

Strategies to optimise staffing, technology, counterparty and budgeting

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August 2009

As hedge funds grapple with tighter budgets, reduced staff, increased demands from investors and proposed regulatory changes, the traditional hedge fund operating workflow is at risk. Funds face greater challenges than ever before. Many are being forced to weigh cost versus benefit when assessing how to maintain internal operations and technology.

While cuts have been made from personnel to infrastructure, funds cannot escape the fact that business must remain fully operational.

Maintaining existing operations while trimming costs and anticipating changes that cannot yet be defined is not easy. Determining what a fund should be evaluating is half the battle. Developing an actionable game plan and executing is the other half.

Staffing

People are the foundation of any company. Managing staff is not something that most investment professionals typically have experience or interest. In order to create a performance-driven operating staff, fund managers should identify and define the roles and responsibilities of each member.

Setting individual and group goals and objectives as well as a clear method for achieving these is one of the most important things a fund can do in order to maintain an effective, scalable staff.

If a fund does not have a sound staffing and operating model, managers may find certain operational tasks are not being fulfilled. This could lead to portfolio or compliance risk.

When evaluating staff, a manager should look at each role within the company and determine what tasks could be consolidated to reduce possible duplication of work and increase operational efficiency. During periods of growth companies hire quickly. As a company tightens the reins, it is saving resources by consolidating tasks into one role. Companies are also finding significant return on investment by outsourcing tasks to third party specialists to decrease headcount while increasing operational efficiency.

Technology

Technology selection, maintenance and support can be challenging to investment managers. Like a strong operating model, a well-architected technical infrastructure is a must-have to support staff and provide the ability to scale technology needs in the future. As companies are challenged with reduced technical budgets, they need to evaluate which applications are mission critical to operations. By determining this companies can assess where they can reduce costs. Evaluate hardware components to ensure they are under warranty and have continued support. A simple exploratory audit can help determine which applications, data or research services are not being used and may no longer be necessary.

Balancing resources with technology is also a challenge when evaluating an operation. There are many systems built specifically to help automate a fund. Most systems were created to save time and reduce manual errors. Ensure the business has the appropriate resources and are informed and trained on these are the most important aspects of your operation. Although technology automates business processes, understanding the system functionality, the support model and the expected services level from a third party vendor is often overlooked.

Managing counterparties

Companies are challenged with increased bank counterparty risk. Many have determined that multi-prime is the best way to alleviate the counterparty risks. The prime broker selection process does pose its challenges as there are many considerations involved

Transitioning to a multi prime environment poses many operational and technical challenges, as companies will need to evaluate what changes are necessary to facilitate operational workflow and technical capabilities. They will need to determine what services and technology the new prime will supply and what services are being transitioned or eliminated from the current prime.

Adding additional counterparties will change the way the fund operates and increases the complexity of daily business processes. Workflow challenges within the company revolve around aggregation of data, risk management, accounting and reporting. Funds will need to determine if existing technology, infrastructure and staff can handle the new workload and make any necessary adjustments.

Budgeting

The current economic environment has forced funds to re-evaluate their operating budget and come up with a stricter model that is well documented and followed. Regulatory bodies and investors are also pushing for more transparency in order to determine how management fees are spent.

Funds are taking a more diligent approach to budgeting and evaluating their internal operations, payroll and technology responsibilities.

- Determine a baseline operating budget number, starting with the management fee, will provide parameters when evaluating the various components of the business.
- Look at staffing needs, including roles and responsibilities to determine payroll needs (excluding bonuses), employment taxes, health and benefits costs.
- Look again at current office expenses and lease obligations to determine total cost. There may be an opportunity to renew the lease at a lower cost.
- Will help eliminate unneeded technologies while budgeting for upgrades or additional technologies. Outsourcing needs to be costed by looking at the annual outlay for legal, audit, consultants and administrator fees
- Differentiate between one time costs and recurring costs. Outsourcing operational, administrative and technical responsibilities to specialists may eliminate costly overheads.

Every fund has different business needs. Funds need to look at the budget from a macro view, evaluating needs at the micro level and line items. Costs should be determined by the current needs but including some room for unforeseeable expenses such as legal fees and consultants. If regulations and compliance requirements change, so will your staffing and technology needs