*spotlight*

# Managed account platform innovator InfraHedge rides the institutional asset wave

## State Street-owned firm sees investor-focused technology as the future for managed accounts

*By Siobhán Hallissey*

The media has been awash with negative stories and views on the health of the hedge fund industry this year.

Fees have come under scrutiny — again. Performance has been criticised and much has been made of the few institutions that have fully redeemed from the asset class in recent months. Commentators have also concluded that hedge funds are under threat and that assets are starting to flow away from the industry.

Try telling that to Bruce Keith, chief executive officer of managed account platform (MAP) provider InfraHedge, which grew by more than 35% in the 12 months ending in June and is continuing to win new clients and drive change in the managed account arena.

In its relatively short lifetime, InfraHedge has climbed to the top of InvestHedge's ranking of MAP providers, in terms of total assets, by successfully guiding some of the hedge fund industry's largest institutional investors into what is now widely termed dedicated managed accounts (DMA). In turn, these bespoke accounts have provided investors with the transparency and flexibility to overhaul and redefine how they allocate to hedge funds.

At the time of its launch, InfraHedge's agnostic approach was appealing to institutional investors as it allowed for total governance in a conflict-free environment, an attractive proposition in the aftermath of the financial crisis.

According to Keith, DMA version 1.0 was all about control, transparency and liquidity. Whereas DMA 2.0, which represents how a number of accounts look today, has put investors even more firmly into the driving seat.

"Institutional investors are starting to take the customisation benefits of the platform one step further," he says. "We see more and more clients asking managers to adjust their strategies, to align it more closely with their objectives. More often than not, our clients establish a deeper more lasting partnership with the manager as a result."

The InfraHedge MAP is different from others in the marketplace in that it is not an asset management-based platform, but a technology-orientated platform that is intuitive and in keeping with the InfraHedge ethos, is fully customisable. The group's clients can configure the platform's interface and define how they want the information to be presented. It allows clients to drill down into underlying strategies to analyse a vast array of data in regards to exposures, risk, performance, operations and compliance.

Risk management in particular is a pivotal element of the platform. InfraHedge is responsible for setting up the operational elements of launching the managed account and then carrying out risk management on the portfolio on an on-going basis. Clients can impose rules and exceptions on its underlying strategies that the InfraHedge platform can monitor.

The group's client services teams actively analyse these exceptions to ensure any deviations from these rules are identified in a timely manner. The client can then have an informed dialogue with the manager to rectify the issue, or should it be deemed necessary, redeem from the manager entirely. That is an uncommon occurrence, but certainly one Keith has seen before. The dynamic nature of the platform enables investors to be aware of and address any mismatches in asset pricing, which are also monitored by the InfraHedge team and unchecked could have a significant impact on performance returned on the investment.

A benefit of InfraHedge's open-architecture model, and a contributing factor to the platform's success, has been that it is entirely conflict free. As well as its clients making the decisions around the managers it in-

Effie Datson

Bruce Keith

vests with, they also have full reign over the service providers they would like to use. "This can be crucial for driving down costs," Keith says. "If our clients do not need to force the manager to change its processes then they have far more bargaining power when it comes to negotiating fees."

Keith co-founded InfraHedge with Akshaya Bhargava, who left the firm in 2014 to lead the wealth and investment management business at Barclays. Prior to launching InfraHedge, Keith ran two fund servicing platforms after spending 13 years at 3i plc, the venture capital and private equity company listed on the London Stock Exchange. As a director of growth capital, he was responsible for investing, managing and exiting growth businesses as well as identifying and developing outsourcing opportunities.

Aside from the market playing out as Keith and co-founder Bhargava had envisaged in 2011, Keith also attributes InfraHedge's quick success to the early backing of its parent company State Street, which snapped up the firm months after its launch.

"State Street is a specialist in asset servicing, so InfraHedge was a natural adjoin to that," he says.

InfraHedge sits within the Alternative Investment Solutions group at State Street and is integrated with its risk team, which has close to 150 members. When developing solutions for clients and placing controls on portfolios, the group can rely upon the legal, compliance, finance and HR teams of the wider State Street business.

Furthermore, having the strength of State Street's balance sheet behind them undoubtedly provides an additional assurance to investors.

The InfraHedge team has expanded to 65 people, up from 25 people in 2012, to meet the asset growth. The group has focused on strengthening its operations and client services teams and has also leveraged the scale of State Street to build a presence on the ground in different time zones, outside of the traditional financial hubs of New York, London and Singapore.

A strong international presence is undoubtedly a priority for the group as it looks to continue upon its growth trajectory to date. In 2015, State Street hired Jim McKenna, formerly of HedgeMark, to focus on the North American market and Effie Datson from Deutsche Bank as head of product for its alternative investment solutions division. Her initial focus, in this newly created role, has been to expand the global footprint of the platform.

InfraHedge disrupted the managed accounts market with its investor-centric, open architecture approach, which is a source of pride for the team.

InfraHedge's managed accounts are solely controlled by the investor. From the underlying managers, domicile and service providers, to the design of the platform and the format of reporting, it is an approach that has transformed the MAP market.

It was during Keith's time in private equity markets early in his career that demonstrated to him the importance of alignment of interests for strong governance. This alignment was one of the driving forces behind the formation of the InfraHedge model.

"Hedge fund managed account platforms at the time were largely manager focused, which is very different from working with investors to set up managers according to their requirements and objectives," he says.

A number of ground-breaking manged account mandates had been issued by European pension plans prior to InfraHedge's launch, notably PGGM, the Dutch pension fund service provider, and Germany's largest public pension fund Bayerische Versorgungskammer. Existing managed account platform providers began to offer dedicated accounts to meet this demand, but it was not the sole focus of any of the existing providers.

"It was our belief early on that institutional investors would continue to shift into DMAs in this way. Our vision was to be an early market leader in this space and build a conflict-free specialist infrastructure-only solution," Keith says.

The group has, therefore, been well positioned to cater to the institutional-driven demand for DMAs. Assets on the platform have increased by 250% since InfraHedge first featured in InvestHedge's MAP survey at the end of 2012, owing to asset growth of more than 25% every year for the past four years. Through this past June, there was $26.3 bil-

### **InfraHedge:** at a glance

**Managed account platform assets:** $26.3 billion
**Asset trajectory:** 250% asset growth since the end of 2012
**Headquarters:** London
**Start-up year**: 2011 with early backing from State Street
**Number of employees:** 65
**Founders:** Bruce Keith and Akshaya Bhargava

lion in hedge fund assets managed via the platform, which was more than double the assets held by the closest contender in the ranking. The assets increased by 36% for the 12-month period through June 2016 alone, which was one of the group's strongest periods in terms of percentage asset growth.

Capital inflows to the platform have come from existing investors increasing allocations but also from a number of new clients, some of whom have never invested in hedge funds before.

"Some of the new clients we have on-boarded this year would have never invested in a commingled fund, as their boards simply wouldn't let them," Keith says. "Our DMA platform provides them with the comfort they need to invest in hedged strategies for the first time, as they get the control, the independent oversight and the governance they require."

InfraHedge has won mandates worldwide this year and Keith is seeing growing demand for hedged strategies. "The asset-owner piece is definitely picking up and North America is in the lead," he says. North American investors are looking for tail risk strategies, whilst at the same time, Asian investors are searching for cash replacements and are looking to low-volatility absolute return strategies.

Asia is a growing market for InfraHedge. According to Keith, investors in the region have seen the steps that allocators in the US and Europe have taken to get to where their managed accounts are today, and they are considering bypassing a number of these stages to get to the efficiencies faster.

Keith's vision for the hedge fund investing industry's evolution is largely playing out as expected. Interest in DMAs is still coming through and, in his view, the DMA market is still in its early stages as the potential for growth is phenomenal. In the past 18 months, Keith has seen a dramatic rise in interest in the platform, which has emerged as DMA version 2.0.

There is analysis and research that supports the notion that expert use of managed accounts can help investors to capture more of the upside gains in markets and curtail the downside. He points out that the managed account structure itself does not have these upside capture and downside capabilities, but rather, investors need people to be able to realise these advantages.

A consequence of the consolidation and reduction in size of the FoHFs industry has been a transfer of talent from multi-manager firms moving into the asset owner community. According to Keith, this has resulted in experienced and talented people sitting within the investment teams of pensions and endowments that understand manager selection, the wealth of information disposable to them and the buying power this information


Jim McKenna

can afford. As a result he has seen that many investors are able to get far more involved with the entire investment process.

Managed account investing results in one-to-one relationships by definition and Keith has started to see investors extracting the benefit from these closer relationships.

"Asset owners are demanding more from their investments as they know what they want and why they are buying the expertise," Keith says. "They are starting to articulate what they need from the hedge fund industry better and this is what led to DMA 2.0, an iteration that is centred upon increasing efficiencies and driving out costs."

According to Keith, this is changing the investor/manager relationship, as more meaningful conversations can be had. Investors are working within the freedom of the managed account structure and with their managers to create something really bespoke. Underlying strategies can be customised to meet a certain volatility target, or eliminate sectors where the investor is heavily exposed elsewhere in the portfolio, or to implement an ESG overlay.

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As a result of these negotiations, managers have a clearer understanding of the investors' expectations and how a specific strategy fits with the remainder of their portfolio from the outset. Managers can then put their ideas together to make meaningful amendments to a strategy and create something that is appropriate for the client's portfolio. An additional benefit, according to Keith, is the communication this customisation entails, which should make for a strong, lasting relationship between the investor and manager.

"Our clients are taking the transparency benefits, doing something with it, asking the right kinds of questions and getting positive outcomes as a result," he says.

Keith cites the example of one client, which prior to setting up a managed account platform with InfraHedge, would always have discussions with the investor relations team of one of its underlying managers. The additional insight the reporting functions of InfraHedge's platform allowed for meant the investor had far more granular knowledge of the changes that had been made to the strategy each month. The investor, with the help of the InfraHedge team, was able to make use of the additional data to ask more pertinent questions in its monthly calls. This changed the conversations and direction of the calls to such an extent that the portfolio manager began to regularly join the discussions, to better address the client's questions or concerns.

"This demonstrates how intelligent use of managed accounts can put the investor in a far more advantageous position. By asking the right questions investors can get better access at hedge fund firms," he says.

Its infrastructure-focused customer service is integral to the success of the platform. In addition to having access to the data its clients need to effectively manage their underlying strategies, they also have access to a considerable amount of data that monitors if InfraHedge is meeting its own key performance indicators. These are centred upon customer experience, price, accuracy and efficiency. The group plans on meeting these expectations, while building on its core offering, despite calls from some clients for the platform to diversify into supporting other alternatives and even long-only assets.

The platform will continue to develop, however, and Keith is almost certain that, in two years' time the platform will look very different from today. "We will just continue to make improvements to the things that will get us to DMA 3.0," he says.