



Why Are Hedge Fund Managers Changing Service Providers?

Amy Bensted explores the reasons behind hedge fund managers switching their service providers, including what service providers can do to keep relationships with their clients strong, as well as attract new business.

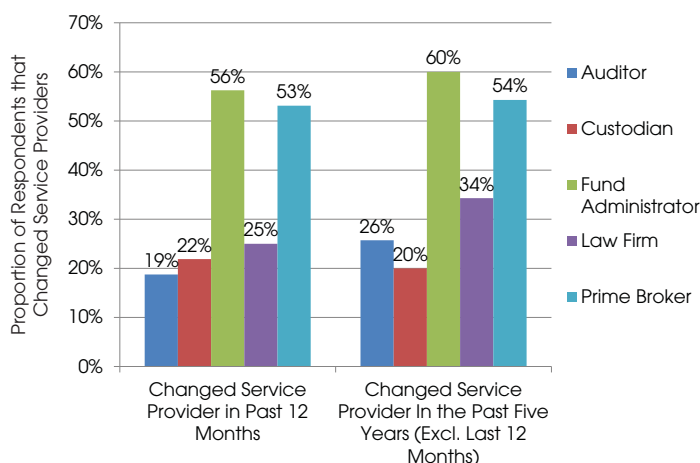
Service providers, such as administrators, prime brokers, custodians, auditors and law firms, provide invaluable services to managers in the \$2.6tn hedge fund industry. In the wake of the credit crisis, and also following the fall out of the Lehman collapse and the Madoff scandal, the use of independent service providers has become indispensable and the industry has grown and innovated in the intervening five years.

However, fund managers often selectively change their existing group of service providers as their funds grow and their needs evolve. At the end of 2013, Preqin conducted interviews with over 100 fund managers to find out whether they had recently changed service providers and to discover what had prompted the change.

Our study of fund managers shows that many hedge funds change their service providers. In the past 12 months, a third of all fund managers have changed a service provider, with Europe- and North America-based fund managers being the most active in switching service providers in 2013 (Fig. 1). Over longer time frames, 41% of fund managers have reported that they have changed a service provider in the past five years (excluding the last 12 months).

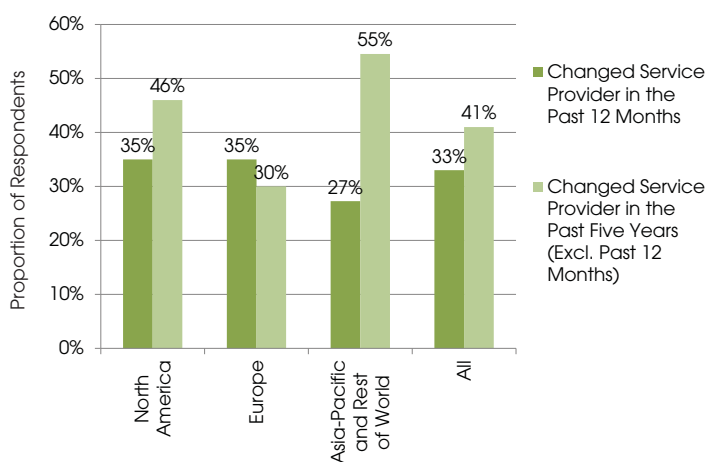
When looking at the types of service providers that managers have changed over the various time frames (Fig. 2), it is fund administrators and prime brokers which are the most frequently changed by fund managers. In both time frames, over half of all fund managers which had reported they had changed a service provider had altered their outsourced administrator or prime broker. Hedge fund managers are least likely to change service providers that provide custody or auditing services, particularly in the shorter term.

Fig. 2: Service Providers Changed by Hedge Fund Managers Within Each Time Frame



Source: Preqin Hedge Fund Manager Interviews, November 2013

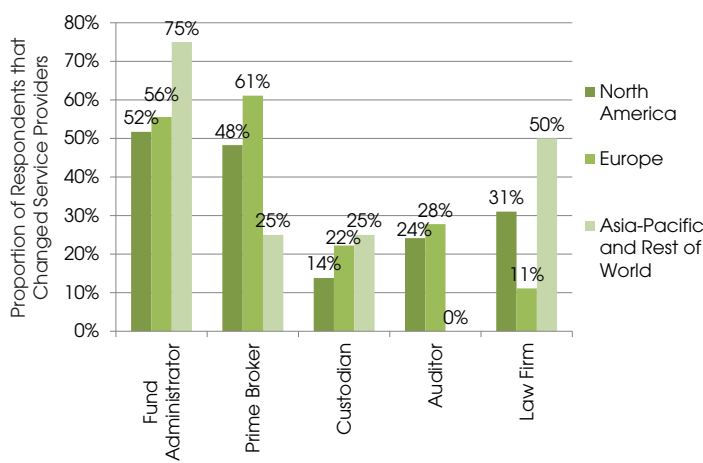
Fig. 1: Proportion of Hedge Fund Managers Which Have Changed Service Providers by Regional Headquarters



Source: Preqin Hedge Fund Manager Interviews, November 2013

Fund managers switch service providers for a variety of reasons, and fund managers in different regions have differing needs which lead to changes in the service providers they use. Dissatisfaction with the quality of the service they receive is a common concern across all fund managers globally, and this is clearly an area where groups that provide services to funds can improve (Fig. 4). This is a particular problem in emerging regions for hedge fund management, Asia-Pacific and Rest of World, where the service provider sector

Fig. 3: Service Providers Changed by Hedge Fund Managers by Regional Headquarters in the Past Five Years



Source: Preqin Hedge Fund Manager Interviews, November 2013



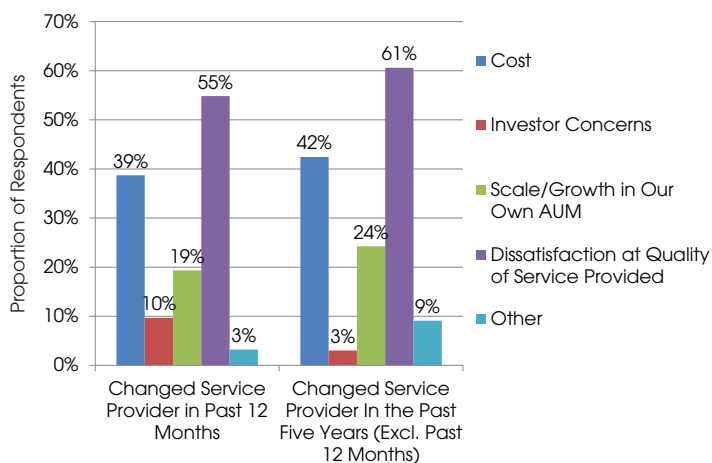
may be less developed, or has little local presence. There is certainly an opportunity for groups that can provide consistent, good service on a local level to appeal to this growing group of managers in Asia-Pacific and Rest of World.

Fund managers are also conscious of cost and scale when looking at service providers. For managers based in Europe and Asia-Pacific and Rest of World, cost is a particular concern (Fig. 5). Funds in Asia-Pacific and Rest of World are typically smaller and newer than their counterparts in Europe and North America and there is a need to keep costs low, particularly when trying to keep fees at a competitive level. For Europe-based managers, it has been a challenging few years in terms of fundraising and the new regulations in the region have made it more costly to run hedge funds; these managers are

conscious of the need for service providers to provide good value for money.

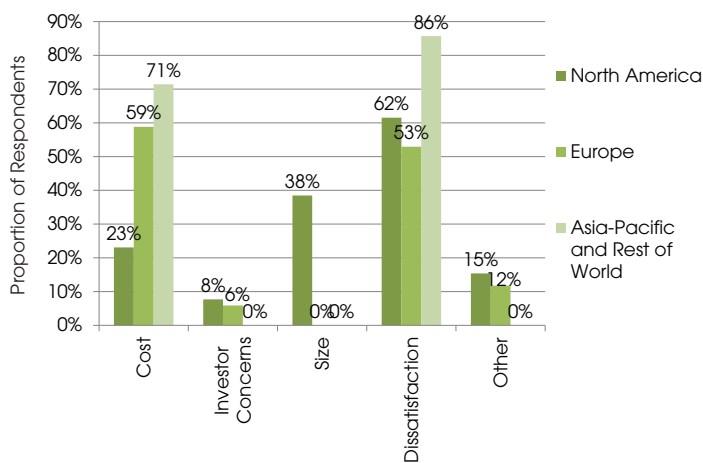
On the other side of the Atlantic, North America-based fund managers find the need to switch service providers as their funds grow to ones which are better able to cope with their scale. As a result, there is a clear opportunity for different types of service provider, particularly in the administrator and prime brokerage sectors, which can provide services to funds of different sizes, or are specialized in providing services for funds of a particular size. It is also important for service providers to offer good value for money, particularly in an environment where the overall costs of running a hedge fund are increasing and investors are making calls for fees to be cut.

Fig. 4: Reasons Why Fund Managers Have Changed Service Providers Over Each Time Frame



Source: *Preqin Hedge Fund Manager Interviews, November 2013*

Fig. 5: Reasons Why Fund Managers Have Changed Service Providers by Regional Headquarters



Source: *Preqin Hedge Fund Manager Interviews, November 2013*

Subscriber Quicklink

Preqin's **Hedge Fund Analyst** contains detailed information on 273 fund administrators, 134 prime brokers, 196 custodians and 352 law firms. Subscribers can click [here](#) to search for service providers by type, as well as types of fund, domiciles and locations serviced.

The **League Tables** feature shows the top service providers by number of funds serviced and can be filtered by type, location of managers or funds serviced, and types of fund.

For more information, or to arrange a demonstration, please visit:

www.preqin.com/hfa

Data Source

The data in this article is taken from our recently released **Preqin Special Report: Hedge Fund Service Providers** and is based on in-depth interviews with a selection of the 5,296 hedge fund managers profiled on **Hedge Fund Analyst**. The report examines key trends among managers that have changed service providers and what service providers can do to keep relationships with their clients strong, as well as attract new business.

To download your complimentary copy, please visit Preqin's **Research Center**:

www.preqin.com/research



2014 Preqin Global Alternatives Reports

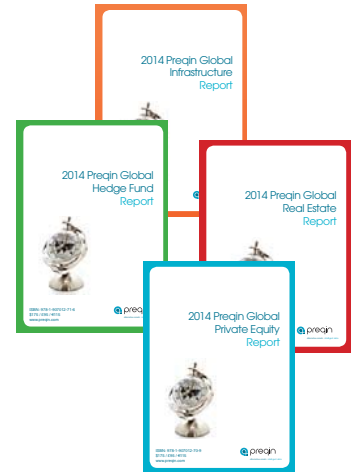


alternative assets. intelligent data.

The 2014 Preqin Global Alternatives Reports are the most comprehensive reviews of the alternatives investment industry ever undertaken, and are a must have for anyone seeking to understand the latest developments in the private equity, hedge fund, real estate and infrastructure asset classes.

Key content includes:

- Interviews and articles from the most important people in the industry today.
- Detailed analysis on every aspect of the industry with a review of 2013 and predictions for the coming year.
- Comprehensive source of stats - including fundraising, performance, deals, GPs, secondaries, fund terms, investors, placement agents, advisors, law firms.
- Numerous reference guides for different aspects of the industry - Where are the centres of activity? How much has been raised? Where is the capital going? Who is investing? What are the biggest deals? What is the outlook for the industry?



For more information visit: www.preqin.com/reports

I would like to purchase:

PRINT:

Name	1 Copy	✓	2 Copies (10% saving)	✓	5 Copies (25% saving)	✓	10 Copies (35% saving)	✓	Data Pack* (Please Tick)
Private Equity	\$175/£95/€115		\$315/£170/€205		\$655/£355/€430		\$1,135/£620/€750		
Hedge Funds	\$175/£95/€115		\$315/£170/€205		\$655/£355/€430		\$1,135/£620/€750		
Real Estate	\$175/£95/€115		\$315/£170/€205		\$655/£355/€430		\$1,135/£620/€750		
Infrastructure	\$175/£95/€115		\$315/£170/€205		\$655/£355/€430		\$1,135/£620/€750		
All Titles (25% Saving!)	\$525/£285/€345		\$945/£510/€620		\$1,965/£1,065/€1,290		\$3,410/£1,850/€2,240		

Shipping Costs: \$40/£10/€25 for single publication
\$20/£5/€12 for additional copies

(Shipping costs will not exceed a maximum of \$60 / £15 / €37 per order when all shipped to same address. If shipped to multiple addresses then full postage rates apply for additional copies)

If you would like to order more than 10 copies of one title, please contact us for a special rate.

DIGITAL:

Name	Single-User Licence	✓	Enterprise Licence**	✓	Data Pack* (Please Tick)
Private Equity	\$175/£95/€115		\$1,000/£550/€660		
Hedge Funds	\$175/£95/€115		\$1,000/£550/€660		
Real Estate	\$175/£95/€115		\$1,000/£550/€660		
Infrastructure	\$175/£95/€115		\$1,000/£550/€660		
All Titles (25% Saving!)	\$525/£285/€345		\$3,000/£1,650/€1,980		

Digital copies are exclusive of VAT where applicable.

* Data Pack Costs: \$300/£180/€220 for single publication
**Enterprise Licence allows for unlimited distribution and printing within your firm. Printing is disabled on Single-User Licences.

Completed Forms:

Post (address to Preqin):
One Grand Central Place
60 E 42nd Street
Suite 630, New York
NY 10165

Equitable House
47 King William Street
London, EC4R 9AF

One Finlayson Green
#11-02
Singapore 049246

580 California Street
Suite 1638
San Francisco
CA 94104

Fax:
+1 440 445 9595
+44 (0)870 330 5892
+65 6491 5365
+1 440 445 9595

Email:
info@preqin.com

Telephone:
+1 212 350 0100
+44 (0)20 7645 8888
+65 6305 2200
+1 415 635 3580

Payment Details:

- Cheque enclosed (please make cheque payable to 'Preqin')
- Credit Card Amex Mastercard
- Visa Please invoice me

Card Number: _____

Name on Card: _____

Expiration Date: _____

Security Code: _____



American Express, four digit code printed on the front of the card.



Visa and Mastercard, last three digits printed on the signature strip.

Shipping Details:

Name: _____

Firm: _____

Job Title: _____

Address: _____

State: _____

City: _____

Post/Zip: _____

Country: _____

Telephone: _____

Email: _____