

INVESTOR DUE DILIGENCE SURVEY



88%

The vast majority of investors interviewed carry out due diligence on fund administrators before investing in a fund.

94%

Almost all respondents have invested in funds that changed administrators in last five years.

69%

More than two thirds of participants have decided not to invest in a fund because of concerns about the administrator used.

*“A high value is being placed on
Fund Administrators by
Investors as they raise the Due
Diligence Bar”*

Ronan Daly, Founding Partner
of Centaur Fund Services

1.

Foreword and Key Findings

Investors are more demanding than ever about robust hedge fund reporting and risk management. As a result, the industry has seen Investors raise the due diligence bar with fund administrators.

This summer, Centaur asked investors to participate in a survey to assess the value they place on fund administrators along with current trends and concerns. Of particular note from this survey are the following three key findings:

I. Investors place a high value on the importance of the fund administrator role

88%

of investors interviewed carry out due diligence on fund administrators before investing in a fund.

The three most important items on an Investors' wish list are:

- **Transparency and Credibility**
Investors are looking for a thorough understanding of the administrator's processes and technology. This transparency in reporting gives investors visibility into their fund investments. Half the Investors rated this as their key area of focus.
- **Technology Platform**
Second on the list for investors is robust, proven technology that delivers open, transparent, customizable reporting. A strong control environment is essential with security at its core.
- **Quality and Continuity of Staff**
Investors are also looking for experienced staff that can deal with any queries and give them peace of mind that their reports provide an accurate reflection of a fund's strategy and performance.

II. Skills and experience deemed more important than brand name or ownership structure

94%

of respondents have invested in funds that changed administrators in last five years.

Investors are not afraid of managers switching Administrators. They want the best service and will look for it in all aspects of their investments – they aren't tied down by old relationships. 94% of respondents have invested in funds that changed administrators in last 5 years. More than half don't mind if the administrator is independent or part of a large bank. In fact, only 13% want them to be part of a large institution with 32% preferring an independent firm.

III. Contractual responsibility and poor infrastructure are the biggest concerns for investors

69%

of participants have decided not to invest in a fund because of concerns about the administrator used.

When analysing hedge funds, Investors listed the following areas of concern:

- **Contractual Responsibility**
The largest barrier for investors is administrators refusing to accept contractual responsibility for the valuation of fund assets.
- **Poor Infrastructure**
Almost as critical is administrators failing to invest sufficiently in their technology and staff.
- **Due Diligence Engagement**
A third major barrier is caused by administrators failing to engage meaningfully in the investor due diligence process.

2.

Due Diligence Process

Centaur has seen a step up in Due Diligence over the recent past as AIFMD and other regulations have imposed more demands on managers to implement more Due Diligence on their service providers. Half of the investors surveyed carry out ongoing due diligence every year and most carry out due diligence on a Fund Administrator before investing in a fund.

88%

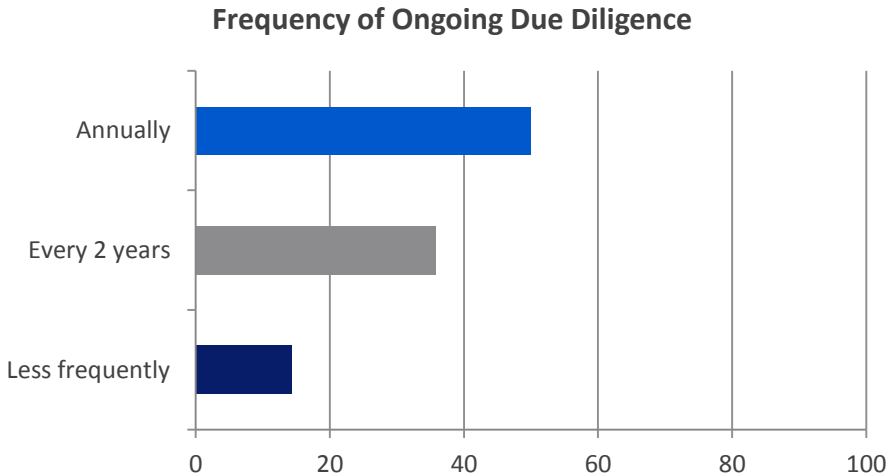
of Investors surveyed carry out due diligence on a fund administrator prior to investing in a fund.

50%

of participants carry out ongoing due diligence annually.

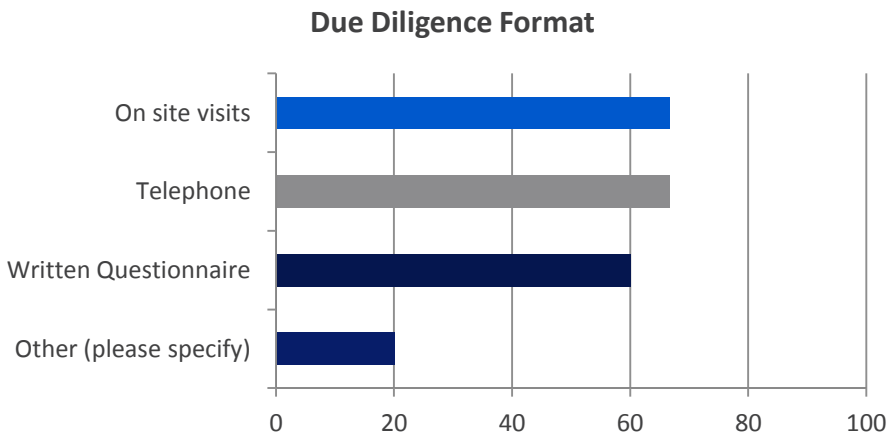
Frequency of Ongoing Due Diligence

Half of respondents carry out Due Diligence annually, whereas a little over a third carries it out every two years. Only 14% carry it out less frequently than every two years.



Format of Ongoing Due Diligence

Most carry out Due Diligence via telephone and onsite visits. Almost as popular is via a written questionnaire. Other formats include Request for Documents, rolling administration visits and industry feedback.



3.

Key Area of Focus for Investors when Carrying out Due Diligence

When asked about their primary motives for conducting Due Diligence, half of the investors surveyed prioritised a thorough understanding of the administrator's processes and technology.

50%

of Investors surveyed put an understanding of the administrator's processes and technology in first place.

19%

of participants place robust, proven technology that delivers open, transparent, and customizable reporting in first place.

19%

rate quality of staff along with staff turnover as the most important area of focus when carrying out due diligence.

4.

Fund Administration Industry Trends that Concern Investors

The survey asked Investors whether they have refused to invest in a fund because of concerns about the administrator and asked them to highlight their primary areas of concern.

69%

of participants have decided not to invest in a fund because of concerns about the administrator used.

When analysing hedge funds, Investors listed the following as their biggest areas of concern:

37%

put administrators refusing to accept contractual responsibility for the valuation of fund assets as their number one concern.

36%

place their highest concern as administrators failing to invest sufficiently in their technology and staff.

20%

rate their highest concern as administrators failing to engage meaningfully in the investor due diligence process.

7%

are concerned primarily about administrators being non-core parts in large organisations.

5.

Investor Attitudes towards Fund Administrators

Investors are not afraid of managers switching Administrators. They want the best service and will look for it in all aspects of their investments – they aren't tied down by old relationships.

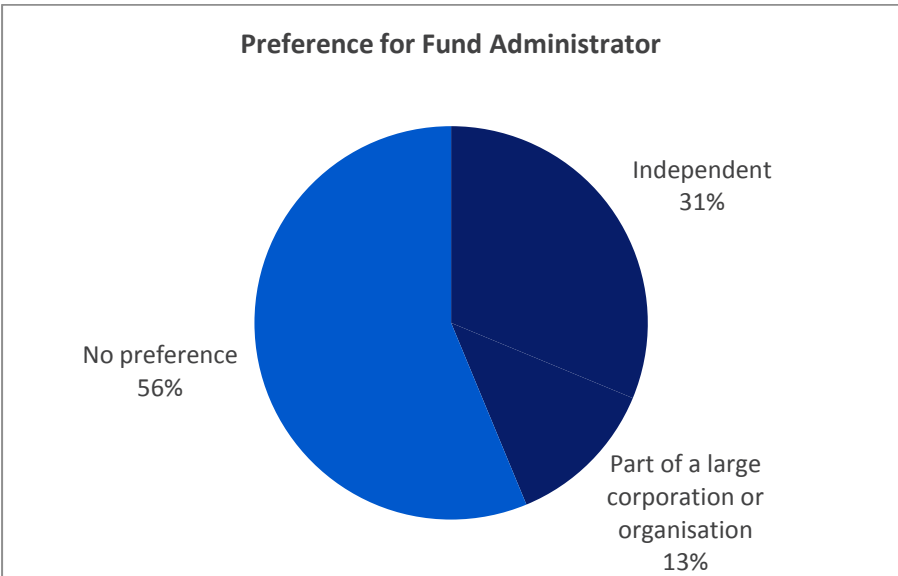
94%

of respondents have invested in funds that changed administrators in last five years.

100%

of participants that have changed administrators experienced an improvement in service.

More than half of the Investors surveyed don't mind if the administrator is independent or part of a large bank. In fact, only 13% want them to be part of a large institution with 31% preferring an independent firm.



6.

Factors Affecting Fund Investments

Three quarters of those surveyed have avoided investing in a fund because of concerns about their administrator. Centaur asked them to describe factors that affect their investment decision making.

69%

of participants have decided not to invest in a fund because of concerns about who they use as an administrator.

Below are some of the key factors outlined by Investors that would impact on their decision to use a Fund Administrator:

- Poor quality of staff and processes
- Poor processes and systems
- Administrators that unduly limit liability
- Small, unknown administrators with limited infrastructure
- Administrators that are not independent.



About Centaur

Headquartered in Dublin, Ireland and with offices in London and New York, Centaur delivers independent fund administration and regulatory services worldwide. Our highly experienced team, clear contractual terms and operational excellence are core to our success and enable Centaur to deliver customized solutions based on our clients' requirements. For more information, visit www.centaurfs.com

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