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Seismic Changes Underway For Current HF Model

January 6, 2009

Hedge funds will aggressively explore and implement outsourcing strategies as a solution to the operational and cost challenges caused by the financial crisis and the reshaping of the prime brokerage landscape, according to a new report.

Hedge fund service provider is forecasting a significant shift in the way hedge funds will manage their infrastructure and operations in 2009, according to Paladyne Systems. The company predicts that as the outsourcing trend gains momentum in 2009, fund administrators will be required to expand their services offerings to include client-facing technology, intra-day reporting and middle-office services in order to stay competitive.

"The current environment represents a perfect storm for hedge fund managers, as investor demands for transparency and operational reporting are increasing, management and performance fees are decreasing," said Sameer Shalaby, CEO of Paladyne. "In response, comprehensive hosted solutions and specialized service providers will be the driver of a trend in which fund managers shift away from building technology and staffing infrastructure and move aggressively to outsourcing solutions in the areas of IT, software, and operational support."

"The combination of outsourced software, hosting services, IT and application support, market data, and robust disaster recovery at a fraction of the current in-house cost structure is far too compelling not to become the standard operating model for the hedge fund industry," Shalaby added. "At the end of the day, the primary beneficiary of this new outsourced operating model is the investor, who is assured of greater transparency through better reporting and tighter oversight based on the integral relationship between the operations of the funds

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