

UNITED FRONT

PETE CHERECWICH AND PETER SANCHEZ EXPLAIN HOW A COMBINATION OF A FORMIDABLE GLOBAL REACH AND INNOVATIVE TECHNOLOGY MAKE THE NEWLY CREATED NORTHERN TRUST HEDGE FUND SERVICES STAND OUT



Pete Cherecwich

is executive vice-president at Northern Trust, and currently serves as head of global fund services, which includes the Northern Trust hedge fund services unit. Pete is also chief operating officer for the corporate and institutional services business unit.



Peter Sanchez

is CEO of Northern Trust Hedge Fund Services. Prior to this, Peter served as global head of business development and client service, responsible for all new business sales and client relationships and has more than 20 years of industry experience

HFMWeek (HFM): Why did you decide to expand your hedge fund administration capabilities?

Pete Cherecwich (PC): It was a combination of factors. First, it was apparent to us that hedge funds would continue to grow. If we go back to 2008, one might have thought the hedge fund world would not survive. But, based on our analysis, it was pretty clear that institutional clients are still looking for alpha and will continue to make meaningful allocations to the alternative asset classes. Second, hedge fund managers are demanding more and more capabilities and scale.

Managers now expect administrators to be able to provide sophisticated strategy tagging while also handling millions of transactions on any given day. And lastly, the trend towards large institutional clients demanding separate accounts made it an imperative that we have a solution that will meet both the hedge fund managers' needs and those of our institutional clients from a data integration perspective. So, really it was a combination of an attractive market, a gap in capabilities and a demand from existing clients that drove our focus to this acquisition.

HFM: What made Omnium so attractive?

PC: Northern Trust has historically done acquisitions to fill gaps in capabilities. With the purchase of Omnium, we were able to obtain the use of a fantastic technology along with a cadre of people that understand both the hedge fund business and how to use that technology. Of course, we also picked up a tremendous client list. In addition, we added approximately 300 people to our already-robust team. The staff locations complemented Northern Trust as the majority of the new Hedge Fund Services team is based in Chicago, our headquarters, while the existing Northern Hedge Fund Administration is predominantly

performed in Dublin. We were also able to pick up their Asian presence, which fit nicely with our plans to expand into that region. The technology is clearly the best we have seen in the market. It was built over a number of years in an integrated manner to support the front, middle and back office simultaneously.

All asset classes are handled on the same integrated system, and automatically reconciled, in order to give the hedge fund a real time accurate view of all their positions and P&L. It's everything you'd expect a hedge fund trader would want a system to do and was originally built for Citadel, a widely recognised technology-savvy company. Also, unlike other systems that have been built by hedge funds, what is now Northern Trust Hedge Fund Services (NTHFS) already had over 50 clients, so this was an organisation that wasn't just doing its own work but had also built a significant third-party business. As a result, the technology has evolved and already been adapted to handle the nuances of dealing with multiple clients.

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HFM: How does this acquisition advance Northern Trust's overall business strategy and growth plans?

PC: One of our top strategies is to focus on the asset manager space. Obviously, hedge fund managers are an important segment within this space, so this was critical for us. The ability to provide hedge funds with other services currently provided by Northern Trust is also a huge opportunity for us. The model for institutional separate accounts that are run by hedge fund managers is still evolving, but this acquisition puts us in a great position to satisfy this growing need of our key institutional clients.

HFM: What makes Northern Trust Hedge Fund Services' new capabilities attractive?

Peter Sanchez (PS): What really makes NTHFS attractive is the synergy between the two companies. The entity that is now NTHFS is known for its leading-edge technology and innovation in the alternative hedge fund administration space. Northern Trust is known for its global reach in terms of its custody offerings and traditional fund administration to managers and institutional investors.

A combination of the two is incredibly powerful in the context of our innovative technology with the custody services and traditional administration capabilities of Northern Trust. The technology is unique in a number of ways. In addition to having the most robust strategy tagging system that exists today in the administration market, it enables a very interactive technology client experience throughout the NAV lifecycle and robust capital data management.

HFM: Why is technology such a critical component of managing clients' and investors' portfolios? What role does it play?

PS: The reason it is so critical ultimately comes down to what investors demand from their investment and fund managers, which is greater transparency around the ultimate portfolio. Technology is the tool that allows for this growing trend of investors' need for clear transparency.

We feel our technology is differentiated in the market in four powerful ways:

- It has incredibly powerful and flexible data management in terms of the ability to create hierarchies through strategy and attribution tagging
- Our system is product- and strategy-agnostic, in that we not only allow all products and their characteristics to be captured from a trade perspective, but we actually handle all the lifecycle events for that particular product, be it equity, a loan, a derivative, real estate, etc
- We have a front-to-back system in which all role players use the same data set, across products, securities and transactions. So whether you are an operations person, a trader, a portfolio manager, a risk manager, an accountant or a credit person, everyone is using the same data set. This is very powerful in the context of what the administration market generally is, which is a lot of data reconciliation between the general ledger, the middle office processing system and the trading system. We use one system and data set across all three
- We have a very interactive client experience throughout the data lifecycle. The entire trade and NAV lifecycle is online for our clients to view as they see fit in terms of trading views and data views they would like to manage

HFM: How will clients benefit from the new company?

PS: Omnium's existing client base of 54 clients will benefit from Northern Trust's global custody offering and traditional fund administration capabilities. Northern Trust's existing clients will benefit from NTHFS's new innovative technology and dedicated expertise in the alternative

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hedge fund space. New clients and institutional investors will benefit from the leading-edge technology with an integrated custody offering and more traditional administration services.

HFM: What are some of the recent trends in the administration business that you feel Northern Trust Hedge Fund Services is in a position to leverage/take advantage of?

PS: There is significantly more regulatory oversight now than three to five years ago. Additionally, there is investor demand for more transparency, more operational and accounting infrastructure and more reporting from all asset managers. All this drives up the costs of middle and back office, compliance and reporting. So there is significant demand on these asset managers to outsource this, not only from a cost perspective but from a scale perspective, because they just don't have the infrastructure within the fund to meet these demands.

Many fund managers, as they grow and become more sophisticated, are outgrowing their niche administration providers. Therefore, the managers that don't have those capabilities throughout the trade lifecycle come to us for a highly sophisticated offering that is agnostic to their growth plans, strategies and funds.

There is also a significant amount of focus by fund managers on the infrastructure required to reconcile between front, middle and back offices. We are in a unique position to accommodate and reconcile across them all with our front-to-back system.

Last, we are seeing that larger funds, in addition to bringing on an independent (primary) administrator to do reconciliations for their third parties, are hiring an additional administrator, or 'shadow servicer', to perform reconciliations themselves as well as to the primary administrator on a weekly basis. This growing trend again really aligns well with NTHFS and our ability to act as a shadow servicer. ■

