

Graeme Vollemaere of **Pacific Fund Systems** talks to *HFMWeek* about recent changes in fund administration and how to keep up to date in a changing environment

Staying ahead



Graeme Vollemaere is a director and joint founder of **Pacific Fund Systems**, and has been involved in the investment banking and hedge fund industries for over 18 years in both trading and management capacities.

As Asia continues to evolve as a financial centre, attracting a wealth of fund managers from around the world, high-quality fund administration services supported by first-rate technology systems are more important than ever. With clients throughout the Asia-Pacific region, Pacific Fund Systems (PFS) is a global software company dedicated to supporting the administration of alternative assets. PFS' PFS-PAXUS fund administration software application currently has an estimated \$300bn AUM and 2,000 investment entities being administered globally.

Drawing upon a wealth of experience, Graeme Vollemaere, director and joint founder of PFS, speaks to *HFMWeek* about how fund administration has evolved in recent years, and the increasing vital role that technology service providers will play in the future.

HFMWeek (HFM): How do you see the current environment affecting your industry as a technology service provider?

Graeme Vollemaere (GV): In the face of an environment of tightening regulations and heightened due diligence from investors, there is an increasing call to separate the duties of the fund manager from the books and records of the fund in order to help protect investors against fraud and valuation error. As a result of this trend, there is speculation from various market commentators that the fund administration industry is about to enter an explosive phase of growth despite the difficult market conditions.

The selection process for the appointment of a fund administrator typically subjects the administrators to a set of due diligence requirements, and one of the key selection criteria typically examines the systems being utilised by the administrator. We believe that in order for administrators to participate in any future up-cycle, it is essential to have a recognised, proven and robust systems infrastructure in place in order to satisfy the demands of potential new clients.

HFMWeek: What changes have you observed in fund administration in recent years?

GV: Since PFS foundation in early 1999 we have seen a broadening in the range of services offered by administrators and we have developed the PFS-Paxus to support the range of structures commonly seen across the globe including hedge funds, partnerships, private equity, protected cell structures and family office accounting.

In recent years we have seen a trend of increasing frequency of valuation (from monthly to weekly or even daily) and widespread adoption of performance fee equalisation. The ability to maximise employee productivity through technology has be-

come an important differentiator.

PFS aims to provide all the core components required by a fund administrator to support them in their business in a single, integrated system and this includes all the common legal structures for investment administration. The benefits of this single integrated system includes the ability to maintain consistency of data throughout the fund administration process in a single database. This increases business efficiency, provides administrators a single point of reference and improves the time required to train new staff.

HFMWeek: What makes hedge fund administration different from other investment types?

GV: Over recent years there has been convergence between hedge funds and other investment types and the boundaries between them are now somewhat blurry. The most defining factors are the manager's investment strategy and the regulatory regime, which determines how the fund can be distributed. From an accounting perspective the most defining factor is the presence of performance fees typical to hedge funds.

A quality of PFS-Paxus is the performance fee calculations, which are built into the NAV calculation process using either equalisation or multi-series performance fee models. Both of these performance fee models ensure equitable treatment of investors and the correct calculation of fees to the manager for positive performance. Inequity may arise from using obsolete performance fee models when investors enter and/or redeem from the fund between High Water Mark (HWM) dates. The premise for correct performance fee calculations is to accrue and crystallise performance fees based upon each investors' individual entry and exit price. Any less sophisticated models usually attempt the charge performance fees at fund level without consideration to the individual investor's experience.

HFMWeek: How do you keep up to date with changes in fund administration?

GV: PFS-Paxus is a dynamic system with new functionality added in response to changes in the industry and amongst our users. With over 40 client sites we receive regular feedback from our users regarding industry trends and what they would like to see in a system. We offer major system upgrades every six months so that the gap between new industry requirements and delivery is kept to a minimum.

For example, for the Asian region we will soon be introducing multi-lingual functionality to the system reporting to support up to three languages including Chinese and other Asian language characters. This will enable administrators to customise the language used in the fund and investor reporting to suite the domicile of each fund's investor base. ■