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Fund Administration
Survey 2011

Accountability Counts



Centaur Fund Administration Survey 2011

Key findings

How important is a fund administrator?

All stakeholders – investors, directors and fund managers – view the role of administrator as being vitally important. Of particular note are the views of investors and directors:

100%

of investors would **refuse to invest** in a fund because of concerns about the administrator.

100%

of directors would **refuse to act as director** of a fund where they have serious concerns about the administrator.

58%

of directors **have terminated an administrator's appointment** due to **poor service** and **lack of accountability**.

28%

of investors reported that administrators had **refused to co-operate** with their due diligence initiatives.

So, what are the key areas of concern for investors, directors and managers regarding administrators?

1.

The issues that come screaming out of the survey are concerns that administrators are not accountable for independently verifying that assets exist and that administrators are not independently pricing portfolios.

100%

of investors list **independent valuation** as being a crucial factor when evaluating an administrator.

92%

of directors list **asset existence verification** and **valuation** as their **most important administrator concerns.**

75%

of managers list the **ability to value financial instruments** as a key issue when selecting an administrator.

2.

The quality and organisation of management and staff is the next biggest issue highlighted in the survey:

84%

of directors consider a **lack of understanding and knowledge** of administrator staff to be a “very important” concern.

81%

of managers consider a **detailed knowledge of strategy** to be either “very important” or “important”.

78%

of investors cite **clear understanding, experience and knowledge** as being key factors when evaluating administrators.

3.

Technology, controls and procedures rank as important administrator concerns to stakeholders:

100% of managers rate **technology platform** as either a “very important” or “important” factor to consider when selecting an administrator.

89% of investors rank **inadequate controls and procedures** as a “very important” administrator concern.

4.

Transparency reporting is now a key requirement for many investors:

72% of investors now receive transparency reporting.

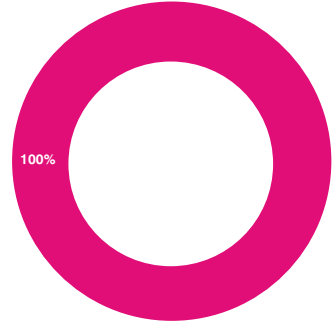
22% do not but **would like to receive transparency reports.**

39% of investors would be happy to pay extra for this service.

Fund Investors

A Would you refuse to invest in a fund because of administrator concerns?

Investors' responses here clearly illustrate how important they feel a fund's administrator is. Every investor surveyed clearly stated that they would not invest in a fund if they had administrator concerns.

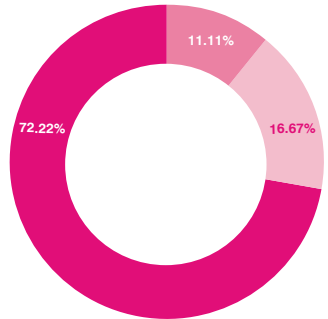


■ Yes ■ No

“ If uncomfortable with the current administrator we would ask the hedge fund manager to change to a different administrator. ”

B Has an administrator ever refused to cooperate with you on due diligence?

The level of due diligence being carried out by administrators continues to increase. It is alarming that certain administrators refuse to be co-operative and transparent with fund investors.

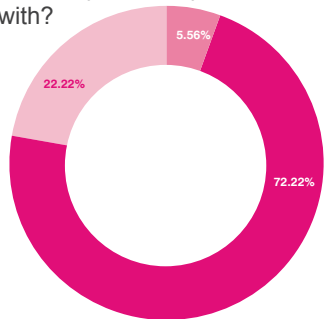


■ No ■ Yes ■ Sometimes

“ An example - which is a recent trend - is administrators who wish to refer only to their generic, firm wide questionnaires in response to due diligence inquiries. This, of course, provides vague information which describes the typical procedures adopted by the administrator, but which may not be applicable for the specific fund under review. ”

C Do you receive independent transparency reporting (detailing the percentage of fund assets verified by the administrator, independently priced by the administrator etc) from the administrators you invest with?

The growing importance of investor transparency reporting is clearly reflected among investors in our survey. The majority of investors are receiving this service while the vast majority of those who aren't state that they want to.



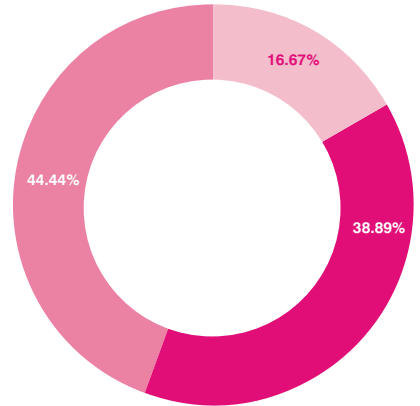
■ Yes ■ No but I would like to ■ No and I don't want to

“ We receive from some but not from as many as we would like. Our clients have expressed strong support for this type of reporting. ”

“ We see this as institutional best practice and will be pushing this very hard going forward. ”

D Would it be acceptable to you for funds to pay a modest fee to administrators to deliver independent transparency reporting to investors?

Investors appeared to be very much split on this issue. While many investors feel that this is an additional service offering and, as such, are willing to pay; others feel that it should be part of the existing package and does not merit additional fees.



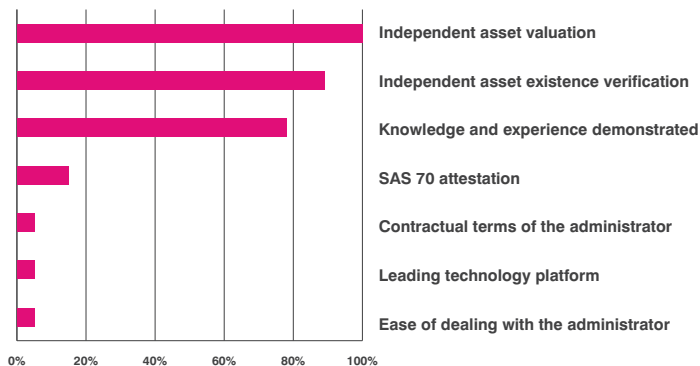
“ Should be part of existing package. This level of reporting should not justify an additional layer of fees. ”

“ Very much so. Please don’t hesitate to contact me about this for more detail. ”

Yes Maybe No

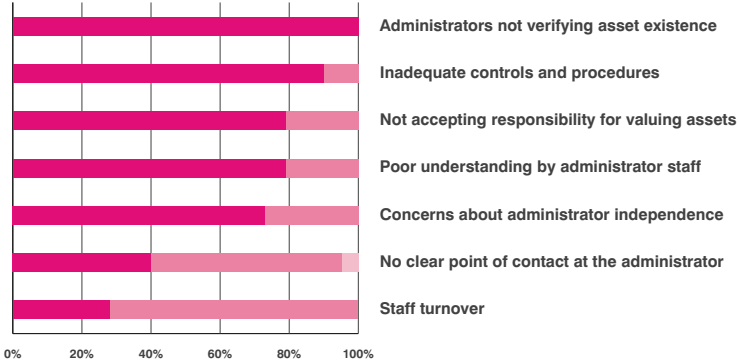
E What are the most important factors to you when carrying out due diligence on an administrator prior to making an investment

Administrators independently valuing fund assets ranks as the most important factor. Asset existence verification and a clear demonstration of understanding, experience, and knowledge rank as the second most important factors with 89% and 78% respectively.



F How do you rate the following administrator concerns?

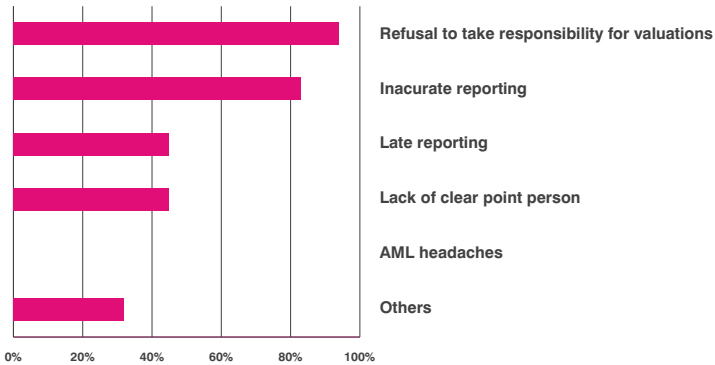
Again, asset existence and pricing verification rank as the most important issues to investors. Inadequate controls and procedures also rank as major administrator concerns.



Very important Important Not important

G What are your top 3 “pet hates” when it comes to administrators?

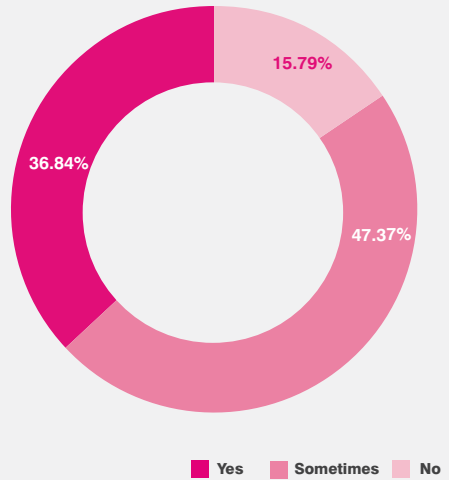
The importance which investors place on administrators taking responsibility for valuations is reiterated with the final question of the investor survey. Here 94% of investors choose, “refusal to take accountability for valuations” among their top 3 pet hates. “Inaccurate reporting”, “lack of a clear point person” and “late reporting” also rank highly, suggesting that overall administrator knowledge, experience and competency are very important to investors.



A Do you play an active role in the administrator selection process for new funds?

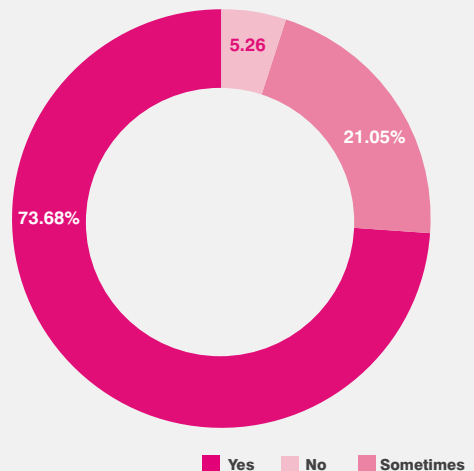
The majority of directors play a role in the administrator selection process with over 80% of directors answering either “yes” or “sometimes”. However, the quote below is telling.

“Generally the selection or at least the short list is in place when I sign on as a director.”



B Do you play an active role in the ongoing review and monitoring of administrators to agreed service level agreements?

Almost three quarters (74%) of directors play an active role in the ongoing review and monitoring of administrators to agreed service level agreements.



C How do you rate the following administration factors?

The most important factor for directors is that administrators are independently verifying asset existence. Accepting responsibility for valuations and quality of staff are also key.



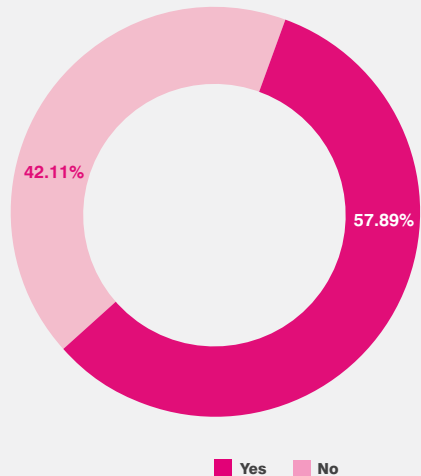
“ I am concerned at Administrators seeking to limit their liability when they are responsible for an error. ”

D In your opinion do administrators understand that they are accountable to fund boards?

Surprisingly, almost 60% of directors believe that administrators don't fully understand that they are accountable to fund boards.

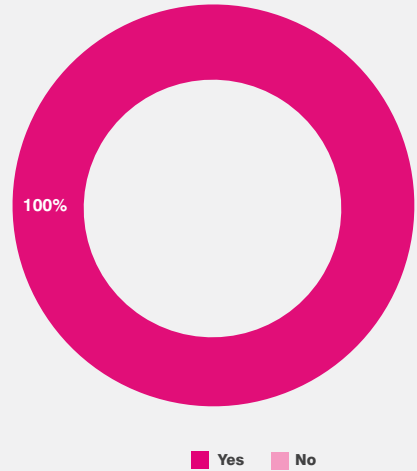
“ Yes at a senior level, but less evident among staff involved on a day-to-day level. ”

“ Some are, many aren't, or are at least not good at hiding where they see their loyalties as lying. ”



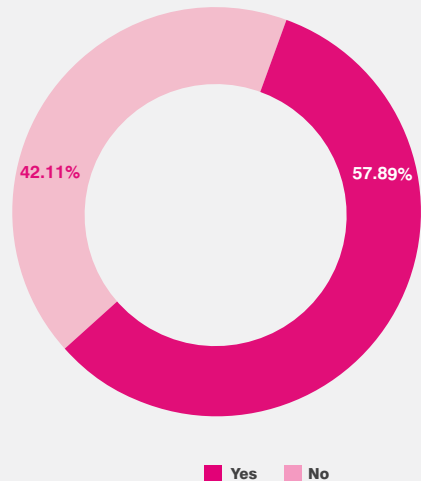
E Would you refuse to act as director to a fund where you have serious concerns about the administrator?

Directors clearly place huge importance on the role played by administrators. All of the directors we surveyed stated that they would not act as director to a fund where they have serious concerns about the administrator.



F Have you ever terminated a contract due to poor service and lack of accountability?

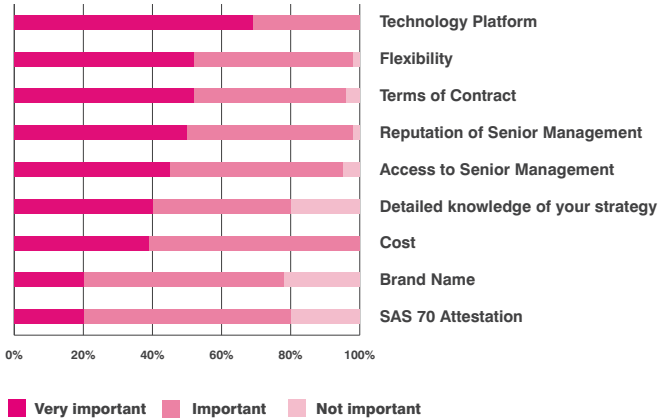
58% of directors state that they have terminated an administrator's contract in the past due to poor service and lack of accountability.



Fund Managers

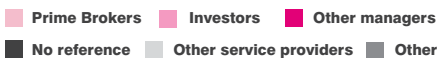
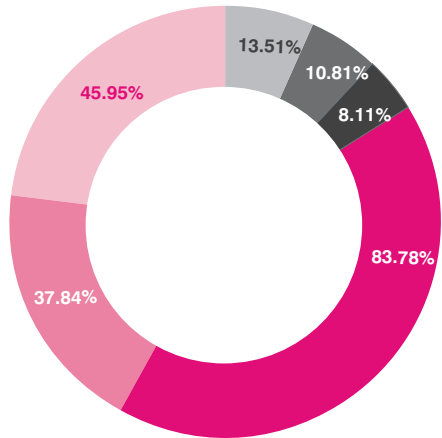
A When selecting an administrator, how do you rate the following factors?

The importance that managers place on administrator's ability to verify asset pricing is reflected in this chart which asks managers what factors they consider to be most important when selecting an administrator. "Ability to value financial instruments" and "technology platform" are considered to be the most important factors.



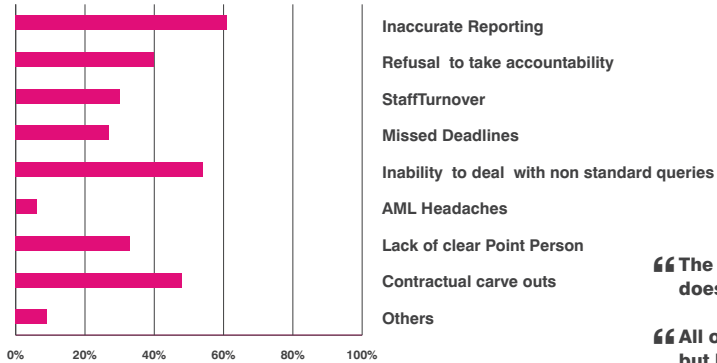
B Do you seek references when selecting an administrator? If so, from whom?

When asked who they used as references when selecting an administrator, the majority of managers listed "other managers" as one of their main references. This was largely in line with our expectations.



C What are your 3 “pet hates” when it comes to administrators?

Managers list “inaccurate reporting” and “refusal to take accountability” most often when asked of their three pet hates when it comes to administrators. Another interesting point is that “lack of clear point person” and “inability to deal with non standard queries” were also chosen quite often reflecting the value managers place on administrators displaying strong understanding, knowledge and experience.

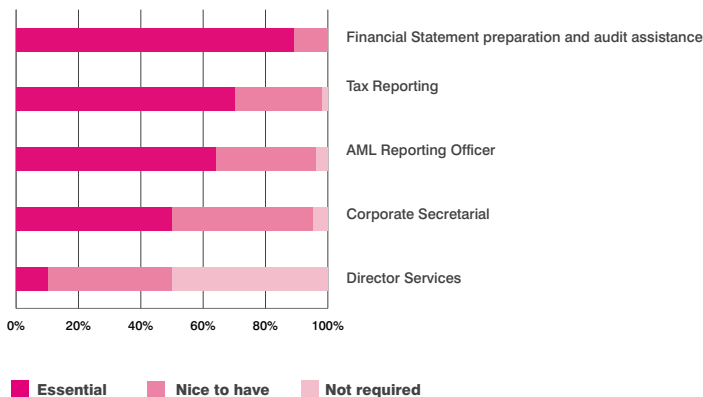


“The idea that one size fits all doesn't work for us.”

“All of these are “pet hates” but I would answer it differently for different Administrators.”

D Which of the following services do you view as essential services to be provided by your administrator?

Managers consider most of these services to be essential with the only exception being director services.



Essential Nice to have Not required

Fund Managers

E Which of the following “middle office” services do you view as essential services to be provided by your administrator?

Managers consider daily cash and position reconciliations as being the most essential service. Somewhat surprisingly, less than a quarter of managers see transparency reporting as being an essential service while most consider it to be “nice to have”.



“Ability to value financial instruments” and “technology platform” are the most important considerations for fund managers when selecting an administrator.

About Centaur

The leading innovator in hedge fund administration

Centaur is an independent fund administration company specialising in servicing alternative investment funds.

Centaur's senior management have worked together as a team since 1997. The team grew and ran one of the largest fund administration businesses in the world with client assets of over \$200 billion.

The principals of Centaur have been actively involved in the hedge fund industry in Europe, North America and Asia for many years and are frequent speakers at industry conferences and participants in leading edge research and study groups such as AIMA and IOSCO.

The founding principles of the business are to deliver excellent client service in an accountable and transparent fashion. We do this by hiring first rate employees and providing them with training, technology and infrastructure to deliver accurate on time reporting and a responsive and dynamic service.

We organise our employees in client based teams so as to ensure a better level of service to each stakeholder and our senior management group are actively involved in the client service delivery.