

# Highly Controlled Operational Environment A Key to Attracting Institutional Investors



**Peter Salvage**  
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To serve institutional investors effectively, hedge fund managers are deploying "industrial-strength" middle and back office solutions, according to Peter Salvage, director, global head of Citi's Hedge Fund Middle Office Services.

"Compared with high-net-worth individual investors, institutions require more formal procedures and controls, including more frequent and detailed reporting," says Salvage, who directs Citi's OpenPrime™ and Hedge Fund Middle Office Services.

"As part of a due diligence analysis, institutions may bring in an analytical team to examine the operating systems and procedures, pricing policies, disaster recovery plan and other factors before approving an investment in the fund," Salvage adds. "Therefore, if a fund manager wants to attract more institutional money, it makes sense to take a proactive approach to their operations platform rather than scrambling to catch up."

Putting a robust middle and back office platform in place enables hedge fund managers to quickly and easily track their positions across regions, markets, asset classes and currencies. Managers can get a consolidated view of actions across an entire portfolio with real-time reporting capabilities. "When an institutional investor asks, 'What's your current exposure to the X, Y and Z sectors?' the information is right at your fingertips," says Salvage.

Installing a highly controlled operational environment offers managers other significant benefits as well. "It gives hedge fund managers the ability to focus their time and energy on investing, rather than worrying about the back office," says Salvage.

Today's fund managers also need powerful analytic, tracking and reporting tools when dealing with the increased complexity of the global investment arena. For example, the proliferation of over-the-counter (OTC) derivatives, can pose difficult settlement issues, collateral requirements and valuation challenges.

Another trend adding to overall market complexity is the growing use of multiple prime brokers. "It is a daunting task to try to assemble the daily reports from several prime brokers," says Salvage. "Reconciling the data and creating an accurate picture of the fund's aggregate positions, cash balance and risk profile is difficult."

Other changes in the hedge fund landscape include the growth of multi-strategy funds and the growing popularity of 130/30 strategies. In both cases, fund managers often need to become familiar with new asset classes, new trading styles and new reporting requirements.

In such a complicated investment environment, many hedge fund managers are turning toward a new breed of software and services designed to address the complex issues of multi-prime brokers, multi-asset classes and improved operational processes and controls. "We find a modular approach to the challenges works well - using a mix of Citi's best of breed industry solutions with what clients already have in place," said Salvage. For example, Citi's OpenPrime solution is open architecture and provides secure multi-prime capabilities, including trade order and portfolio management. Adaptable for funds of all sizes, OpenPrime provides a direct window to Citi's integrated Hedge Fund Services, which include prime brokerage, comprehensive fund administration and capital raising.

Citi launched OpenPrime in third-quarter 2006, quickly established a global footprint, and has since attracted over 25 hedge fund clients in North America, Europe and Asia.

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