

Hedge funds increase customer focus

By Phil Masterson

For a long time, hedge managers benefited from a steady stream of inflows and frequently dictated investment terms. But record redemptions and investor frustration with suspensions and gating has ushered in a sea change giving investors the upper hand – and hedge funds are responding.

Investors are demanding lower fees, increased information about holdings, usage of managed accounts as opposed to pooled vehicles and better liquidity terms. Fund managers are finding it difficult not to acquiesce.

In late 2008, SEI commissioned a survey of institutional investors, investment managers and pension consultants that requested their views on client service. The SEI Knowledge Partnership examined the following three topics: best practices for client service; client service and communication requirements in periods of underperformance; and, presentation skills and performance metrics.

The survey results established that while performance is extremely important in selecting managers, client service activities directly impact client retention, and client service is often evaluated independent of performance.

As the capital markets fell in 2008, the SEI Knowledge Partnership delved into the role of client service during poor performance, and the crucial impact of excellent client service became apparent.

In fact, 100% of survey respondents indicated superior client servicing efforts resulted in the retention of a client relationship during a period of poor performance, indicating that all managers should intensify their client servicing efforts during periods of underperformance.

In fact, this development has also increased business for service providers, as



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hedge funds are increasingly outsourcing any aspect of their business that does not focus on investment performance and client-service. In terms of maintaining a client-centric focus, hedge funds must evaluate four key aspects of client service: scope and quality of resources, responsiveness and use of technology.

The survey revealed that 93% of respondents consistently review the quality of client service received from managers, and 91% of respondents indicated that their investment managers were generally responsive to inquiries.

However, 59% of total respondents believe that managers should dedicate more resources to client servicing efforts – with over half of the total respondents indicating that investment managers should focus on improving their ongoing communications regarding market performance and any pertinent issues that arise.

Almost 96% of total respondents still believe that while technology's role will continue to increase, face-to-face meetings remain the preferred way to hold portfolio/performance review meetings.

Clients are demanding more and managers are responding. By providing more timely and detailed reports on trading, there is also a focus on transparency – a must-have factor in the hedge fund business today.

Risk monitoring and measurement, performance evaluation and other specialty services are ensuring that clients are getting more information and better access than ever before. While the current environment has reaffirmed the necessity for strong client service, investment management firms must be committed to pursuing superior client service during all market conditions in order to distinguish their firms and to gain and retain clients. ■