

BACK OFFICE CAPABILITIES MOVE FRONT AND CENTER FOR INVESTORS

Vernon Barback, president and chief operating officer of GlobeOp Financial Services, comments on operational due diligence becoming a top priority for investors. The interview was broadcast on October 4, 2010 on *Reuters Insider*.



Operational due diligence is becoming a top priority for hedge fund investors. Efforts include forwardly vetting back office operations and administrators to ensure that these little noticed but critical activities add little to no risk to the equation. GlobeOp Chief Operating Officer Vernon Barback has plenty of experience providing these services.

Vernon, the Madoff scandal has sort of redefined the terms due diligence. Based on the work that you do on behalf of your clients, have industry practices improved?

Definitely. We see a lot more volumes. The number of questionnaires that we've been asked to answer has gone up year-on-year by 30%. Those questionnaires are more lengthy, more detailed and we also see a much greater interest to actually visit our offices, meet the people working on the account, kick the tires. We've hosted something like 400 meetings over the last 12 months.

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Can investors believe what they read in terms of the reports by the hedge funds?

I think that investors have come to understand that an independent third party producing the reporting is definitely the best practice for the industry. Always safe independent third party.

What are the most common problems that you've seen as a third party when you've got these funds? What keeps cropping up?

I think that it's important that there's independence of checks and balances. I think it's important that data is kept in a very secure way and that valuations are conducted in a secure and independent manner.

Meaning then that some data is not properly secured?

Meaning that those firms that have invested heavily to build out data, such as some of the third party administrators, are in a very good position to assist the managers by ensuring that the data is handled well and to give the investors the reassurance of that.

Vernon, as you know a lot of investors are now going to more obscure markets in order to chase returns. How are admin companies like you keeping up without changing valuations such as, you know, distressed assets? How do you account for that?

I think it's very important to stay on top of the game. As you correctly point out, people are doing, chasing esoteric markets, going into esoteric markets to secure yields. We've always found it very important to try and stay ahead of the game. We have pipes and data sources from all the major markets all over the world.

And how often are you revisiting hedge fund firms on behalf of your clients reviewing the assets?

We conduct reconciliations daily. So wherever we can get information, both from the manager and from their prime broker or their custodian or their counterparty, we will reconcile that information daily. We reconcile their trades, their positions and their cash.

Is reconciliation how you prove that assets exist?

Yes.

Now there's also, on the other hand, a reduction in risk appetite among investors. And that has resulted in the consolidation of hedge funds. Hasn't that negatively impacted your business?

Actually we saw our business shrinking in late 2008 and the first half of 2009. It's quite remarkable how it's come back. In fact this year, we've already seen 30% growth up to about \$139 billion in assets under administration.

Why do you think it has come back?

Well I think there was a saying a few years ago, too many managers, not enough alpha. And I think the shakeout has been very positive and has generated a lot of opportunities for good managers out there.

So shakeout has been good for you now.

How are the requirements for hedge funds to register with the SEC impact your business?

I think all regulatory, increased regulation is actually good for us. It creates more work. But it means that we're adding more value because the reporting requirements, requirements of transparency are only going up.

So you see that the shakeout as good for you and so is the requirement for registration.

Yes.



Thanks a lot for joining us Vernon. Thank you. Our thanks to Vernon Barback, Chief Operating Officer of GlobeOp. I'm Fred Katayama. This is Reuters.

Important notice

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