



PREQIN SPECIAL REPORT: **HEDGE FUND SERVICE PROVIDERS**

MAY 2017

FOREWORD

Fund administrators, custodians, prime brokers, auditors, law firms and fund marketers all play a crucial role in allowing hedge fund managers to operate their businesses effectively. The service provider industry is continually changing as new players enter the market and existing firms consolidate and develop their range of offerings. Fund managers and service providers alike need to continually review the market in order to ensure that they are fully taking advantage of available opportunities.

In this report, we present analysis of the latest trends in the hedge fund service provider industry, informed by Preqin's survey of over 270 hedge fund managers in November 2016 and data on over 2,000 hedge fund service providers from Preqin's **Hedge Fund Online** database. We examine the leading service providers by number of fund manager relationships as well as which service providers have been most successful with new fund launches. Although these initial relationships are important, fund managers continually review their service provider relationships, and so we also show the main reasons why fund managers have changed their providers.

Preqin's **Hedge Fund Online** database provides an invaluable tool to help service providers to identify new clients and to allow fund managers and investors to carry out due diligence and analyze the service provider relationships of their peers and competitors. To find out more about this and Preqin's other services, please visit www.preqin.com or contact us at info@preqin.com.

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HEDGE FUND ONLINE

Hedge Fund Online is Preqin's flagship hedge fund information resource, incorporating all of our hedge fund data, intelligence and functionality, providing you with the most comprehensive coverage of the asset class available.

Hedge Fund Online is updated on a daily basis by teams of skilled research analysts based around the globe, making it a vital source of data and information for fund managers, investors, service providers and other professionals seeking to keep up to date with the latest developments in the industry.

Get in touch today to arrange a demo of **Hedge Fund Online**: ✉: info@preqin.com | 🌐: www.preqin.com/hedge

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SERVICE PROVIDER OVERVIEW

Service providers are a vital part of the hedge fund landscape, assisting in the smooth running of a hedge fund's operation. Preqin's **Hedge Fund Online** tracks six groups of service providers: fund administrators, fund custodians, prime brokers, fund auditors, law firms and fund marketers. Together, these groups perform a range of important services for hedge funds, such as custody and valuation of assets, facilitating securities lending, providing advice on regulation and fund terms, as well as assisting with the fundraising and investor subscription processes.

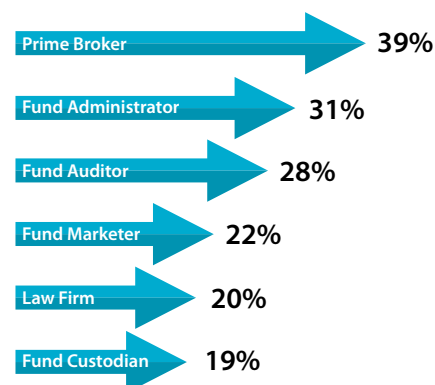
Selecting appropriate service providers is one of the first steps of setting up a new fund; this allows managers to concentrate more effectively on their investment strategies and helps to provide the institutional-quality infrastructure that investors increasingly seek before committing capital to new vehicles. However, fund managers not only seek to select the best service providers at launch, but also continually review these relationships in order to ensure that they are getting the best value for money and that the services provided are suitable for their business. Among hedge fund managers surveyed by Preqin in November 2016, a quarter had changed at least one of their service providers in the previous year. Of these, 75% had

changed one service provider and 18% had changed two, with 7% changing three or more service providers over the year. Fund managers were most likely to change their prime brokers (39% of those that had changed service provider) and least likely to change their fund custodian (19%).

In order to retain hedge fund clients and win new business, service providers need to address the two leading concerns of fund managers: cost and quality of service. Fund managers that changed their fund administrators, custodians, auditors and law firms most likely to do so because of pricing, while those that changed their prime brokers and fund marketers more frequently did so because of the quality of service. As fund managers facing increased scrutiny of fees and operations from investors seek to improve the value they get from their service providers, firms will need to maintain a careful balance by improving their service offering while still reducing costs.

The hedge fund service provider market continues to develop as new players enter the market and existing firms seek to offer new products to their clients. The changing business and regulatory environment has also encouraged consolidation of service providers in some areas, particularly among hedge fund administrators – SS&C GlobeOp's

SERVICE PROVIDERS CHANGED IN 2016*



**Based on the proportion of fund managers that changed a service provider.*

acquisition of hedge fund administration businesses from Citigroup and Wells Fargo in 2016 has made it the largest provider by both total number of funds serviced and new business acquired (see page 5). In order to help service providers and fund managers navigate this changing environment, Preqin has put together analysis of the leading service providers in each of these areas by total number of hedge fund clients, new business and hedge fund segment (size and region), drawn from data on over 16,000 active hedge funds and over 2,000 service providers from Preqin's **Hedge Fund Online**.

FIVE LEADING REASONS WHY FUND MANAGERS CHANGED SERVICE PROVIDERS IN 2016



55%

Cost



41%

Dissatisfaction with quality of service



20%

Growth in fund's AUM



19%

Investor concerns about service provider



15%

To cope with regulations

Source new investors

Be the first to know about investors' fund searches

View performance of individual funds

Customize performance benchmarks to meet your needs

Access profiles for over 18,600 hedge funds

Conduct market research and competitor analysis

Develop new business



Register for demo access to find out how Preqin's **Hedge Fund Online** can help your business:

www.preqin.com/hedge



FUND ADMINISTRATORS

Leading reasons why fund managers changed fund administrators in 2016:

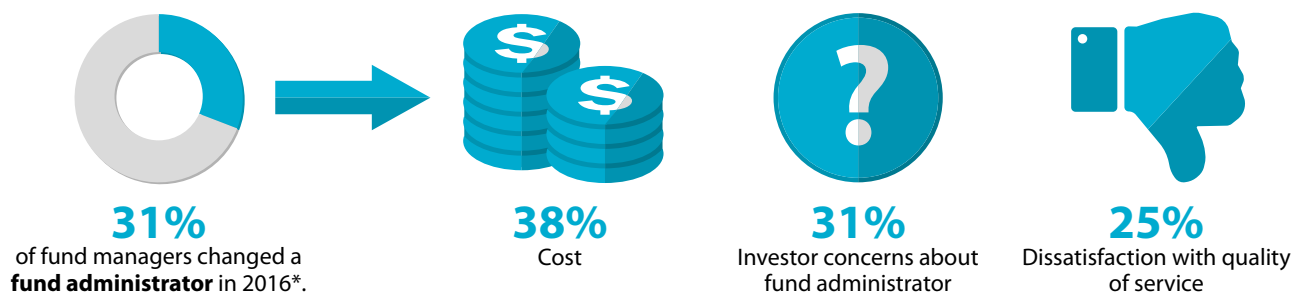


Fig. 1: Top 10 Fund Administrators Servicing Hedge Funds

Firm	No. of Known Hedge Funds Serviced
SS&C GlobeOp	1,512
Citco Fund Services	1,304
State Street (International Fund Services)	1,083
BNY Mellon	553
Morgan Stanley Fund Services	495
Northern Trust Fund Administration	452
HedgeServ	361
MUFG Investor Services	344
ALPS	296
NAV Consulting	284

Source: Preqin Hedge Fund Online

Fig. 2: Top Five Fund Administrators by Proportion of Hedge Fund Launches Serviced, 2016 - Q1 2017

Firm	Proportion of Hedge Fund Launches Serviced, 2016 - Q1 2017
SS&C GlobeOp	19%
Citco Fund Services	13%
State Street (International Fund Services)	7%
Morgan Stanley Fund Services	5%
Northern Trust Fund Administration	4%

Source: Preqin Hedge Fund Online

Fig. 3: Most Utilized Fund Administrators by Hedge Fund Assets under Management

Less than \$50mn	\$50-99mn	\$100-249mn	\$250-499mn	\$500-999mn	\$1bn or More
BNY Mellon	SS&C GlobeOp	SS&C GlobeOp	SS&C GlobeOp	Citco Fund Services	State Street (International Fund Services)
SS&C GlobeOp	BNY Mellon	State Street (International Fund Services)	Citco Fund Services	SS&C GlobeOp	Citco Fund Services
NAV Consulting	State Street (International Fund Services)	BNY Mellon	State Street (International Fund Services)	BNY Mellon	JP Morgan Fund Services
Apex Fund Services	Citco Fund Services	Citco Fund Services	BNY Mellon	State Street (International Fund Services)	SS&C GlobeOp
State Street (International Fund Services)	Northern Trust Fund Administration	Northern Trust Fund Administration	Northern Trust Fund Administration	Northern Trust Fund Administration	BNY Mellon

Source: Preqin Hedge Fund Online

Fig. 4: Most Utilized Fund Administrators by Hedge Fund Manager Location

North America	Europe	Asia-Pacific	Rest of World
SS&C GlobeOp	Citco Fund Services	Citco Fund Services	BNY Mellon
Citco Fund Services	State Street (International Fund Services)	HSBC Securities Services	Investment Data Services
State Street (International Fund Services)	SS&C GlobeOp	State Street (International Fund Services)	Maitland
Morgan Stanley Fund Services	BNY Mellon	Apex Fund Services	Banco Bradesco
HedgeServ	Northern Trust Fund Administration	SS&C GlobeOp	Credit Suisse Prime Fund Services

*Based on the proportion of fund managers that changed a service provider.

Source: Preqin Hedge Fund Online

FUND CUSTODIANS

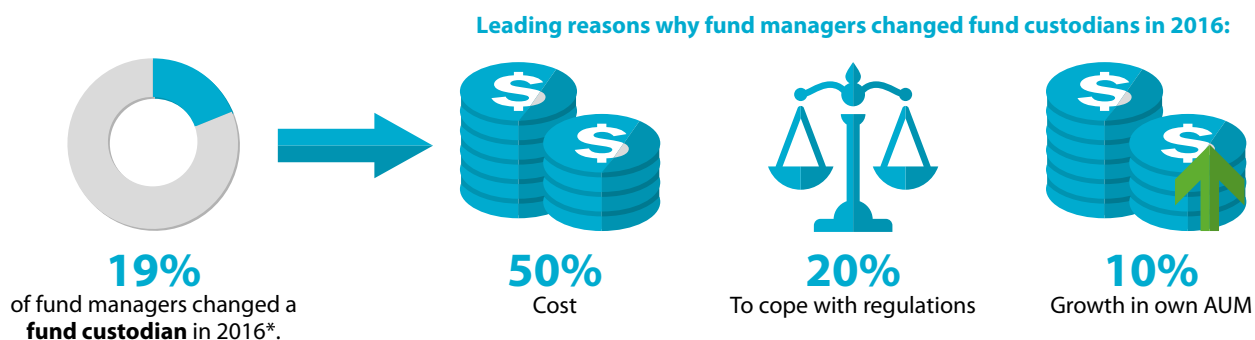


Fig. 5: Top 10 Fund Custodians Servicing Hedge Funds

Firm	No. of Known Hedge Funds Serviced
Goldman Sachs	2,999
J.P. Morgan	2,781
Morgan Stanley	2,424
BNY Mellon	1,740
Deutsche Bank	1,255
Credit Suisse Prime Fund Services	1,245
Bank of America Merrill Lynch	1,185
UBS	1,165
State Street Custody Services	1,162
Citi Transaction Services	1,129

Source: Preqin Hedge Fund Online

Fig. 6: Top Five Fund Custodians by Proportion of Hedge Fund Launches Serviced, 2016 - Q1 2017

Firm	Proportion of Hedge Fund Launches Serviced, 2016 - Q1 2017
Goldman Sachs	22%
Morgan Stanley	21%
J.P. Morgan	18%
Northern Trust Custody Services	12%
BNY Mellon	10%

Source: Preqin Hedge Fund Online

Fig. 7: Most Utilized Fund Custodians by Hedge Fund Assets under Management

Less than \$50mn	\$50-99mn	\$100-249mn	\$250-499mn	\$500-999mn	\$1bn or More
Goldman Sachs	Goldman Sachs	J.P. Morgan	Goldman Sachs	J.P. Morgan	J.P. Morgan
J.P. Morgan	J.P. Morgan	Goldman Sachs	J.P. Morgan	Goldman Sachs	BNY Mellon
Interactive Brokers	Morgan Stanley	Morgan Stanley	Morgan Stanley	Morgan Stanley	Goldman Sachs
Morgan Stanley	UBS	BNY Mellon	BNY Mellon	BNY Mellon	Morgan Stanley
BNY Mellon	BNY Mellon	Citi Transaction Services	Credit Suisse Prime Fund Services	State Street Custody Services	State Street Custody Services

Source: Preqin Hedge Fund Online

Fig. 8: Most Utilized Fund Custodians by Hedge Fund Manager Location

North America	Europe	Asia-Pacific	Rest of World
Goldman Sachs	Morgan Stanley	Morgan Stanley	Banco Bradesco
J.P. Morgan	UBS	Goldman Sachs	BNY Mellon
Morgan Stanley	J.P. Morgan	Deutsche Bank	Banco Itau
BNY Mellon	BNY Mellon	UBS	Morgan Stanley
Northern Trust Custody Services	Goldman Sachs	Citi Transaction Services	Goldman Sachs

Source: Preqin Hedge Fund Online

*Based on the proportion of fund managers that changed a service provider.



PRIME BROKERS

Leading reasons why fund managers changed prime brokers in 2016:

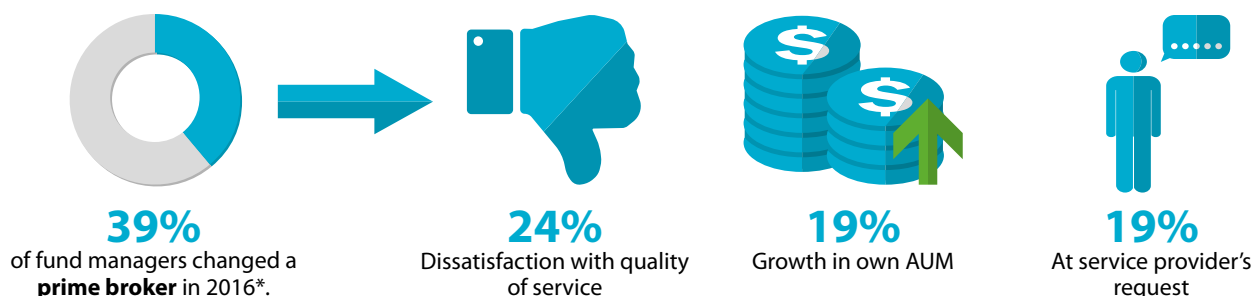


Fig. 9: Top 10 Prime Brokers Servicing Hedge Funds

Firm	No. of Known Hedge Funds Serviced
Goldman Sachs	3,051
Morgan Stanley Prime Brokerage	2,712
J.P. Morgan	1,968
Credit Suisse Prime Fund Services	1,306
UBS Prime Services	1,105
Deutsche Bank Global Prime Finance	1,111
Bank of America Merrill Lynch	929
Citi Prime Finance	679
Barclays	599
Interactive Brokers	588

Source: Preqin Hedge Fund Online

Fig. 10: Top Five Prime Brokers by Proportion of Hedge Fund Launches Serviced, 2016 - Q1 2017

Firm	Proportion of Hedge Fund Launches Serviced, 2016 - Q1 2017
Goldman Sachs	30%
Morgan Stanley Prime Brokerage	30%
J.P. Morgan	19%
Interactive Brokers	12%
UBS Prime Services	11%

Source: Preqin Hedge Fund Online

Fig. 11: Most Utilized Prime Brokers by Hedge Fund Assets under Management

Less than \$50mn	\$50-99mn	\$100-249mn	\$250-499mn	\$500-999mn	\$1bn or More
Goldman Sachs	Goldman Sachs	Goldman Sachs	Goldman Sachs	Goldman Sachs	Goldman Sachs
Interactive Brokers	Morgan Stanley Prime Brokerage	Morgan Stanley Prime Brokerage	Morgan Stanley Prime Brokerage	Morgan Stanley Prime Brokerage	J.P. Morgan
Morgan Stanley Prime Brokerage	J.P. Morgan	J.P. Morgan	J.P. Morgan	J.P. Morgan	Morgan Stanley Prime Brokerage
J.P. Morgan	Credit Suisse Prime Fund Services	UBS Prime Services	Credit Suisse Prime Fund Services	Deutsche Bank Global Prime Finance	Credit Suisse Prime Fund Services
Deutsche Bank Global Prime Finance	UBS Prime Services	Credit Suisse Prime Fund Services	Deutsche Bank Global Prime Finance	Credit Suisse Prime Fund Services	Deutsche Bank Global Prime Finance

Source: Preqin Hedge Fund Online

Fig. 12: Most Utilized Prime Brokers by Hedge Fund Manager Location

North America	Europe	Asia-Pacific	Rest of World
Goldman Sachs	Morgan Stanley Prime Brokerage	Morgan Stanley Prime Brokerage	Morgan Stanley Prime Brokerage
Morgan Stanley Prime Brokerage	UBS Prime Services	Goldman Sachs	Goldman Sachs
J.P. Morgan	Goldman Sachs	UBS Prime Services	Credit Suisse Prime Fund Services
Credit Suisse Prime Fund Services	Credit Suisse Prime Fund Services	Deutsche Bank Global Prime Finance	Peregrine Securities
Deutsche Bank Global Prime Finance	J.P. Morgan	Credit Suisse Prime Fund Services	Rand Merchant Bank

Source: Preqin Hedge Fund Online

*Based on the proportion of fund managers that changed a service provider.

FUND AUDITORS

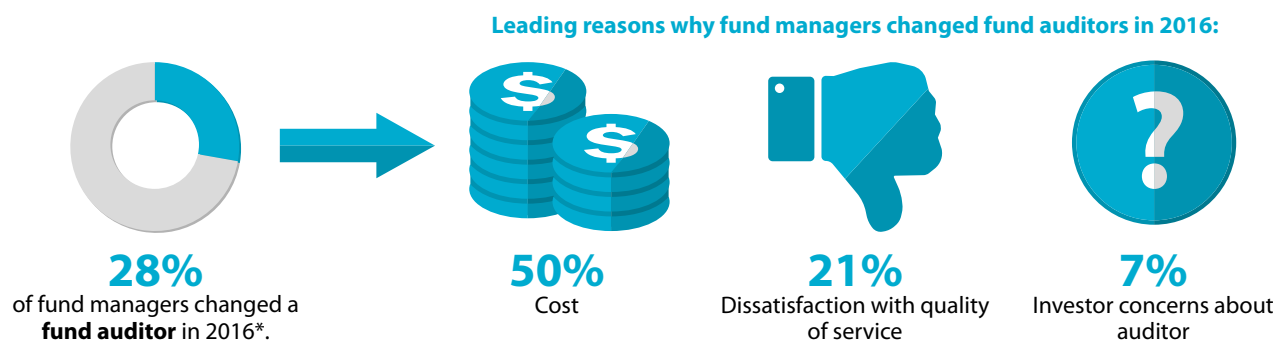


Fig. 13: Top 10 Fund Auditors Servicing Hedge Funds

Firm Name	No. of Known Hedge Funds Serviced
KPMG	2,895
EY	2,636
PricewaterhouseCoopers	2,606
Deloitte	1,409
RSM	485
EisnerAmper	407
Grant Thornton	328
BDO	310
Spicer Jeffries	193
Arthur Bell, Certified Public Accountants	136

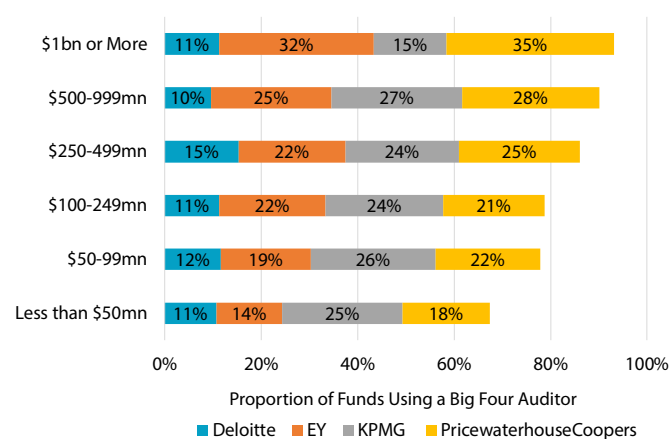
Source: Preqin Hedge Fund Online

Fig. 14: Top Five Fund Auditors by Proportion of Hedge Fund Launches Serviced, 2016 - Q1 2017

Firm Name	Proportion of Hedge Fund Launches Serviced, 2016 - Q1 2017
KPMG	24%
EY	23%
PricewaterhouseCoopers	19%
Deloitte	12%
EisnerAmper	2%

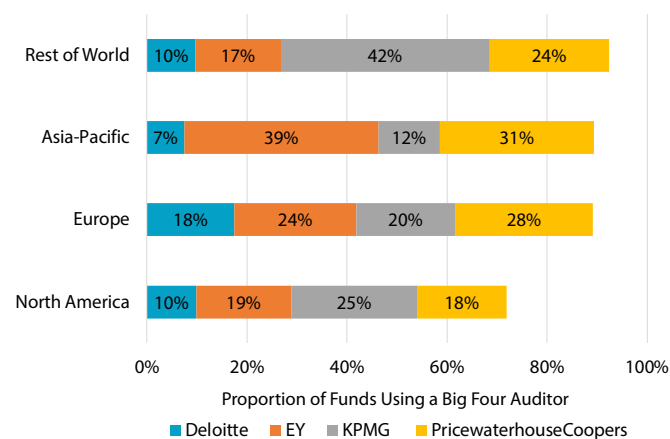
Source: Preqin Hedge Fund Online

Fig. 15: Market Share of Leading Fund Auditors by Fund Size



Source: Preqin Hedge Fund Online

Fig. 16 Market Share of Leading Fund Auditors by Fund Manager Location



Source: Preqin Hedge Fund Online

*Based on the proportion of fund managers that changed a service provider.

7,800 Reasons to Contribute Data to Preqin



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LAW FIRMS

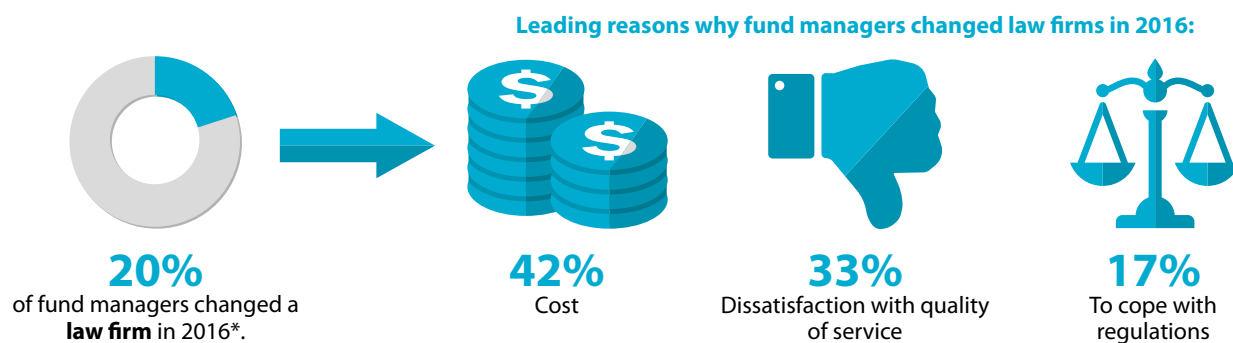


Fig. 17: Top 10 Law Firms Servicing Hedge Funds

Firm	No. of Known Hedge Funds Serviced
Maples & Calder	485
Seward & Kissel	364
Schulte Roth & Zabel	271
Walkers	266
Sidley Austin	174
Ogier	167
Akin Gump Strauss Hauer & Feld	136
Dechert	104
Simmons & Simmons	103
Arendt & Medernach	92

Source: Preqin Hedge Fund Online

Fig. 18: Top Five Law Firms by Proportion of Hedge Fund Launches Serviced, 2016 - Q1 2017

Firm	Proportion of Hedge Fund Launches Serviced, 2016 - Q1 2017
Maples & Calder	11%
Schulte Roth & Zabel	8%
Walkers	7%
Akin Gump Strauss Hauer & Feld	6%
Dillon Eustace	5%

Source: Preqin Hedge Fund Online

Fig. 19: Top 10 Law Firms Servicing Onshore Hedge Funds

Firm	Headquarters	Proportion of All Onshore Hedge Funds Serviced
Seward & Kissel	US	10%
Arendt & Medernach	Luxembourg	5%
Schulte Roth & Zabel	US	5%
Elvinger, Hoss & Prussen	Luxembourg	4%
Akin Gump Strauss Hauer & Feld	US	4%
Sidley Austin	US	3%
Maples & Calder	Cayman Islands	3%
Linklaters	UK	3%
Sadis & Goldberg	US	2%
Cole-Frieman & Mallon	US	2%

Source: Preqin Hedge Fund Online

Fig. 20: Top 10 Law Firms Servicing Offshore Hedge Funds

Firm	Headquarters	Proportion of All Offshore Hedge Funds Serviced
Maples & Calder	Cayman Islands	19%
Walkers	Cayman Islands	10%
Schulte Roth & Zabel	US	8%
Seward & Kissel	US	8%
Ogier	Jersey	6%
Sidley Austin	US	5%
Simmons & Simmons	UK	4%
Dillon Eustace	Ireland	3%
Akin Gump Strauss Hauer & Feld	US	3%
Dechert	UK	3%

Source: Preqin Hedge Fund Online

*Based on the proportion of fund managers that changed a service provider.



FUND MARKETERS

Leading reasons why fund managers changed fund marketers in 2016:

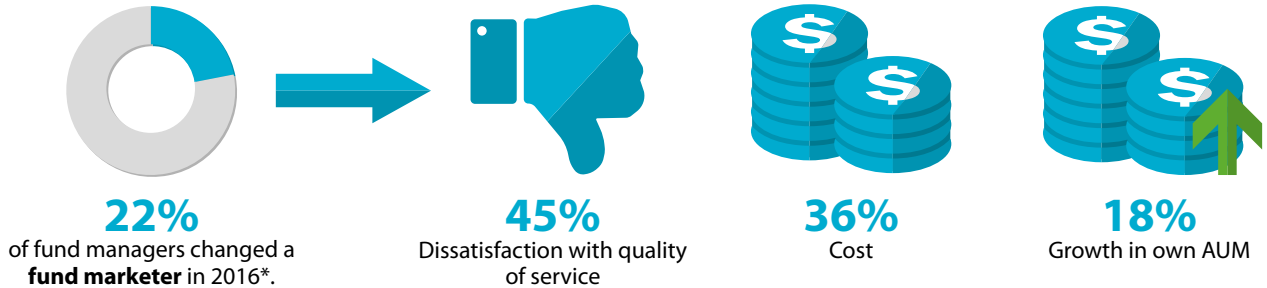
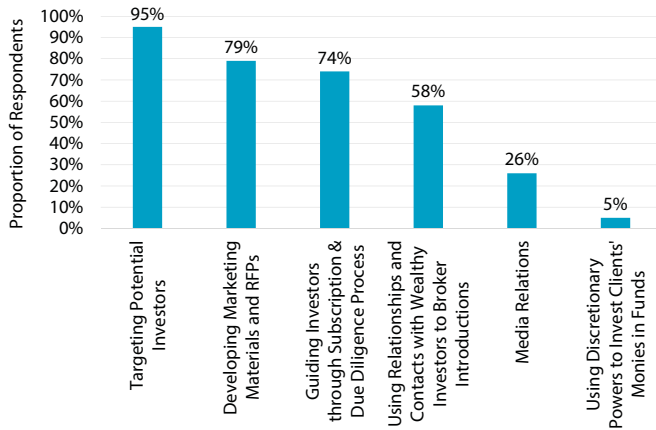
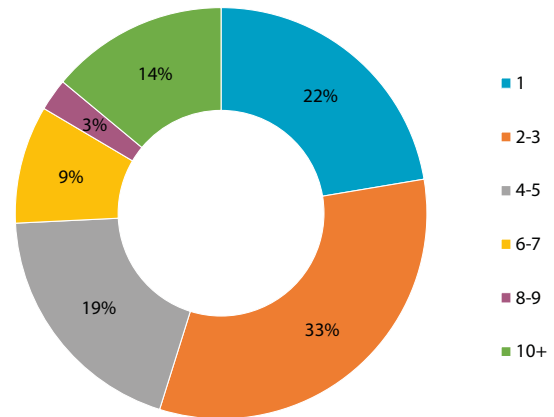


Fig. 21: Services Provided to Hedge Fund Managers by Fund Marketers



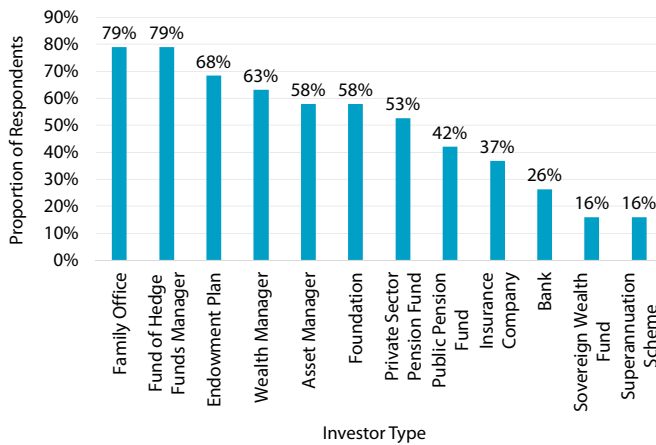
Source: Preqin Fund Manager Survey, November 2016

Fig. 22: Typical Number of Hedge Funds Fund Marketers Work with



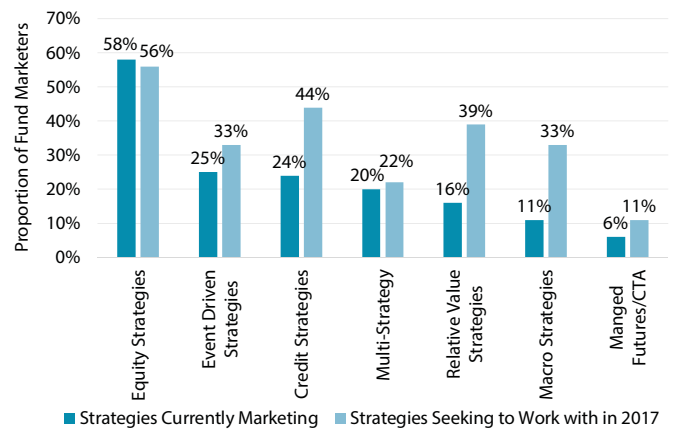
Source: Preqin Fund Manager Survey, November 2016

Fig. 23: Investor Types Marketed to by Fund Marketers



Source: Preqin Fund Marketer Survey, November 2016

Fig. 24: Services Provided to Hedge Fund Managers by Fund Marketers



Source: Preqin Hedge Fund Online and Fund Marketer Survey, November 2016

*Based on the proportion of fund managers that changed a service provider.



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MAY 2017

PREQIN

Alternative Assets Data & Intelligence

Preqin provides information, products and services to fund managers, investors, consultants and service providers across six main areas:

- **Investors** – Allocations, Strategies/Plans and Current Portfolios
- **Fund Managers** – Funds, Strategies and Track Records
- **Funds** – Fundraising, Performance and Terms & Conditions
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