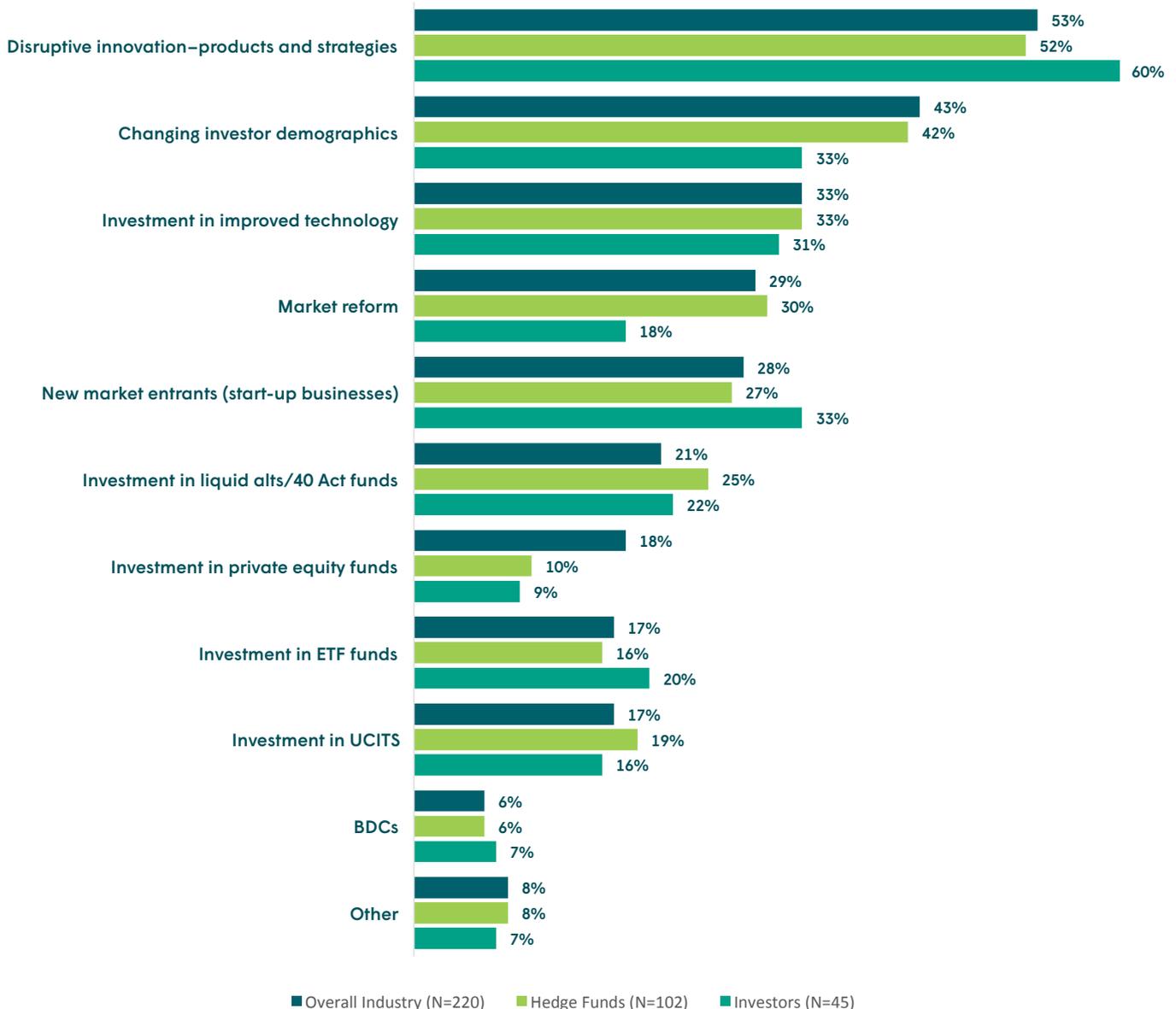


3. Investors perceive disruptive, innovative strategies to be enablers of growth.

Balancing multiple demands with limited resources is a challenge, so how do hedge funds continue to generate alpha? Investors and hedge funds agree that it takes disruptive, innovative strategies to grow, although hedge funds were more cautious in their enthusiasm, with only 52 percent choosing this answer versus 60 percent of investors (see Figure 5). Both sets of respondents also say that changing investor demographics and investment in improved technology favorably impact growth.

Retaining the in-flow of capital from both HNWI and institutional investors as a fund grows depends on a fund manager’s ability to fulfil the operational requirements of both sets of clients without succumbing to compliance and performance pressure.

Figure 5: What are the top enablers of growth for the hedge fund industry?



4. Regulation is hampering investment strategies

The raft of regulations, particularly in Europe, is proving to be a challenge to funds that are introducing new strategies and products. Regulations in the U.S. and the EU have impacted all functions but especially reporting systems and risk functions and systems. Among all regulations, The Alternative Investment Fund Managers Directive (AIFMD)¹ and The Foreign Account Tax Compliance Act (FATCA)² are having the biggest impact on the hedge fund industry (see Figure 6).

Some hedge funds emphasize the need for conformity between EU and U.S. standards. Wide variations in the guidelines outlined by each set of regulators create compliance obstacles and increase costs for hedge funds. Whereas standardization would ease compliance pressures.

In addition to hedge funds, prime brokers have underscored the need for market reforms. Basel III regulations have created additional capital, liquidity, and leverage constraints for prime brokers (see Figure 6). Consequently, hedge funds are incurring a higher financing cost. Hedge funds are being compelled to re-evaluate their relationship with prime brokers and bring transparency to dealing.

In the meantime, hedge funds are compelled to increase capital and resources to comply with regulatory requirements, which is a major hardship, especially for small funds.

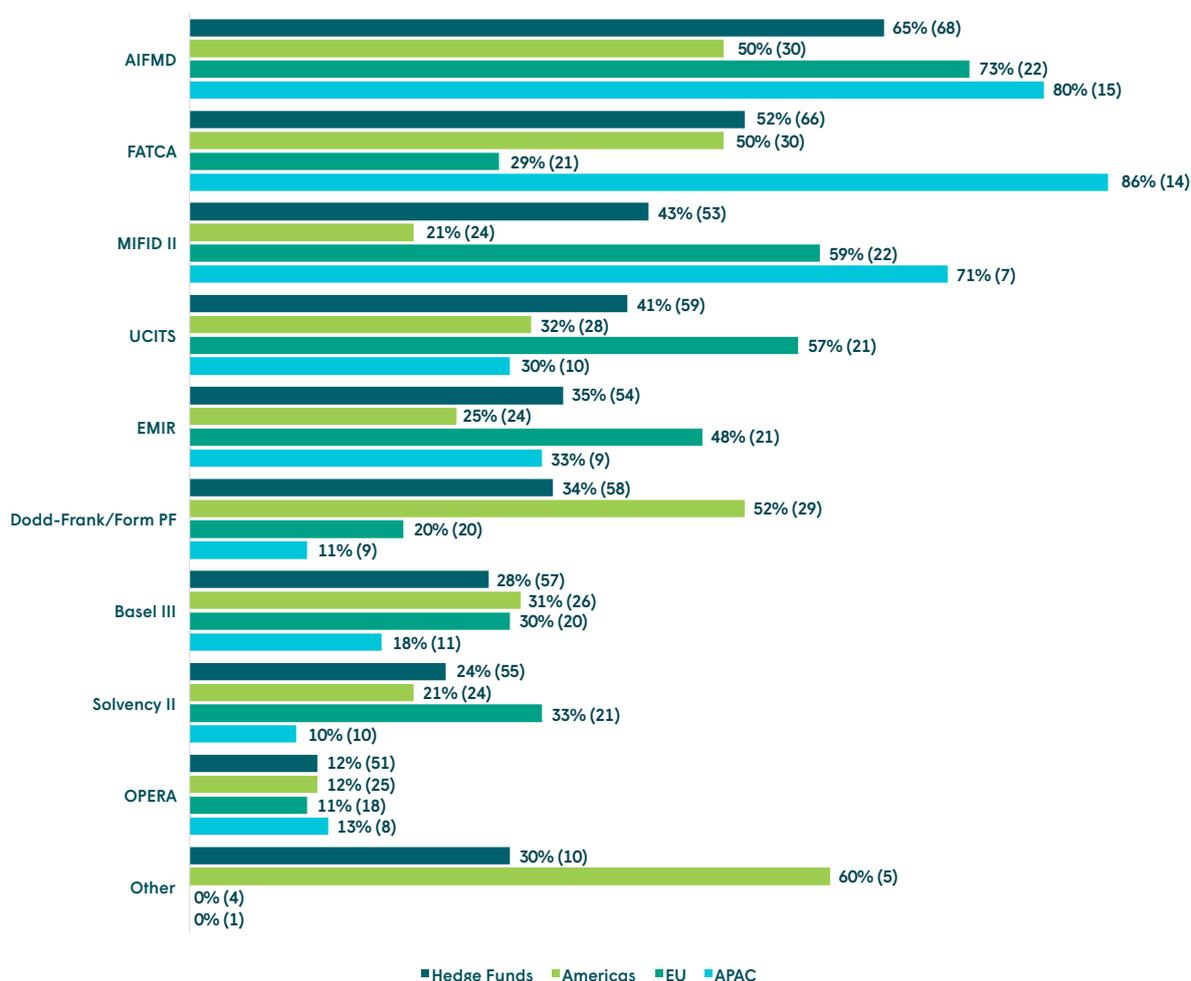
European respondents cited regulation as by far the biggest current challenge with regulatory changes heavily affecting them. Hedge funds globally thought that AIFMD would have the biggest impact in the future, cited by 65 percent of respondents (see Figure 6), by 80 percent of hedge funds in the Asia Pacific region, 73 percent in Europe, and in North American respondents cited 50 percent. Markets in Financial Instruments Directive (MiFID II)³, the EU legislation that regulates firms who provide services to clients linked to ‘financial instruments’, was understandably cited by European respondents.

¹FCA <https://www.fca.org.uk/firms/aifmd>

²<https://www.irs.gov/businesses/corporations/foreign-account-tax-compliance-act-fatca>

³FCA <https://www.fca.org.uk/markets/mifid-ii>

Figure 6: Which regulations do you foresee having the greatest impact on your business in the next two years?



5. Demographic shifts will change the way hedge funds attract new business.

Institutional investors are looking for risk reduction and portfolio diversification into niche and/or actively managed hedge fund strategies. Therefore, hedge funds’ ability to offer a unified view of risk across portfolios and risk management capabilities will be key to attracting investment from institutions (see Figure 1 and Figure 3).

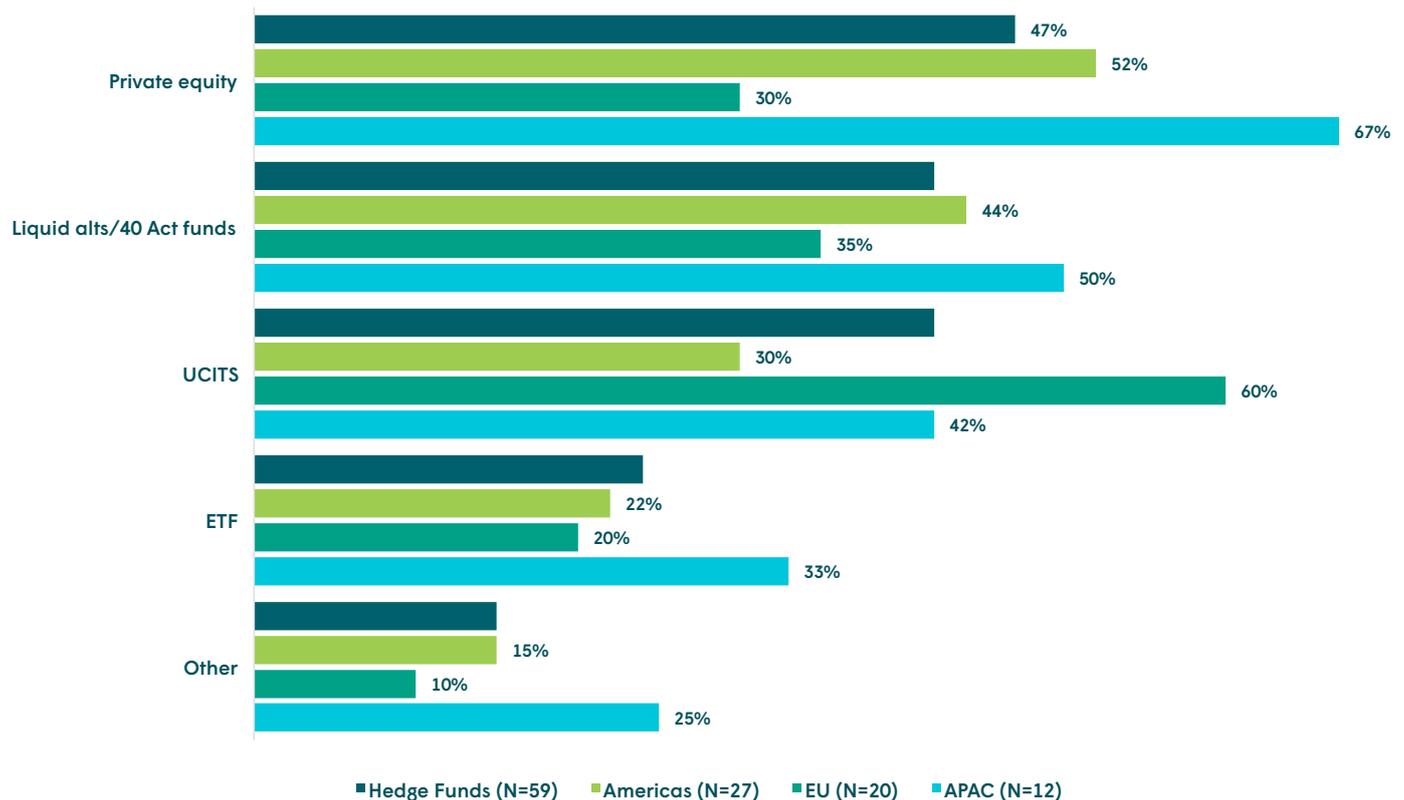
In contrast, Millennial HNWI’s are much more tech-savvy and thus more likely to source their investment opportunities online and direct to the fund manager, bypassing traditional advisors. Hedge funds that wish to win or keep their business will need to prioritize how they communicate with this audience. In response hedge funds are most likely to launch new retail fund structures such as liquid alts/Act 40 funds, and UCITS to access a broader investor base (see Figure 7).

Meanwhile, an increase in the growth of wealthy investors in Asia and a decrease in the U.S. and Europe – where an ageing population holds much of the invested wealth – will impact how hedge funds attract new business in the future. By 2020 we expect to see these trends creating a substantial impact.

Demographics in Europe and Eurozone have an imbalance. There are a lot of rich older people. The new generation is not able to replace the actual rich demographic population in Europe. In the next 10–20 years, there will be a deep change in demographic structure and we will see many entrants in the rich list from emerging markets.

CO-FOUNDER,
U.K.-BASED FUND

Figure 7: Do hedge funds intend to introduce new funds or structures?



6. Hedge funds must improve their technology to support growth and client relationships.

As hedge funds strive to ensure that they have institutional grade controls in place to attract investors and satisfy the regulators, allocating resources to these requirements has detracted from their core focus on investment strategy. Seventy-two percent of respondents cite operational efficiencies as the primary driver to change technology solutions, followed by cost reductions and risk management technology (see Figure 8).

Hedge funds must optimize their operational controls and processes to attract investors.

Most hedge funds seem to recognize the need for technology investment, with 57 percent saying they are likely to increase their IT spending over the next 12 months (see Figure 9). Seventy-two percent would change technology based on the need for operational efficiencies, while 49 percent are motivated by cost reductions and 36 percent by risk management.

To attract investors and rebalance the chemistry that exists between hedge funds and different types of investors, hedge fund managers should look for an operating model that allows them to be transparent, flexible and innovative. Most investors consider robust institutional grade controls to be very important for asset protection, risk aversion, and better returns. Institutional grade standards are not only required for regulatory compliance but also to attract new capital.

Figure 8: What are the top three drivers for hedge funds to change technology solutions in the future?

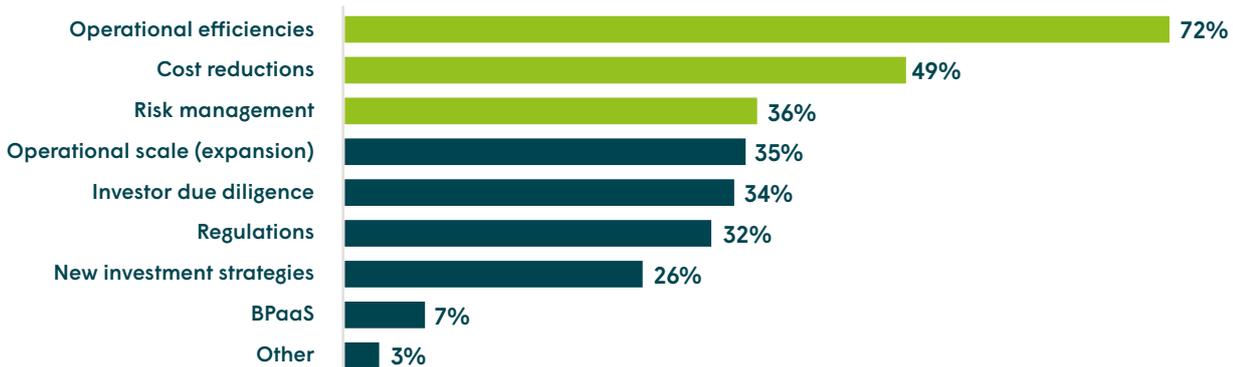
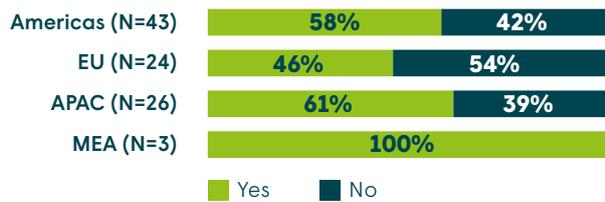


Figure 9: Are hedge funds likely to increase IT spending in 2016/17?

Total Hedge Funds (N=98)



Split - By Geography



7. Fee structures will impact fund profitability based on performance/asset growth.

Institutional investors pay management fees of 1.65 percent compared to 1.9 percent for HNWIs, while their performance fees average 17.39 percent versus the 16.81 percent expected by HNWIs (see Figure 11). And while 76 percent of investors see pressure on fees as the biggest issue for the industry, the majority of fund managers say the industry’s highest priority issue is growing AUM (see Figure 1). While institutions use their size to negotiate a lower management fee, they are paying a higher performance fee – but only if a fund can deliver the desired returns.

Investors are more powerful now, and growing AUM is a challenge. They are also challenging managers on the fee front and we are seeing a much lower fee structure (vis-à-vis the traditional 2 and 20) across the industry now.

DIRECTOR OF BUSINESS SOLUTIONS, GUERNSEY-BASED FUND ADMINISTRATOR

Figure 10: Would less than robust operational controls prevent investors from investing in a hedge fund?

Total Investors (N=46)



Split - By Investor Type

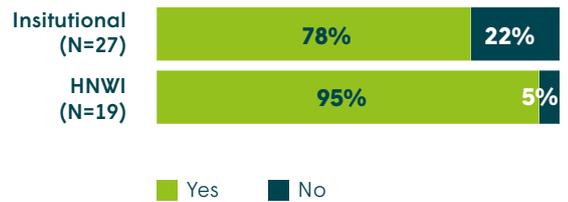
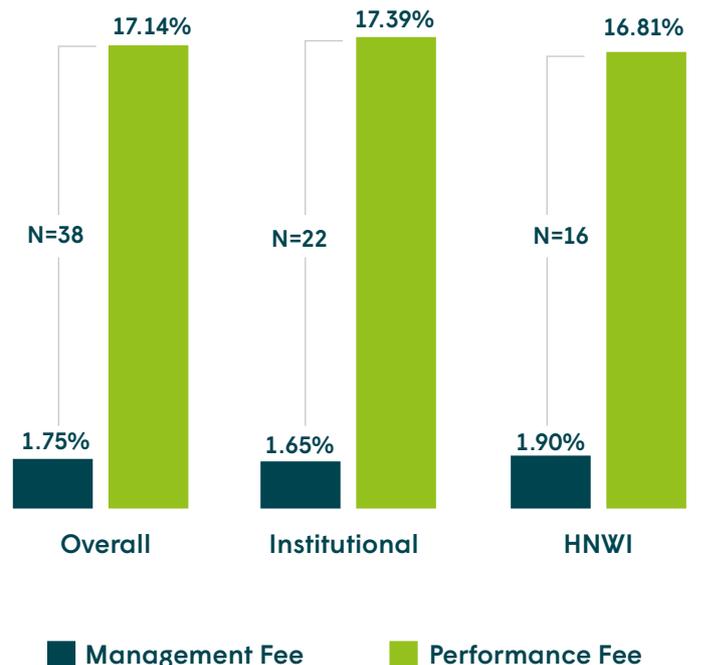


Figure 11: Investor fees by category



The Changing Elements

Over the past year, alternative investment funds have been suffering from outflows, with performance under scrutiny and fees under pressure. Moreover, due to the challenging global business environment and highly volatile markets, it is difficult for them to focus on marketing to attract new capital. Rising regulatory burdens have compelled these funds to concentrate on risk management and compliance-related activities, increasing their costs and reducing their capacity to spend time on marketing activities.

Attracting investment from HNWIs is enormously important to new entrants and small hedge funds. Finding a way to focus on offering innovative solutions that appeal to the HNWIs (who constitute more than two thirds of their investor base) is likely to gain ground as hedge funds invest in technology to streamline operations and reduce costs.

The institutionalization of the investor base

With the maturation of the industry and institutional funds' growing interest in more diverse investment targets, the hedge fund industry is witnessing the institutionalization of the investor base.

The hedge fund industry holds \$2.9 trillion AUM³, and in 2015, institutional investors accounted for around two-thirds of hedge fund capital, according to the Alternative Investment Management Association (AIMA). Considering that most developed countries, including the U.S., have a rapidly aging population, the demand for investment options that generate low-volatility returns over the long term is expected to increase as investors try to match cash flows with long-term liabilities.

But while institutional money ensures increased stability for hedge funds, institutional investors tend to have their own demands regarding the investment structure, terms and conditions, and fees, as they have mandates to adhere to. So as hedge funds grow, they must also develop and strengthen the infrastructure that will satisfy institutional investors.

For example, institutional investors place rigid requirements regarding the investment structure, terms and conditions and operational controls. However, these demands are not without rewards. By providing large blocks of money that represent longer-term investment strategies, institutional money ensures increased stability for hedge funds.

Overall, most investors consider robust institutional grade controls to be very important for asset protection, risk aversion and better returns. Institutional grade standards are not only required for regulatory compliance but also to attract new capital.

There will now be a push from the largest hedge funds to try and get retail clients, not HNWIs but ordinary retail clients, the ones who can invest £5,000 - £10,000. People have much more information; the ordinary person 20 years ago did not know about hedge funds. Now they can Google to find all sorts of information, and there is a bigger interest from ordinary retail client to invest more smartly. So the hedge funds that are happy with their resources are going to capitalize on the retail market.

OWNER, U.K.-BASED
ADMINISTRATOR

Transparency and timeliness build investor relations.

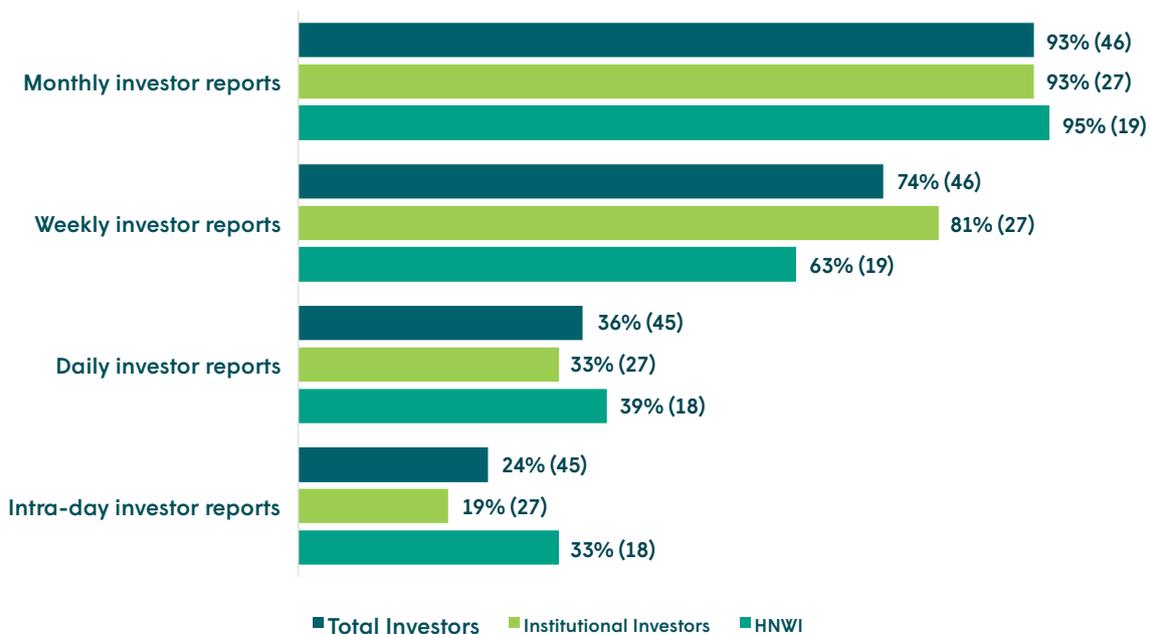
The way that different investor types want to interact with hedge fund managers also differs, necessitating a range of client reporting services and technology capabilities if funds wish to satisfy all investors’ demands.

For example, institutional investors’ confidence in hedge funds tends to be relatively high, in part because they typically have a stronger understanding of the risks a fund takes and they generally manage funds based on long-term horizons – such as for insurance and pension portfolios. Consequently, their need for data about their portfolio holdings is less frequent, in contrast more HNWI’s require intra-day reporting. (see Figure 12).

Hedge funds provide an excellent investment opportunity. It provides us diversification while maximizing returns and minimizing risk.

EXECUTIVE VICE PRESIDENT,
U.S.-BASED INSTITUTIONAL
INVESTOR

Figure 12: How important is it for investors to have access to timely information on their portfolio holdings?



Note: Figure in brackets () represents N, i.e., the total number of respondents.

Regional Differences

Chinese hedge funds are booming in 2016, in no small part because the country has Asia Pacific’s largest institutional investment money, according to the Chartered Alternative Investment Analyst Association.

The market in Asia Pacific is less mature than the U.S. and Europe, creating opportunities for new entrants if they can satisfy local interests and demands. For example, risk reduction in Asia Pacific is of interest to only 14 percent of investors when selecting a fund, versus 73 percent in Europe and 54 percent in the Americas (see Figure 13). Additionally, an increase in a tech-savvy younger population in the region presents a broader client base for hedge funds to tap into.

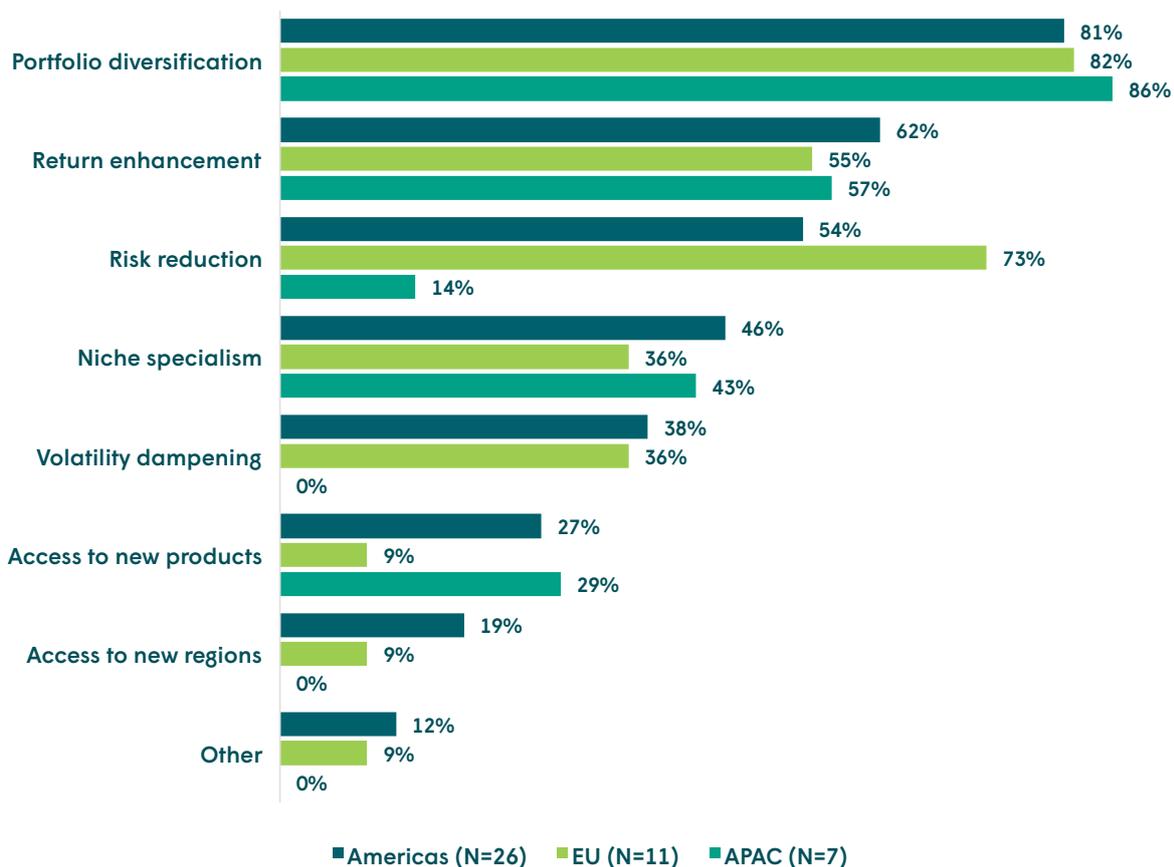
The regional differences found in the investment in technologies reflect macro trends. Investment in market data technology in the European markets – which lack the consolidated prices tapes of the U.S. but support automated trading – is understandably higher. In Asia Pacific, the higher level of OTC trading leads to lower investment in trading technology.

However, there are consistencies too. Portfolio management and risk technologies are dominant across all regions, reflecting the need for transparency and certainty when it comes to supporting investors of all types.

Because of economic growth in Asia-Pacific, the region now has sophisticated investors who are getting familiar with the hedge fund industry and looking at alternative investments options.

COMPLIANCE DIRECTOR,
SINGAPORE-BASED FUND

Figure 13: Why have investors chosen to invest in a hedge fund?



The Formula for Survival

Survival is a much more immediate concern for hedge funds than large traditional asset managers, many of which are backed by a massive spread of invested assets or the strength of a larger financial services group. In contrast, most hedge funds must stand on their own two feet.

For hedge funds, the key to survival will involve innovating to develop the right strategy for investors and leveraging their relationships with financial services partners.

Technique 1: Innovate to deliver the right strategy for investors

The majority of hedge fund investment strategies are long/short equity, and the motivators to introduce new strategies – typically, attracting additional investment – mean that this is likely to remain predominant, as it ties in with the ambitions of investors (see Figure 14).

However, the business is based upon more than just investment; funds’ survival it also relies on product and channel innovation – for example by launching UCITS and 40 Act funds to appeal to a broader audience.

Investor communication will also be paramount. Smaller firms can take advantage of their tightknit investment community by maintaining a close level of communication with investors. That can provide a competitive advantage over larger firms. Ensuring that communications are streamed via the most appropriate channel for their client base, whether that is mobile apps, websites, or tailored reports, can also improve a fund’s chemistry with its investors. This will be especially important as millennials grow a target market.

Technique 2: Use fund administrators to support success

Fund administrators can provide logistical and operational support for hedge funds, including technology around reporting and communication. This allows fund managers to concentrate on the investment process and investor relations while increasing their capacity to scale up.

The challenges hedge fund administrators face, therefore, impact fund managers themselves, making fund administrators yet another element in the changing chemistry between hedge funds and their investors. Two-thirds of fund administrators see at least one technology-related roadblock to supporting clients’ investment strategies. The top three concerns are fee pressures, keeping pace with regulatory change, and staying ahead of the competition.

Figure 14: What are the drivers for a hedge fund to introduce new investment strategies/products?



Figure 15: What roadblocks do administrators foresee?

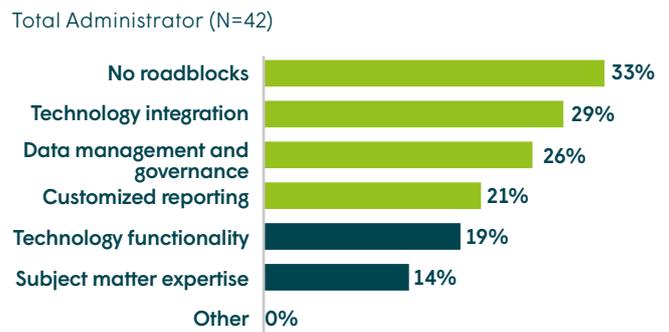


Figure 16: Where will administrators increase investment in the next five years?



Given fund administrators' own expectations of roadblocks caused by technology integration and data governance issues, this further indicates the need for hedge fund administrators to invest in technology (see Figure 15). And 40 percent of administrators are directing the greatest portion of investment to technology services to support future growth (see Figure 16). If they increase their IT spending to optimize and strengthen technology infrastructure, this will enable them to provide additional functionalities such as real-time P/L tools, desktop risk tools, reporting and middle-office services and support new clients (see Figure 18).

Rising administration costs hit both the hedge fund manager and administrator. For example, fee pressures and changing fixed/performance-related returns impact the bottom line for administrators as well as funds.

To counter the downward trend on fee structure, 43 percent of administrators see an increase in new fee models such as the fixed-fee structure, wherein they charge a fixed fee for fund accounting and administration plus an additional fee for any other services that are used, such as different types of reporting, AML/KYC functions or client-facing technology. If they start unbundling further to itemize costs, it will open the door to further unbundled services.

At a time when the hedge funds are finding it challenging to grow and keep the operational costs under control, it becomes very important for administrators to leverage technology to help their customers to be able to do so. Reporting services are the most desired, and we will increasingly see administrators offering such services. We also want to use technology to enhance the customer experience by providing various risk tools, real-time P&L tools and support services for middle-office operations.

MANAGING DIRECTOR,
CANADA-BASED
ADMINISTRATOR

Figure 17: What are the top three drivers for administrators to increase their IT spend over the next 2 to 3 years?

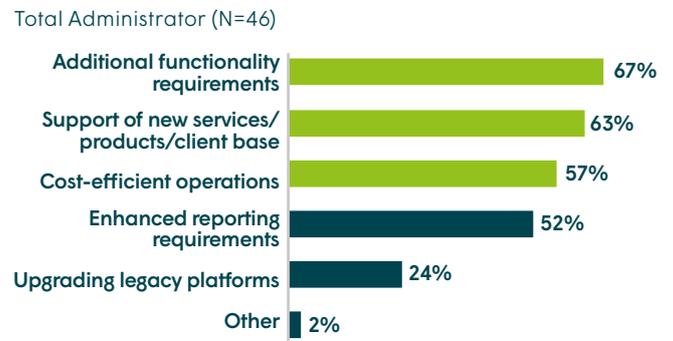
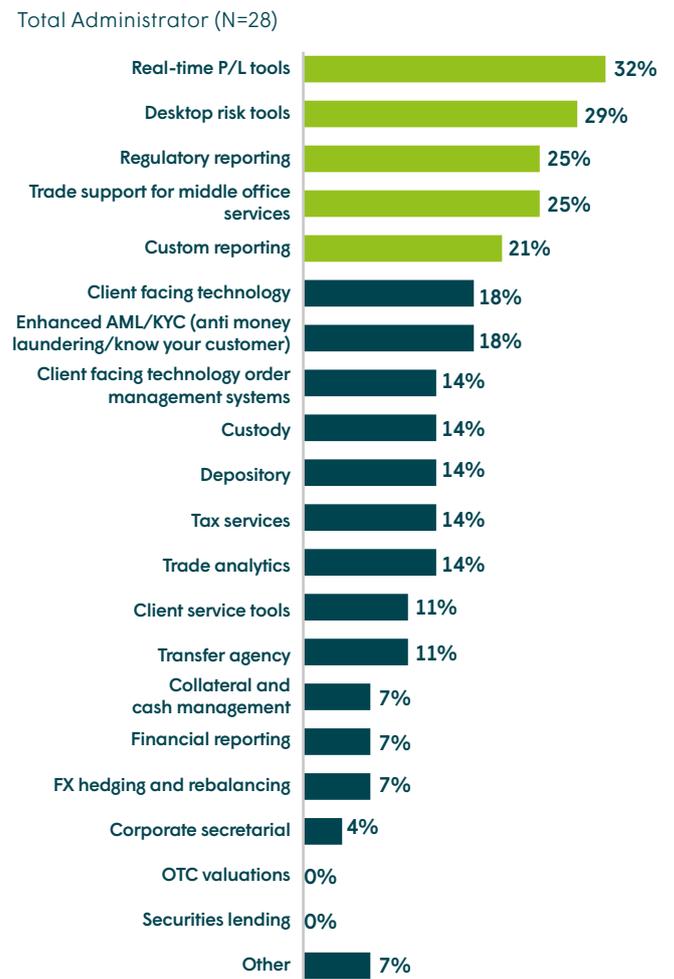


Figure 18: What additional services do administrators plan to offer their clients over the next 3 – 5 years?



The Formula for Growth

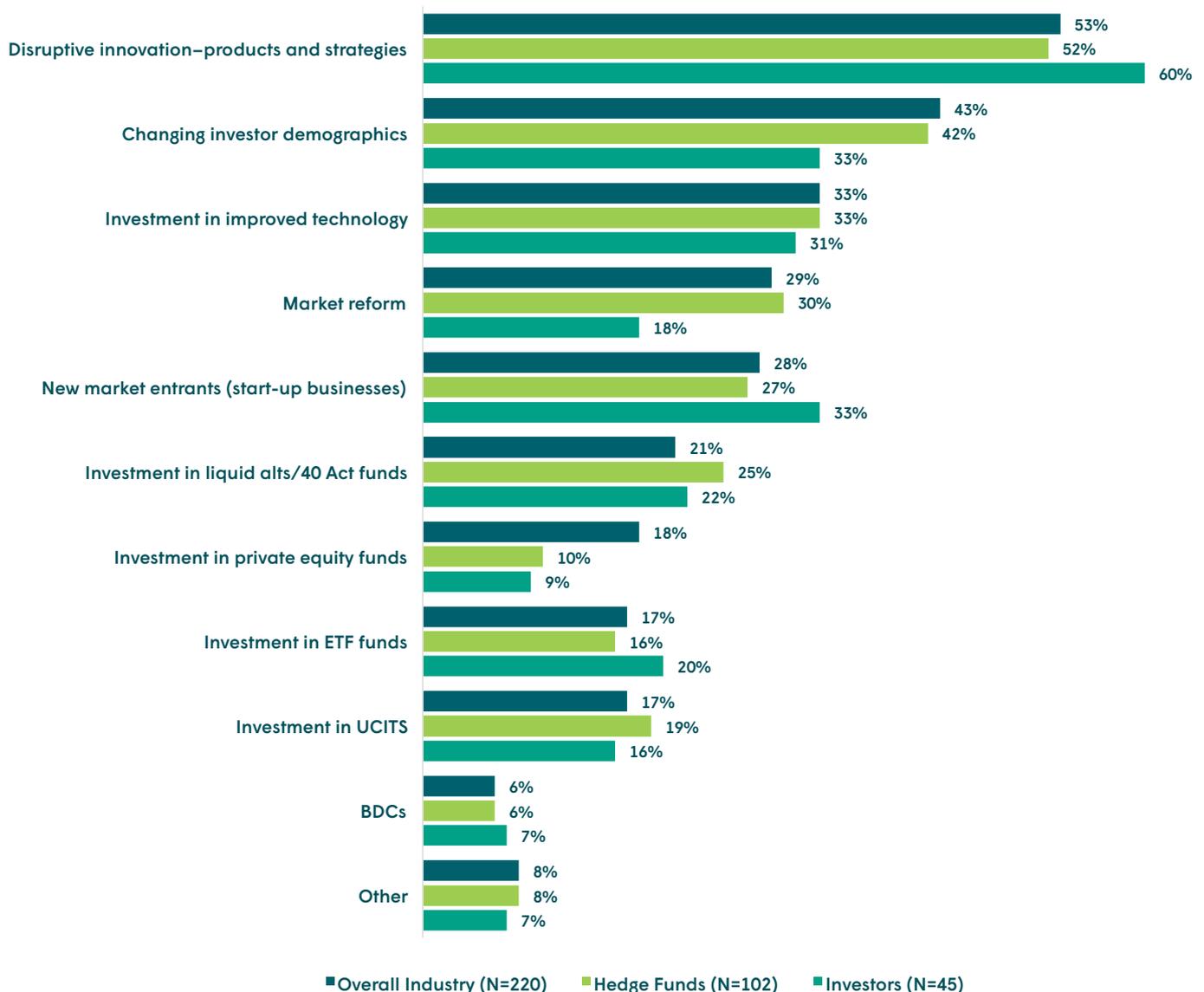
Managers that are ahead of the herd are in a better position to not just survive but go further in generating alpha and growing AUM. Innovative strategies, market expertise, optimizing portfolio and risk management – together with strengthening investor relations through timely reporting – will help support growth.

Developing the capacity to acquire new clients, however, depends on funds’ ability to adapt to new clients’ demands. The new world of digital and the ability to provide data on demand using real-time communication channels will be a competitive differentiator. As hedge funds build the right skill sets, they will need to develop digital and service-based solutions that support a flexible cost model so that they can engage with investors in the right way.

Both hedge funds and investors agree that disruptive innovation is the key to growth, and both largely agree on the importance of changing investor demographics, new market entrants and other elements (see Figure 19). Notably, hedge funds are more conscious of changing investor dynamics.

Funds with business strategy that is set to improve the client experience through technology, or leverage outsourcing relationships with services providers, will be in a better position for growth.

Figure 19. What are the top enablers of growth for the hedge fund industry?



Strategy 1: Invest in technology to improve the client experience

Forty-three percent of respondents expect their greatest increase in overall investment to be in customer acquisition and market expansion (see Figure 20). This suggests that the 57 percent of hedge funds expecting to increase their IT spend in the coming year intend to use it as a platform for growth (see Figure 21).

Strategy 2: Leverage outsourcing for greater flexibility

Another route to growth is through efficiency. The hedge fund industry’s operating costs are escalating, and most funds still manage many processes in-house in a bid to ensure greater control. For example, investor reporting, which attests to a fund’s performance and credibility, is managed in-house by 72 percent of respondents (see Figure 22). Middle-office functions are managed in-house by 65 percent, and technology is managed in-house by 58 percent.

Figure 20: Where will hedge funds increase investment the most in the next five years?

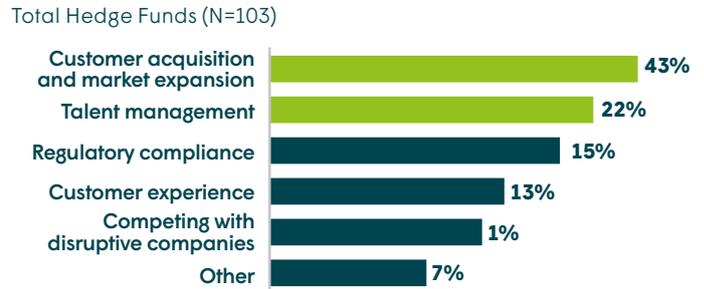


Figure 21: Are hedge funds likely to increase IT spending in 2016/2017?

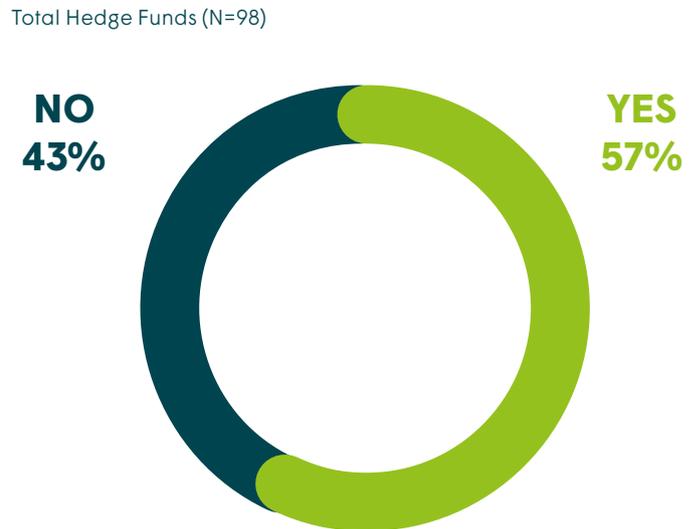
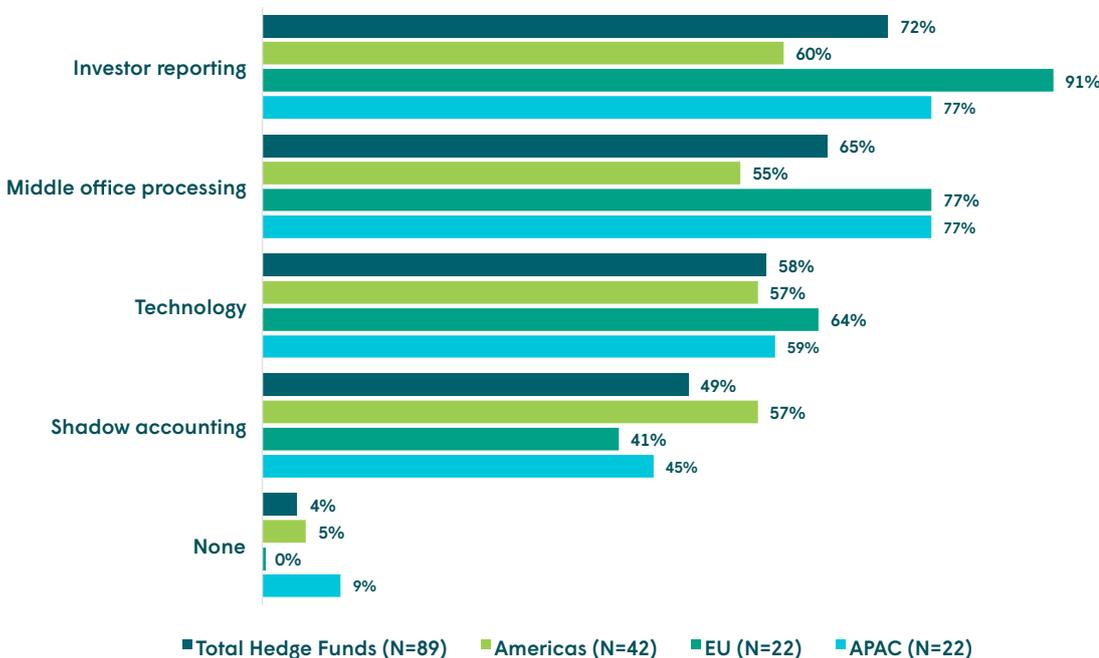


Figure 22: Which processes do hedge funds manage in-house?



However, confidence in outsourcing and software as a service models has increased as the delivery of these services has improved. Historical concerns around confidentiality and loss of control are no longer obstacles. Both models allow operational flexibility, and the move towards business process as a service – which combines process management with technology provision – can create a competitive advantage.

More than a third of hedge funds can imagine outsourcing all three areas, as well as shadow accounting, in the next two years (see Figure 23).

Technique 3: Leverage technology to streamline processes and combat cost pressures

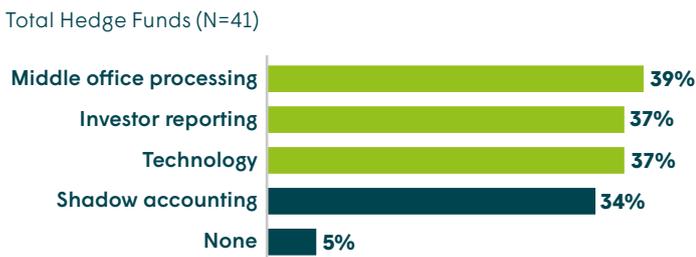
The effective use of technology is critical for delivering performance across every element of a fund. Planning strategically to deliver a unified view of risk across all portfolios, for example, creates a considerable advantage in decision-making and a more secure fund for investors. In addition, the ability to deliver access to portfolio information and timely risk reporting helps retain clients, as does the ability to create niche mandates for alternative investments.

Staying ahead of the competition by detecting hard to find nuances in the market supports the hedging strategies that underpin risk management that institutional investors are focused upon.

We are looking at either outsourcing or buying technology to be able to simplify processes. Areas where we will see no value addition – such as P&L, transaction execution and cash – and that can be automated, we will outsource them.

PARTNER,
U.K.-BASED FUND

Figure 23: Which processes do hedge funds envision to outsource in the next two years?



Conclusion

Innovate, optimize, unify and strengthen for success

Hedge funds must continue to differentiate themselves among new investors if they are to flourish in the future. Market indicators generally predict that investment in hedge funds will continue, and our research indicates that about 85 percent of hedge funds around the world are seeking to expand AUM. Yet capitalizing on this interest will not be easy.

As funds grow, the demographics of their investors naturally change, forcing funds to walk a tightrope to satisfy differing motivations and demands. Retaining the in-flow of capital from both HNWI and institutional investors depends on a fund manager's ability to fulfil the operational requirements of both sets of clients without succumbing to the pressures upon the fund around compliance and performance.

The cyclical nature of investment will mean that fund managers must anticipate market trends and develop business strategies for both the shorter horizon and the mid-to-long term. Any changes to products or strategy must strike the right balance between competing investor requirements while accounting for regulatory and demographic changes.

Meanwhile, the industry is pressing for change and looking for an agile and nimble approach. If hedge funds wish to expand AUM, they must differentiate themselves and innovate. For example, millennials want more participation and control over their own investment decisions and actively find their information online. Hedge funds must leverage technology to develop relationships online as well as offline.

Hedge funds must also be ready to demonstrate effective risk management and robust operational controls to satisfy investors and the regulators. By 2020, we expect to see more direct investment in hedge funds by HNWI, without mediation, or indirectly through wrappers in established markets.

The chemistry that exists between investors and fund managers is accelerated by the catalyst of service providers and fund administrators that they partner with. They collectively face fee pressure, regulatory burdens, and the need to perform in a competitive marketplace.

Consequently, hedge funds are seeking cost reduction through outsourcing middle- and back office operations and risk services, and service providers and fund administrators are investing in technology to provide adjacent services over and above core functions.

Funds must also look to technology – both their own and that of their partners – to reduce costs, increase efficiency and provide the transparency that clients need.

However, with the right mix of elements, hedge funds can find the formula for growth. Getting a clear picture of their resources and their strategic objectives and working effectively with their partners gives fund managers a broader range of options for supporting the widest possible investor base, providing them with the greatest potential for growth.

Appendix

About the report

To understand the key trends, developments, and challenges in the hedge fund industry, as well as to assess the growing impact of technology on hedge funds, Aranca partnered with FIS to conduct a comprehensive global survey of industry professionals. The survey focused on industry challenges, growth drivers, products and strategies, fees, regulations, risk management, in-house and outsourcing trends, and technology capabilities and challenges.

The survey was conducted online and through structured telephonic interviews over February – May 2016.

The findings and analysis provided in the report are based on the views of 258 professionals representing hedge funds, administrators, influencers (prime brokers, custodians, and consultants), and investors (high-net-worth individuals and institutions) across geographies.

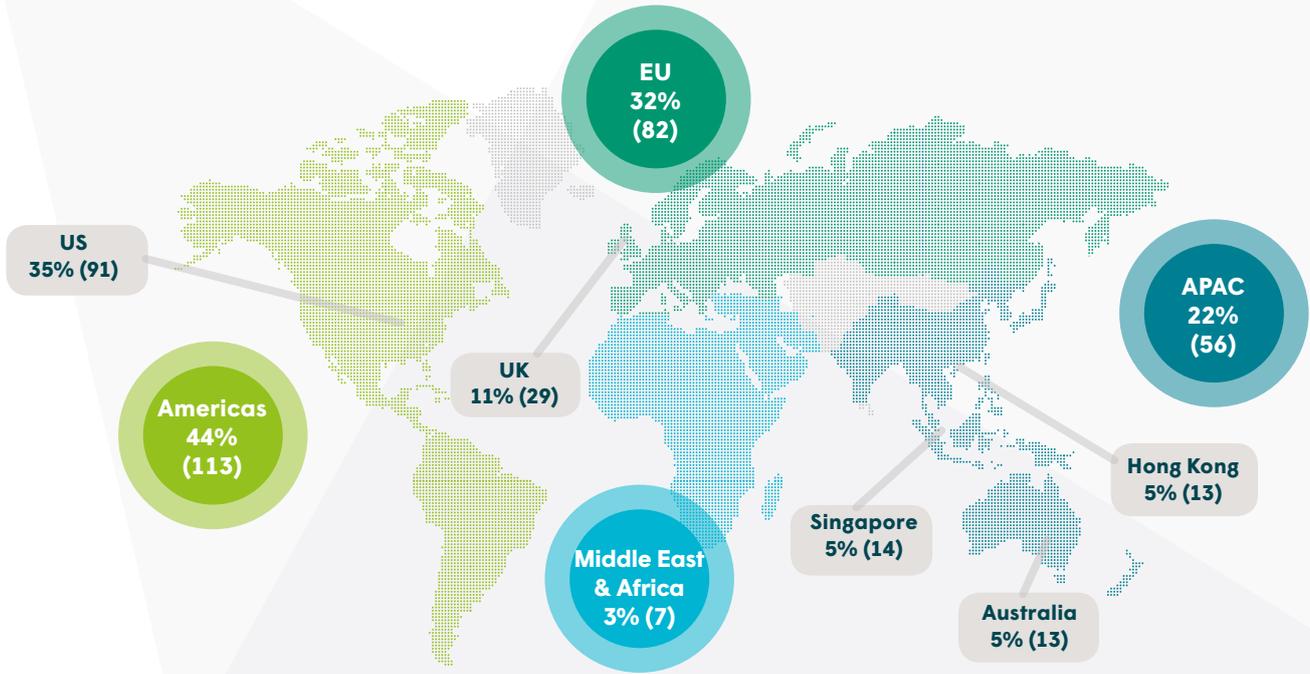
Of the respondents, 45 percent represent hedge funds (start-ups to funds with AUM of up to \$49 billion), 22 percent represent administrators (AUA ranging from less than \$25 million to more than \$1 trillion), 20 percent represent investors (37 percent HNWIs and 63 percent institutions), and 14 percent represent influencers.

The demographic profile of the respondents broadly reflects the overall market, with over three-quarters of the respondents belonging to the developed markets of the Americas (44 percent) and Europe (32 percent). About 22 percent of the respondents represented Asia-Pacific (APAC), an emerging market, while 3 percent represented the Middle East and Africa.

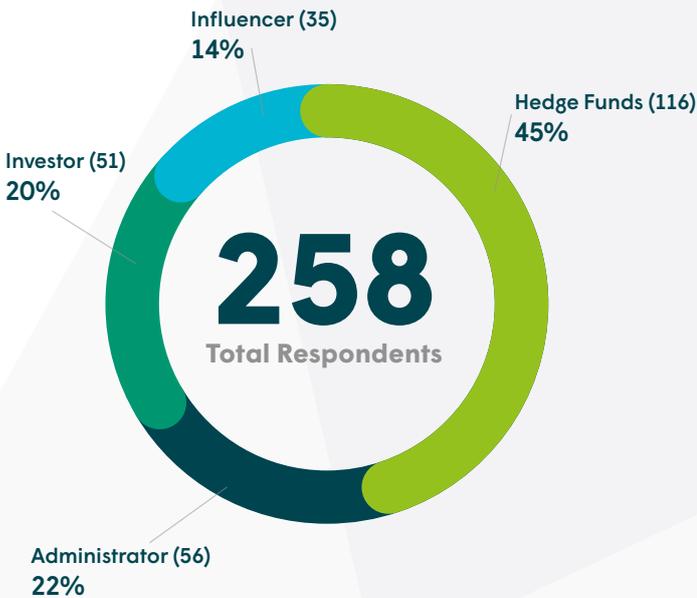
In addition, the report includes insights into five key markets: North America, Northern Europe, Hong Kong, Singapore, and Australia.

Respondent Information

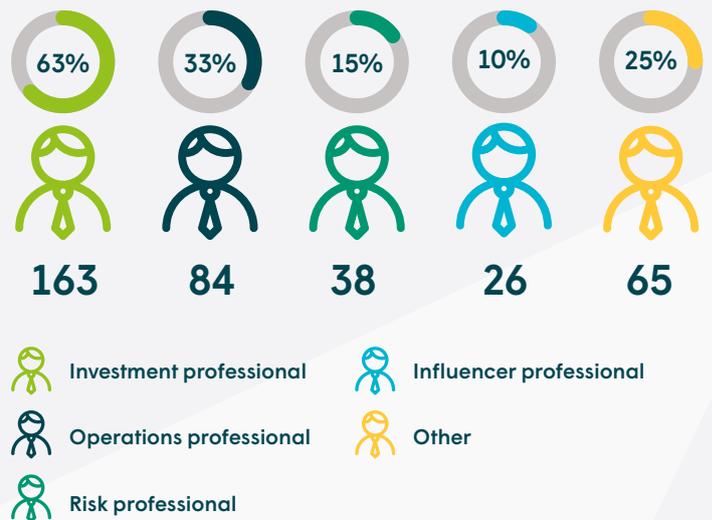
Survey received 258 responses across categories, regions and functions (overall Industry)



By Type of Respondent

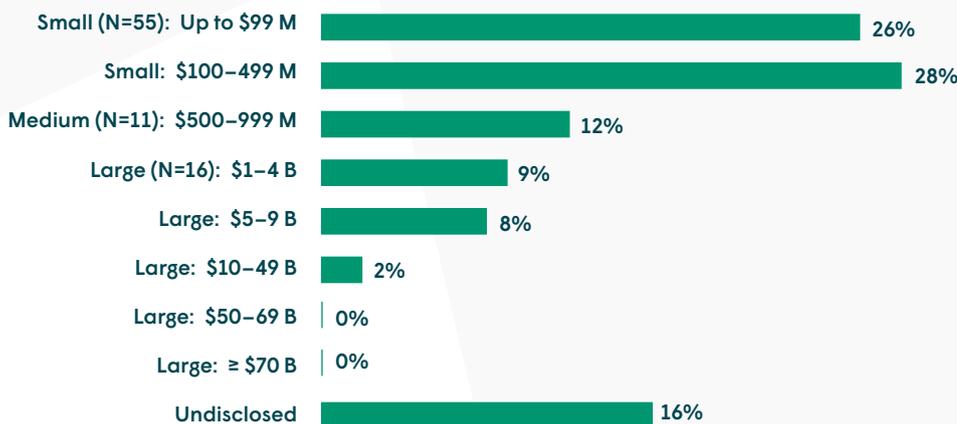


By Function



Note: Overall and individual functional totals do not tally as respondents opted for multiple functional roles.

Hedge fund respondents categorised by AUM



About FIS

FIS is a global leader in financial services technology, with a focus on retail and institutional banking, payments, asset and wealth management, risk and compliance, consulting and outsourcing solutions. Through the depth and breadth of our solutions portfolio, global capabilities and domain expertise, FIS serves more than 20,000 clients in over 130 countries. Headquartered in Jacksonville, Florida, FIS employs more than 55,000 people worldwide and holds leadership positions in payment processing, financial software and banking solutions. Providing software, services and outsourcing of the technology that empowers the financial world, FIS is a Fortune 500 company and is a member of Standard & Poor's 500® Index. For more information about FIS, visit www.fisglobal.com



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