

# Automation the key as Ucits go alternative

By James Eldershaw & Nina Kleinbongartz

Pressure is growing on alternative fund managers from institutional investors and regulators to accept a more regulated environment. Even before the finalisation of the European Union's Directive on Alternative Investment Fund Managers, currently awaiting debate in the European Parliament, managers are already seizing the initiative by replicating alternative strategies in Ucits III funds.

This development has been made possible by the greater investment flexibility available under the Ucits III legislation as financial derivative instruments may be used not only for the purpose of hedging, but also to increase returns. Recent years have seen rapid growth in the number of sophisticated Ucits funds that allow managers to use derivatives to replicate hedge fund strategies, making alternative products available to a much broader market throughout the EU.

Bringing an unregulated product into a regulated environment poses significant challenges to fund administrators – accommodating the performance fee structures at investor level, which is familiar in the hedge fund world but largely unknown among Ucits funds, and adapting to the much more frequent valuation and reporting requirements prevailing for funds that benefit from the European passport for cross-border marketing.

Citi uses Pacific Fund Systems' PFS-Paxus product to achieve an automated solution for the performance fee calculations required, using equalisation calculation methodologies or multi-series accounting – necessary to ensure that all investors are treated equitably. PFS-Paxus handles the various different calculation methods used within the industry automatically, in contrast to the more time-consuming and less efficient methods involving spreadsheets adopted by other administrators.



**James Eldershaw is a director with Pacific Fund Systems and Nina Kleinbongartz is product manager for alternative investments in Europe with Citigroup Global Markets**

PFS-Paxus also automates the administration of side-pockets created to hold illiquid and hard-to-value assets. This capability is all the more important since the Luxembourg regulator, the CSSF, approved a fast-track authorisation of side-pockets for Specialised Investment Funds and undertakings for collective investment established under Part II of the country's fund legislation.

Automation of performance fee calculations at investor level is important not just to improve efficiency but to facilitate communication to investors. With even institutional investors sometimes having problems understanding the details of equalisation calculation, let alone the new market of individual investors opened up by Ucits III, accuracy in processing and precision in calculation and reporting is essential for managers.

Moving to the weekly or daily valuation and reporting schedules required of Ucits III funds puts new pressure on administrators by comparison with the typical hedge fund cycle of monthly valuations, which usually allows a few days for complex calculations to be checked. Administrators need systems that can perform the required calculations virtually at the touch of a button.

PFS-Paxus already allows managers and administrators to meet the requirements to maintain two sets of security valuations in order to demonstrate consistency of valuation and to highlight any significant discrepancies, especially for hard-to-value securities, between manager's prices and the administrators' independent price sources. In addition Citi provides integrated web reporting that offers transparency and allows data to be published as soon as it is collected. ■