

US Hedge Fund Startup Guide

SPECIAL REPORT 2020

FUND ADMINISTRATION

Automation key to high quality service

TECH INFRASTRUCTURE

Vision and technology work hand in hand

SOFTWARE SOLUTIONS

Robust systems needed to bolster security

Robust systems needed to underpin hedge fund businesses

Interview with James Baxter

When considering hedge funds to invest in, asset allocators place a high value on controls around cyber security, information security and compliance. Therefore, startup hedge funds need to ensure they not only deliver on their investment promises but also that the technology systems underpinning their business are robust.

James Baxter, head of institutional sales efforts at SS&C Eze, elaborates: “Startup hedge funds need to make themselves attractive to the asset allocators. Cyber security, information security and compliance are the top three items allocators are evaluating when considering investment with a specific manager, so it’s critical that managers choose vendors that help them, not hurt them, in these areas.”

From a technology perspective, hedge funds need a solution capable of addressing their needs in all areas—front, middle and back office. Baxter explains they need technology that connects them to their broker or gives them insight into their portfolios in real time. Further, the solution also needs to deliver pre- and post-trade compliance, a full audit trail, and be able to easily reconcile data with prime brokers and administrators. He says: “This is one thing we’re discussing with newer managers – how do you leverage technology to deliver all of these things in a single solution?”

The Eze Eclipse platform is an all-in-one solution that allows hedge funds to manage the entire investment life cycle on one platform. It is a front-to-back office investment management platform, native to the Amazon Web Services cloud. Baxter outlines the rationale behind building the platform in the cloud: “Eze took this approach for pure scalability. Amazon Web Services is one of the best

public clouds out there in that allows us to grow and scale our business at speed. When we launched the platform, we knew it was going to take off quickly and we needed to partner with a cloud vendor who would withstand this.”

In fact, the platform has grown significantly over the past three years, having signed on more than 100 clients since its launch in 2017.

The all-in-one nature of the Eclipse platform is one of the key factors in its attraction, and developments that further support the trend for managers outsourcing non-core elements add to its appeal. Baxter notes: “Many managers are looking to be very slim in terms of their operational overheads. Therefore, we are layering middle and back office services into our technology through Eclipse Operational Services. Managers who outsource their trading functions are also looking to outsource their middle and back office services. These additional services are a vital component of what makes Eclipse attractive.”

Baxter believes having a technology platform that can minimise the components within a hedge fund manager’s eco system is essential. “Hedge fund managers should aim to choose a solution that can deliver as much as they possibly need in one single database,” he adds.

Cloud technology is particularly beneficial to startup hedge funds due to its straightforward attributes. Hedge funds that are just starting out need simple infrastructure and Baxter says cloud technology delivers this for them: “It keeps their overall infrastructure cost down and also allows it to be uncomplicated because the cloud is very simple in terms of how its deployed and where it sits.”



Startup hedge funds also need to be aware of how their needs may change in the future and choose a long-term partner that's investing in development and can provide extensive expertise alongside technology offerings. "In terms of the technology, startup managers want to be able to partner with a vendor such as Eze because we can address their needs today and are built to grow. They aren't at risk of outgrowing the platform in two years. We can deliver what they need over the next five to ten years. Eze Eclipse can scale with their business as it changes," Baxter highlights.

Just a few years ago, startup hedge funds would not have had access to such technology. The world of cloud computing has gone through significant change in the past 10 years. The greatest development has been the role it plays in investment management. "We've seen a greater focus on cloud technology and how businesses are looking to either migrate portions or all of their business into the cloud. This is happening now because investment management professionals have become more comfortable with the information security around the cloud technology," Baxter comments.

Cloud usage has evolved significantly. Whereas historically it was only considered to be related to data storage and record keeping, nowadays investment managers are placing larger portions of their business on the cloud. Baxter says: "Having portions or all of their business on the cloud means investment managers have inherent disaster recovery built-in. If there is an outage, the cloud allows for an automatic fail switch over."

The primary challenge startup hedge funds face when looking to implement technology

systems is around cost. Baxter acknowledges: "There is cost associated with having the best technology available and therefore you need to spend money to make money.

"This is the biggest struggle we discuss with newer managers – they want to be attractive to the biggest allocators out there, so they want to be able to have the best technology in place to provide comfort to investors. This allows those allocators to check that box and move on. However, this means that some of these managers will have to upfront that cost in order to attract funds and successfully launch a business. This is why we designed Eclipse to be cost-effective."

To guarantee the strength of its business and systems Eze invests in subjecting its security programmes to an extensive audit by an external third-party auditor. In December 2019, the firm announced it successfully maintained ISO 27001 certification, including an expanded scope that encompasses ISO 27017 and ISO 27018 for Cloud Security and Cloud Privacy. Eze is looking to expand the scope even further in 2020.

Baxter cautions startup hedge funds to take stock of the providers they work with. "Startups should not only be considering vendors and technology platforms that are scalable for their business but should also be looking at vendors that have the proper certifications. Eze goes through this stress testing each and every year. We invest a lot of resources in ISO certification to show we've gone through the proper infiltration testing with our business because after all, we are managing clients' data, which cannot be taken lightly. This is something hedge fund managers should be looking at with all their vendors; to make sure they have their certification and they go through the appropriate third-party audits and every year," he concludes. ■

James Baxter

Director, Institutional Sales, SS&C Eze

James Baxter leads institutional sales efforts at SS&C Eze. He joined Eze Software in 2013, working from Dallas to grow market share and pipeline across the Midwest and then expanding his territory to the East coast. He transitioned to New York in 2015, and now covers the New York, Connecticut and Massachusetts sales efforts. Prior to joining Eze in 2013, he led sales efforts in the Alternative Investments group at Morgan Stanley Wealth Management and Gain Capital.