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Round Table Discussion:

(Hedge) Fund Operations

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Editor´s Note...

Balancing Operations

As the asset management industry undergoes transformation driven by technological advancements and evolving client demands, hedge fund operations are facing both exciting opportunities and unprecedented challenges. In this context, staying agile, efficient, and strategically aligned with industry shifts is essential for hedge funds and asset managers aiming to maintain a competitive edge.

This roundtable discussion, supported by IG Prime, Enfusion, and MSCI, brings together chief operating officers (COOs) from Nordic hedge funds and asset managers, along with service providers representing cutting-edge solutions in financial technology and operational efficiency, to explore key developments shaping the asset management landscape.

The roundtable hosted by HedgeNordic addresses some of the issues facing asset managers today. The goal is to shed light on how hedge funds are adapting their operational structures to meet evolving client demands while leveraging new technologies that drive efficiency and performance. With heightened competition and rising costs, asset managers are increasingly focused on balancing investment in technology and innovation with sustainable cost optimization. At the same time, demands for more tailored client solutions, such as separately managed accounts (SMAs), are reshaping traditional service models and operational strategies. The shift towards SMAs, with their customizable approach to asset allocation, offers asset managers the flexibility to meet diverse investor needs but comes with its own set of operational and compliance challenges.

One of the discussed themes in this discussion is the integration of systems across the front, middle, and back offices. Effective system integration is crucial as asset managers work to streamline operations, reduce redundancies, and maintain robust data governance practices. Enfusion, with its end-to-end cloud-native investment management solution, brings unique insights into how asset managers can achieve seamless integration while enhancing data transparency and accessibility. Efficient integration of technology not only improves operational agility but also enables managers to respond faster to market changes and client demands—a capability that has become invaluable in today's fast-paced investment landscape.

Alongside system integration, the rise of AI-driven automation is transforming various aspects of asset management, from data processing and risk analysis to compliance and reporting. Artificial intelligence (AI) and machine learning are enabling managers to automate routine tasks, freeing up valuable time and resources for strategic decision-making. These technologies also enhance accuracy and efficiency, providing asset managers with actionable insights that inform portfolio management and risk assessment. MSCI, a leader in portfolio analytics and risk management solutions, offers expertise in the integration of AI-powered tools that support data-driven decision-making and risk mitigation.

Another vital discussion point for this roundtable is the balance between insourcing and outsourcing. As asset managers navigate an increasingly complex regulatory environment and adapt to client-specific demands, they are evaluating which functions to retain in-house and which to outsource. Insourcing allows for greater control over proprietary processes and data, while outsourcing can offer cost-effective solutions and access to specialized expertise. As a global leader in financial trading and prime brokerage, IG Prime's perspective on managed services and outsourcing options provides valuable insights into how asset managers can optimize operational efficiency while managing risk. By strategically choosing what to insource versus outsource, managers can streamline operations and focus on core competencies without sacrificing quality or compliance.

Finally, cost optimization remains a significant concern for asset managers striving to increase profitability in a challenging economic climate. Rising operational expenses and increasing pressure from investors to lower fees are driving managers to explore innovative solutions for cost control. Through technology investments and strategic partnerships with service providers like Enfusion, MSCI, and IG Prime, asset managers can reduce operational costs, improve productivity, and ultimately deliver greater value to their clients. By embracing new operational efficiencies and exploring flexible service models, firms are better equipped to respond to evolving industry demands and investor expectations.

This roundtable discussion aims to provide an in-depth exploration of these topics, offering perspectives from both asset managers and service providers on the strategies and solutions that are driving change in hedge fund operations.

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PARTICIPANTS:

THE ROUND TABLE DISCUSSION TOOK PLACE IN STOCKHOLM, SWEDEN, ON SEPTEMBER 26TH, 2024

Stuart Abel

COO

TIDAN CAPITAL

As Chief Operating Officer of Tidan Capital, Stuart Abel oversees all operational aspects of the business. Prior to joining Tidan, Stuart worked for Brummer Multi-Strategy, managing the operations for an internal team running an Equity Long/Short technology focused strategy. From 2015 to 2021 he worked at the Swedish Systematic Hedge Fund, IPM Informed Portfolio Management, in various operational roles and ultimately as COO.

Stuart began his career in Finance in 2006 at Société Générale in London within the Prime Brokerage division, covering Listed Derivatives, FX and Fixed Income clients. In 2010 he joined Citigroup's Prime Finance Group, covering Hedge Fund clients trading Equity and Synthetic Equity strategies. Stuart graduated from the University of Manchester in 2003 with a BSc in Biology and is a CAIA charter holder.

Joakim Agerback

Chief Investment Officer

GLOBAL SECURITY FUND

Joakim Agerback is the Portfolio Manager for the Finserve Global Security Fund I, a thematic equity fund focused on the defense sector. He also serves as Head of Portfolio Management at Finserve Nordic AB. With previous experience at RCM and IPM, Joakim has a strong background in systematic, trade intense strategies across major asset classes. Since the early 2000s, he has been at the forefront of developing trading systems aimed at improving efficiency and reducing costs.

As the founder of Romanesco Capital, he set up an investment firm and fund management company. Joakim has also held senior roles as CRO, COO, and CFO. His research on risk and portfolio management has been published in journals such as the Journal of Alternative Investments, Hedge Fund Journal, and Journal of Investment Strategies.

Martin Rudling

COO

Proxy P

Martin Rudling has served as Chief Operating Officer at Proxy P Management since 2020.

Martin was a founding member of Stockholm-based fund management company Keel Capital, which manages long/short equity hedge fund Foghorn.

He also served as the CEO of Keel Capital since the inception of the firm in 2009 until 2016.

Daniel Mackey

COO

protean FUNDS

Daniel Mackey has more than 21 years' experience working in senior management rolls in Fund Management Operations and Fund Administration and as a CFO in listed companies.

Previous rolls include Head of Brokerage Business at Nordea, Head of Fund Accounting at Nordea Investment Management and Manager of Client Relations and Fund Accounting at IBT/State Street.

Patrik Säfvenblad

Chief Investment Officer

VOLT Capital Management

Patrik Säfvenblad is the Chief Investment Officer of Volt Capital Management, a Stockholm-based alternative investment manager.

He was previously Chief Investment Officer at Harmonic Capital Partners LLP, a London based systematic macro hedge fund.

Prior, he was the Head of Hedge Fund Research at DnB NOR Asset Management. Before joining DnB NOR in 2007, Patrik was the Head of Portfolio Management at RPM Risk and Portfolio Management AB.

Before joining RPM in 2000, Patrik was an Assistant Professor of Finance at the Stockholm School of Economics. Patrik has a Ph.D. inFinance and an M. Sc. in Finance from the Stockholm School of Economics.

Martin Redgård

Fund Manager

EPOQUE QUANTITATIVE

Martin founded his own proprietary trading firm while finishing his studies at Stockholm University. This firm later evolved to Alfa Edge Fund which he managed for Swedish asset management firm Alfakraft (2011-2015).

Martin left Alfakraft 2015 to pursue the role as Chief Investment Officer at Taaffeite Capital Management in New York, a position he held until late 2019. In 2023 he launched his own fund back home in Sweden - Epoque.

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THE ROUND TABLE DISCUSSION TOOK PLACE IN STOCKHOLM, SWEDEN, ON SEPTEMBER 26TH, 2024

Joakim Lundmark

Head of Fund Administration

Joakim Lundmark is the Head of Fund Administration at Coeli Asset Management AB, where he oversees the efficient management and administration of the company's diverse fund portfolio. With a Master of Science in Business and Economics from Umeå University, Joakim brings a wealth of experience from his over 7 years with Coeli administration.

His expertise in fund administration and his strategic vision contribute significantly to Coeli's mission of delivering sustainable and competitive returns for their clients. Joakim is dedicated to ensuring operational excellence and fostering long-term value creation in the asset management industry.

Oscar Severinsson

COO

Oscar Severinsson brings a diverse background in fund operations, compliance, and business development to his role as Chief Operating Officer at Origo Fonder. He began his career as a KYC Analyst at Skandia, where he gained expertise in regulatory compliance and client onboarding processes. Following this, he moved to Catella Fonder, where he served as Head of Fund Operations/Support. In this role, Oscar oversaw the operational framework of the funds, ensuring smooth fund administration and strong risk control measures.

In 2023, he transitioned to ISEC, taking on the role of Business Developer, where he focused on strategic initiatives and operational enhancements for the firm's clients. His broad experience across fund administration, risk management, regulatory compliance, and reporting has equipped him with the skills needed to effectively manage operations at Origo Fonder, where he now serves as Chief Operating Officer.

Peter Chan

Executive Director and Analytics Business Manager for EMEA

Peter Chan is Executive Director and Analytics Business Manager for EMEA.

Peter initially joined MSCI in 2000 working across various roles including product management and client servicing and solutions for MSCI's multi-asset class analytics.

He also spent a number of years as a product manager for risk and analytics services at a global custodian and asset servicer before returning to MSCI in 2018. In his current function, Peter supports MSCI's Analytics business across EMEA driving product strategy and evolution to support MSCI's clients across all client segments in the region

Stephen Roberts

VP of Sales

Stephen Roberts is a 15 year veteran of buyside technology. After working at FactSet and CRD growing their respective businesses in London and the Nordic countries, he joined Enfusion to focus on expanding their Nordic client base, adding 7 new managers over the past 18 months.

Roberts's technology background and financial acumen (he is a CFA Charterholder) allow him to provide clients with innovative software solutions that boost efficiency and accuracy across front, middle and back office operations.

Andi Woolass

Executive Director, EMEA
Head of Partnerships

Andi Woolass brings extensive expertise in the financial industry, having driven innovation and solutions at leading firms such as JPMorgan, Citi, and EY. Starting at GLG, the largest European hedge fund, Andi has excelled in roles across support, product development, and consulting.

Currently, Andi manages partnerships for Enfusion in EMEA, leveraging a background in treasury management, tax, and system innovation to foster strategic growth. This diverse experience positions Andi as a key asset in driving Enfusion's continued success in the region.

Richard Fenton

Prime Brokerage Sales

Richard Fenton, Prime Brokerage Sales at IG Prime brings 11 years of experience in the PB space.

Having worked at Tier 1 investment banks, such as JPMorgan & UBS, across London & New York, he joined IG Prime to build out their PB offering in EMEA.

Richard's background has been in traditional Prime Brokerage, Synthetic Equities & Equity Finance covering Tier 1 Hedge Funds, Family offices & Brokers.

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Participants (left to right): Caroline Thomsen (IG Prime), Joakim Lundmark (Coeli), Martin Rundling (ProxyP), Patrik Säfvenblad (Volt), Peter Chan (MSCI), Andi Woolass (Enfusion), Martin Redgård (Epoque), Kamran Ghalitschi (HedgeNordic), Richard Fenton (IG Prime), Stuart Abel (Tidan), Oscar Severinsson (Origo), Joakim Agerback (GSF), Daniel Mackey (Protean) and Stephen Roberts (Enfusion)

ROUND TABLE DISCUSSION

(HEDGE) FUND OPERATIONS

THE ROUND TABLE DISCUSSION TOOK PLACE IN STOCKHOLM ON SEPEMBER 26TH 2024. ALL REFERENCES TO DATES, TIMELINES, PERFORMANCES, NEWS AND EVENTS ARE TO BE SEEN FROM THAT POINT IN TIME.

The financial landscape is constantly evolving, presenting asset managers with a wide range of complex decisions regarding technology, operational efficiency, regulation, and more. In a roundtable discussion featuring chief operating officers (COOs) from Nordic hedge funds and asset managers, along with service providers Enfusion, MSCI, and IG Prime, HedgeNordic addresses some of these questions and explores how asset managers are working to stay ahead in a rapidly transforming industry. The discussion covers key topics such as system integration, the rise of separately managed accounts (SMAs), AI-driven automation, insourcing versus outsourcing, and cost optimization, providing insights into the challenges and opportunities shaping the asset management industry.

One of the strategic decisions facing asset managers is finding the right balance between outsourcing and insourcing different functions. As technology continues to transform how firms operate, the question of which functions to keep in-house and which to outsource

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represents an important consideration. Andi Woolass, EMEA Head of Partnerships at Enfusion and moderator of the discussion, highlights that this decision involves multiple considerations, such as outsourcing the trading function versus having an in-house desk or outsourcing middle-office functions to minimize the need for multiple full-time equivalents (FTEs), among others. Ultimately, the decision between insourcing and outsourcing is crucial for enhancing operational efficiency and ensuring regulatory compliance, which significantly influences an asset manager's competitiveness, scalability, and cost-effectiveness.

Daniel Mackey, Chief Operating Officer of stock-picking fund boutique Protean Funds Scandinavia, believes that most boutique asset managers in the Nordics "don't aspire to grow to a scale where insourcing many functions makes practical sense, whether during the startup phase or even after achieving scale." From Mackey's perspective, outsourcing allows managers to "maintain cost flexibility as they grow or seek to sustain that scale." He emphasizes that "outsourcing where possible makes sense, enabling managers to stay lean, flexible, and focus on what we do best – creating value for investors."

"Outsourcing where possible makes sense, enabling managers to stay lean, flexible, and focus on what we do best – creating value for investors."

Daniel Mackey - Protean


Daniel Mackey, Protean


Andi Woolass, Enfusion (Moderator)

The team at systematic investment manager Volt Capital Management are "strong believers in outsourcing," according to Chief Investment Officer Patrik Säfvenblad. "We aim to outsource as much as possible, and eight years into the history of Volt, we have gradually expanded the range of functions we outsource," says Säfvenblad. One of the areas the Volt team outsourced was fund administration, followed by risk management, and more recently, Information Technology (IT). "Outsourcing IT infrastructure and related services has been a very positive move, freeing up time for our team. We plan to continue down this path, looking for more functions to outsource," Säfvenblad adds. Beyond cost benefits, he highlights another key benefit of outsourcing – flexibility. "It's far easier to replace the fund administrator than to lay off your internal team. Especially when your organization is under stress, outsourcing offers much greater flexibility in how you manage operations."

Martin Rudling, Chief Operating Officer at fund boutique Proxy P Management, offers a more philosophical perspective, stating that "if we look upon this subject holistically, we all have to outsource." He likens fund management firms to car manufacturers, explaining

"Especially when your organization is under stress, outsourcing offers much greater flexibility in how you manage operations."

Patrik Säfvenblad - Volt

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that “from an outsider’s perspective, we are seen as a single entity – like a BMW car that uses brakes from Bosch and various other components from different suppliers.” Rudling believes there are many functions and components that can be effectively outsourced, allowing firms to “distance themselves from potential issues.” He acknowledges that while “as a manager, it can be reassuring to detach from certain challenges, it’s essential to remember that outsiders, including investors, perceive us as a unified whole.” Therefore, he emphasizes the importance of collaboration with outsourcing partners. “The full responsibility ultimately rests with us. Regardless of how your operations are organized, we appear as a singular entity.”

Richard Fenton, responsible for Prime Brokerage Sales at IG Prime, notes that this outsourcing trend extends beyond the Nordics saying that “For an emerging manager who hasn’t spun out of a large firm with an established track record, the primary focus is on building that track record.” Managers with under $50 million in assets are often inclined to outsource many functions, particularly in the middle office. “Outsourcing helps maintain lean costs, allowing you to focus on generating alpha,” he adds. Fenton has witnessed funds that began with $25 million successfully scale to $500 million while operating with lean organizations. However, he emphasizes that the choice between outsourcing and insourcing functions “depends entirely on the strategy and capital requirements from day one. If you don’t have significant funds for a complete tech stack, a physical COO, a CTO, and a robust middle office team, you must keep your operations lean.”

Coeli Asset Management, which manages over $6 billion across a diverse range of products, “has structured our firm a bit differently than smaller boutiques”, according to Joakim Lundmark, Head of Fund Administration at Coeli. “We have developed an in-house support platform that includes compliance and risk management, along with lean teams in the middle office, distribution, and other critical functions,” explains Lundmark. Coeli partners up with independent fund managers to form joint ventures “where incoming portfolio managers create their own MIFID companies, which are operated by Coeli so they can focus solely on portfolio management,” he elaborates. Consequently, Coeli provides a comprehensive suite of services, including middle office, settlement, and distribution, with most functions managed internally. However, Coeli does outsource “non-value-adding functions such as fund accounting and custody.” Lundmark emphasizes that for managers launching funds with less than $30 million in assets under management, “it’s essential to focus purely on the investment strategy; you can’t take on too much additional workload beyond that and continue to be efficient.”

Martin Redgård, a fund manager running two distinct systematic strategies, has opted for a similar setup

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>
> Richard Fenton - IG Prime

offered by Coeli by partnering up with AIFM Group, to which he has outsourced all fund services. “If you want to get off the ground with a small amount of assets and mitigate costs at an early stage, it comes down to finding a service provider who can agree to cover the costs of setting up the fund and bear the ongoing costs,” expounds Redgård. “I was fortunate enough to find this partner early on, allowing me to launch with minimal capital.” Essentially, Redgård has outsourced most middle-office functions related to managing his funds, enabling him to focus entirely on strategy design and execution.

Joakim Agerback, the portfolio manager of the defense industry-focused Global Security Fund at Finserve, remains open to a blend of in-house trade execution and outsourcing. “We prefer a combination,” he explains, “where partners can add value in specific regions and ensure quick execution.” At the same time, “we need own constant in-house access to react swiftly, either to manage risk or capitalize on potential opportunities.”

Richard Fenton of IG Prime notes that while he has observed funds outsourcing various aspects of their operations, trading is often the exception – except for cases like outsourced trading in the APAC region. “Not many people want to stay up to the early hours of the morning to trade Hong Kong, so they’ll rely on a specialist,” he explains. Fenton further comments that whether funds choose to outsource trading execution

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> "[Do managers prefer a] fully integrated solution that synchronizes all aspects of the trade lifecycle, or a best-of-breed structure that enables them to cherry-pick systems?"
>
> Andi Woolass - Enfusion

or middle-office functions, they need a highly flexible counterparty that does not impose minimums. "We have seen a couple of funds that started with a small AUM and, from day one, accumulate multiple service providers that aren't necessarily needed on day one as debits on their balance sheets. If you're struggling to raise assets and maintain strong performance, it becomes challenging to sustain provider relationships."

Front-to-Back Versus Best-of-Breed

When asset managers consider outsourcing, they face a choice between a comprehensive front-to-back solution or a best-of-breed approach where they select specialized providers for different functions. Andi Woolass of Enfusion raised this question with the managers around the table, asking whether they prefer a "fully integrated solution that synchronizes all aspects of the trade lifecycle, or a best-of-breed structure that enables them to cherry-pick systems, such as an EMS or other management tools tailored to specific needs, which requires more effort in integration and coordination."

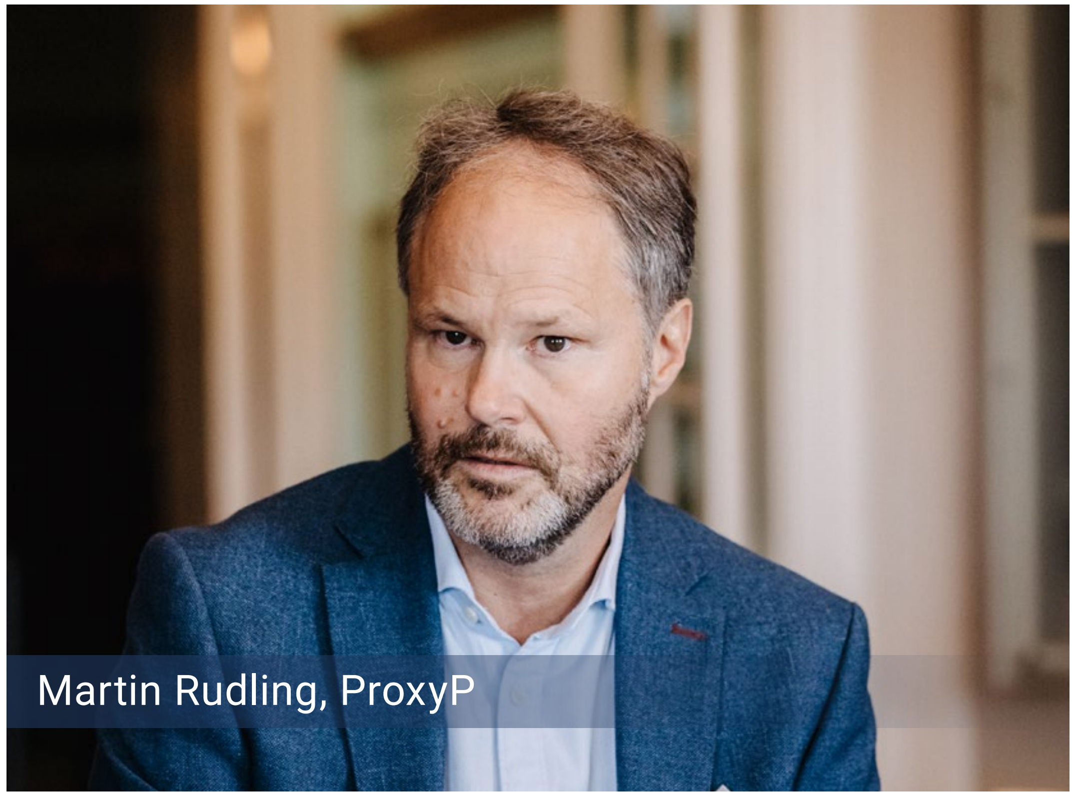
Stuart Abel, Chief Operating Officer of the expanding multi-fund boutique Tidan Capital, believes that "everyone would choose a single provider if that solution offered exactly what they needed and wanted. However, finding such a partner is nearly impossible, and a one-size-fits-all approach often ends up being one-size-fits-none." He emphasizes that while all asset managers operate within the same industry and engage in similar activities, "every fund and every manager is very, very different." Abel contends that a best-of-breed solution "sounds like a utopia that I'm not sure will ever exist."

Abel suggests, "selecting a solution that meets the majority of your needs while bolting on extra components as necessary. If a manager has an excellent overall front-to-back system but falls short in risk management, for example, the manager can bolt on a specialized risk system." He notes that due to the diverse and specialized nature of strategies, "we all require tailored solutions based on our specific strategies, and there will always be a need for add-ons." For Abel, "it's about finding a balance between a one-stop shop and best-of-breed solutions to enhance that foundation."

As a larger asset manager collaborating with various portfolio management teams, Coeli Asset Management has chosen a comprehensive one-stop shop that can be enhanced with best-of-breed solutions. "We rely on the broader, well-established Paladyne system, which allows us to plug and play best-of-breed solutions," explains Joakim Lundmark of Coeli. He adds that "if we require an enhancement, we can easily integrate it into the system." Given the diverse range of strategies under the Coeli umbrella, Lundmark works with six or seven custodians, all of which are connected to the main system and can onboard with virtually any prime broker. "We have established the need for a solid foundation to stand on, similar to a one-stop solution that addresses about 80 percent of our required functions. From there, we collaborate with other specialized providers, such as those offering risk solutions, to create a stable system that every strategy can utilize," describes Lundmark. This setup allows Coeli to operate with just three individuals overseeing operations support for ten different portfolio management teams. Implementing a best-of-breed system across all functions, including trading, risk management, order management systems (OMS), and back office, would be "crazy expensive," considers Lundmark. "There is a trade-off between functionality, connectivity, and costs, as well as minimizing concerns from the investors' perspective."

Richard Fenton of IG Prime, which provides Prime Brokerage solutions, aligns with Lundmark's perspective, emphasizing that seamless connectivity is essential for most managers. "We are asked time again, 'If we execute through you, how does it feed into our back office, our fund administration, and our middle office?'" Fenton shares, highlighting the key concerns of IG Prime's clients. "Systems have to be connected to the reporting chain and easily reconcilable. Adding extra layers of operational burdens on funds is a non-starter," he expands.

Fenton points out that the challenge lies in managing reconciliation between systems. "Real progress has been made with API-driven solutions that facilitate direct reporting to fund administrators or middle office teams. This is where we have found it easier to align our technology with that of other complementary providers," he explains. A tech-focused approach of reporting via APIs can ease integration into existing systems but, as Fenton points out, "it has to be a combination that complements what fund managers are currently doing."



Martin Rudling, ProxyP

Peter Chan, Executive Director and Analytics Business Manager for EMEA at MSCI, agrees, highlighting that "a key challenge is removing the barriers for a best-of-breed approach, ensuring our clients don't bear the costs of maintaining multiple systems when they decide to replace existing functionalities with different providers." As a risk analytics provider and other services, MSCI has observed growing flexibility in integrating its analytics tools with platforms from various service providers. "This trend extends beyond the hedge fund space, it includes asset owners, asset managers, IT infrastructure, and service providers across the board," Chan notes.

According to Patrik Säfvenblad of Volt, choosing best-of-breed providers not only enables asset managers to select the optimal solutions tailored to their specific needs but also enhances their credibility. "Outsourcing risk analytics to MSCI, for example, adds credibility to your reporting, just as partnering with a reputable administrator for fund administration further strengthens credibility," Säfvenblad explains.

Daniel Mackey of Protean echoes this sentiment, noting that "when you're a new firm looking to establish your reputation while engaging with institutional investors globally, it's beneficial to have some well-known names among your service providers." However, he emphasizes that "one should not choose providers just because of their name." More importantly, by partnering with multiple service providers, managers can gain access to various perspectives rather than just one. "If you rely on a single provider for 80 percent of your services, you'll only hear the narrative they want you to hear," says Mackey. "In contrast, working with multiple service providers allows you to adopt a best-of-breed approach for each function, giving you valuable insights and talking points while connecting with others, including potential service providers, to stay informed about industry developments."

Martin Rudling of Proxy P Management agrees, stating that "if you rely solely on one provider for all your needs, hoping they will serve you for the entire duration of the fund, you risk becoming unaware of what's happening in the services world and what opportunities you might be missing." Mackey from Protean adds to this perspective, concluding that "it's important to have reputable names to enhance credibility, but equally crucial is partnering with providers that can address our specific needs."

"It's essential to focus purely on the investment strategy; you can't take on too much additional workload beyond that and continue to be efficient."

Joakim Lundmark - Coeli

Although Martin Redgård outsourced all functions to a single provider by running his funds under the AIFM Group platform, he would evaluate the cost-benefit analysis on a function-by-function basis. "I would never consider outsourcing anything related to trading or investor activities. However, several functions may have a clear break-even point," Redgård explains. "Outsourcing a function is either profitable or not. Identifying areas where you can carve out profits, especially in a small operation, is essential for long-term survivability."

For Oscar Severinsson, who recently assumed the role of Chief Operating Officer at Origo Fonder, the decision to outsource operations or keep them in-house requires a thorough cost-benefit analysis. "We currently rely on one service provider that handles everything from risk valuation to fund administration, but we are exploring other options," says Severinsson. "We are considering separate providers for risk and valuation or even bringing valuation back in-house, as outsourcing it can be quite expensive," he elaborates. "For a stock-picker focused on public equities, valuation is relatively straightforward, so we can do it ourselves to reduce costs."

Peter Chan, MSCI

"Good" Versus "Bad" Costs in Execution

In asset management, costs are a critical factor in deciding whether to outsource or keep functions in-house. In the context of execution, differentiating between "good" and "bad" costs is essential for optimizing trading strategies and enhancing overall performance. As Andi Woolass of Enfusion suggests, "thinking about good versus bad costs can manifest in different ways," and can include aspects such as liquidity and perhaps more importantly, access to liquidity during times of market stress, among many other aspects. For example, investing in high-quality execution services, advanced technology, and data analytics can lead to better trade outcomes, improved liquidity, and reduced slippage – ultimately benefiting portfolio performance.

In contrast, bad costs are those that fail to add value and can even erode profitability, such as excessive fees for subpar execution services, unnecessary trading expenses, or hidden costs stemming from poor liquidity. Joakim Agerback, manager of a long-only equity fund focused on the defense industry, argues that "The

> "We prefer a combination, where partners can add value in specific regions and ensure quick execution. [At the same time,] we need own constant in-house access to react swiftly, either to manage risk or capitalize on potential opportunities."
>
> **Joakim Abgerback - Global Security Fund**


Stephen Roberts, Enfusion


Stuart Abel, Tidan

discussion around good and bad costs in execution depends on the manager's strategy."

For his strategy, "bad costs are unnecessary trading or execution expenses that are largely irrelevant to our long-term portfolio exposure and returns," he explains. "We focus on planning our execution and risk management with a long-term perspective in mind." Agerback goes on to elaborate that his approach adds value by "systematically identifying areas with the strongest structural growth and most predictable earnings growth over time in our sector." However, he acknowledges that "some active strategies can generate or retain alpha effectively through very active execution," based on his experience managing such strategies in the past.

Stuart Abel of Tidan Capital ties the discussion on cost-saving in execution back to the broader question of outsourcing. He points out that while many functions can be outsourced, execution remains a major sticking point. "How can you trust someone who doesn't know your strategy as well as you do to execute your strategy in an efficient way without wasting basis points here and there?" Abel asks. Reflecting on his experience, he notes, "Most of the portfolio managers I've worked with across different firms are very reluctant to outsource execution, even within large multi-strategy firms with centralized trading desks." Abel believes that for some strategies "execution and implementation of the strategy is where you can generate alpha. Portfolio managers are not going to hand that responsibility to someone who isn't fully breathing their strategy day in, day out."

Joakim Lundmark of Coeli Asset Management shares a similar view to Abel, asserting that "we believe portfolio managers should handle trading on their own; it's a value-add they bring." He argues that outsourcing this function leads to unnecessary costs and highlights the importance of the close relationships portfolio managers maintain with brokers, which informs their decision-making. "While global equities, especially large-cap stocks, may not need as much broker feedback, micro, small, and frontier stocks require a much closer connection with brokers," he explains. For Lundmark, back-office services represent avoidable expenses that can be outsourced, while costs associated with front-office and middle-office functions are justified, or what he considers "good" costs.

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Representing a Nordic equity-focused asset manager investing in small to large caps, Daniel Mackey from Protean emphasizes that "the Nordic region is a unique microcosm, where market players can have a good understanding of where liquidity exists and what investors are sitting on." According to Mackey, when trading small caps, managers such as Protean should "ensure that you are not paying up for liquidity." Mackey acknowledges that trading small caps in markets outside the Nordics may require a different strategy. "In this market, however, it's essential for managers to focus on not overpaying for liquidity while remaining knowledgeable about the liquidity profile of their entire portfolio."

Stephen Roberts from Enfusion echoes Mackey's observations based on his interactions with clients in the Nordics. "Outsourced trading is something I've never seen gain traction here," he notes. "In the UK, for instance, there has been a significant trend of firms streamlining their broker lists and considering outsourced trading." Roberts suggests that the situation in the Nordics may be attributed to the region's liquidity and the necessity for closer market engagement. "It's a smaller, more personal market," he explains, "which is not as conducive to outsourcing trading."

Richard Fenton from IG Prime shares a similar view regarding the EMEA region. "We don't see much demand for outsourced trading in EMEA. The developed European market is typically serviced by portfolio managers who maintain very close relationships with their brokers and prime brokers," he confirms. Fenton points out that while outsourced trading is particularly relevant for equities and has largely been influenced by practices in the United States, the situation varies in other regions. "In the APAC markets, we see some instances where value is added through outsourced trading. However, when clients trade Nordic mid-cap and small-cap stocks, they typically work closely with their brokers," he notes. Fenton emphasizes that clients value "their close relationships with brokers and struggle to see how that could be effectively outsourced."

> "Everyone would choose a single provider if that solution offered exactly what they needed and wanted. However, finding such a partner is nearly impossible, and a one-size-fits-all approach often ends up being one-size-fits-none."
>
> **Stuart Abel, Tidan**

However, Fenton notes that trading strategies significantly influence how trading is conducted. "It depends on the strategy. We've seen a growing interest in Nordic life science names, particularly from a short-selling perspective, over the past few months," he remarks. "For our clients, synthetically shorting these assets has become more manageable because we can leverage various providers," he explains. Fenton points out that there is typically greater availability for hard-to-borrow names on a swap basis rather than general collateral (GC). "If you're considering intraday trades, using swaps makes more sense," he adds. Overall, he observes a trend toward synthetic shorting rather than physical shorting, although practices can vary across the Scandinavian regions.

Patrik Säfvenblad, CIO at Volt, acknowledges that while outsourcing execution can be advantageous in certain situations, outsourcing transaction cost analysis (TCA) "does not make sense." He emphasizes the importance of understanding both executed trades and those that were bypassed to effectively assess the efficiency of a trading strategy. "If you don't know when you skipped a trade due to costs or opted for one route over another, it becomes impossible to evaluate whether your execution is efficient," he explains. With a high trading volume – approximately 600,000 contracts annually – Volt relies on statistical analysis to assess the quality of its execution. Säfvenblad underscores that TCA is a critical component of investment management. "Relying on a bank to provide a generic TCA report is insufficient and will not help you achieve the investment goals set for your clients."

Automation and Artificial Intelligence (AI)

As artificial intelligence (AI) becomes increasingly powerful and accessible, its role in asset management operations is expanding, particularly in optimizing workflows and enhancing supportive infrastructure. For smaller boutiques like the one run by Martin Redgård, AI has proven to be a game-changer in developing backend systems that facilitate trading

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activities. "I have been leveraging AI extensively to build infrastructure and systems that act as assistants for roles that would otherwise require additional hires," Redgård confirms. "While I'm not a firm believer in using AI for trading decisions – or at least I am not capable of using AI in a significant capacity related to trading and trading decisions – I find it immensely beneficial financially by streamlining processes."

Patrik Säfvenblad and his team at Volt find AI to be "useful for repetitive tasks, like writing monthly reports or summarizing information, but that's a very small part of what we do." According to Säfvenblad, AI's contribution to Volt's fund management remains limited. "Rather than relying on AI for various tasks, we've opted to outsource much of our work. While we are actively exploring potential use cases, we haven't yet found a significant one," he explains.

Stuart Abel of Tidan Capital shares Säfvenblad's reservations, stressing, "We all have a fiduciary duty to our investors. AI is a disruptive technology that can't yet be fully trusted, especially in critical areas involving investor money." While Abel acknowledges AI's potential for managing repetitive tasks without compromising core operations, he underscores the importance of caution: "We can't afford to be guinea pigs when it comes to investor capital." However, "once AI proves its security and functionality beyond a proof of concept, I'm sure it will see wider adoption. But for now, the risk that it doesn't deliver what you expect is just too great."

"A key challenge is removing the barriers for a best-of-breed approach, ensuring our clients don't bear the costs of maintaining multiple systems when they decide to replace existing functionalities with different providers."

Peter Chan - MSCI

The team at Origo Fonder is exploring the potential of utilizing AI for initial stock screening. "You can take the whole universe of stocks, apply specific metrics, and quickly narrow it down to a shortlist of candidates," explains Oscar Severinsson. "From there, the portfolio manager can further refine and reshape the list by applying additional criteria that reflect their style or flavour of investing," he elaborates. However, he does not feel that full automation is feasible at this stage, noting that "issues like hallucinations and other infrastructure limitations make it difficult to fully automate." Still, Severinsson believes that AI can be highly effective when used alongside human input, particularly for data gathering and refining the investment universe. "It's especially useful in the early stages of classification or filtering," he concludes.

Asset managers such as Coeli have found practical applications for AI, particularly in employing machine learning for the ESG screening of their article 9 funds. However, Joakim Lundmark and his team at Coeli are still exploring the wider application of AI across their business operations. "We haven't made significant progress yet, but we firmly believe that AI will enhance human capabilities rather than replace them," Lundmark explains.

He points to policy drafting as one area where AI has been especially useful, helping streamline routine processes. Lundmark also raises concerns about data security, particularly where data is stored and the risk of unintentionally sharing internal information on public platforms. "This is the biggest risk we face right now," he says, stressing the importance of careful oversight in using AI while recognizing its potential.

For MSCI as a data analytics provider, "AI is a bit of a loaded term," says Peter Chan, recognizing that its broad application can range from basic automation to advanced machine learning, thus creating ambiguity without clear definitions. "As a company with a large focus on data, we've been using machine learning algorithms for tasks such as data reconciliation and data cleaning," Chan explains. "The technology has advanced sufficiently that we are now exploring ways to utilize it for processing and leveraging larger volumes of data and managing the vast amounts of information available, while also remaining vigilant about potential challenges like hallucinations."

MSCI is particularly focused on simplifying the work of risk managers, especially within large asset management firms. "For someone overseeing 1,000 portfolios, we aim to streamline that first hour of the day, using AI to enable them to quickly analyze and gain insights from the plethora of risk and performance metrics we calculate," Chan explains. Another area of interest is enhancing query functionality through AI. "Rather than solely relying on large language models, we're using them to generate Python code and providing greater transparency regarding the datasets being accessed," Chan continues. "There are numerous efficiency gains to be had, particularly as our research teams sift through increasingly large volumes of data."


Patrik Säfvenblad, Volt

Chan concludes that while AI has the potential to deliver significant efficiency improvements, "we approach it with caution, recognizing the risks and challenges that need to be managed for effective use." He asserts that "given the wealth of resources now available, failing to leverage these tools can put managers at a considerable disadvantage."

While Joakim Agerback agrees with Stuart Abel's assertion that managers must rigorously verify everything due to their fiduciary duty to clients in addition to having "a responsibility to be as efficient as possible," he also supports Peter Chan's ambition to leverage AI to "explore many more innovative ideas for portfolio construction, new strategy components, data collection, sources, etc." However, echoing the sentiments of other roundtable participants, Agerback stresses the importance of being "very cautious about how you do this," especially for a manager like himself who is focused on developing a systematic, fundamental approach to investing. He remarks that while the use of AI can depend on the "type of value you try to offer as a manager, we should embrace its potential but proceed with caution."

> "The challenge for managers is whether to forgo the SMA to preserve capacity in the master fund, holding out for the more reliable capital that long-term partnerships bring, which, in turn, seems increasingly difficult to win."
>
> **Stephen Roberts - Enfusion**

Personalized Products and the Popularity of SMAs

Many asset managers at the table highlighted the increasing demand for flexibility and personalized service. Their investors are actively seeking these attributes as well, with Separately Managed Accounts (SMAs) emerging as a key solution to meet these needs. "We have observed an increased use of SMAs across all EMEA markets, with managers often launching under an SMA for the first year before establishing their master fund," notes Stephen Roberts from Enfusion. "This model is also a common approach for raising additional capital for established fund managers," he adds. However, despite the rising popularity of SMAs, Roberts points out that they can also present challenges for managers, particularly due to the added complexity involved in many cases.

While most asset managers, both globally and in the Nordics, prefer long-term partnerships with investors, SMAs often serve as a less stable source of capital. "The challenge for managers is whether to forgo the SMA to preserve capacity in the master fund, holding out for the more reliable capital that long-term partnerships bring, which, in turn, seems increasingly difficult to win," comments Roberts. "It presents an intriguing dilemma: while no one seems particularly enthusiastic about this approach, everyone is engaging in it, leading me to question its sustainability." He notes that this scenario has resulted in an anomaly where SMA investors benefit from significantly reduced costs without the typical fund commitments.

Daniel Mackey from Protean agrees with Roberts, highlighting the significant advantages that investors gain through an SMA structure. "Investors enjoy increased transparency, the ability to negotiate fees, and the possibility to withdraw their money quickly if they're not satisfied with returns. However, through choosing whom to partner with, remaining transparent, and performing as expected, that capital should ideally become sticky," he observes. Having secured its first SMA investment last year, Protean plans to onboard additional SMAs as part of its growth strategy. "It's important to maintain a good balance by building the business while ensuring it doesn't significantly impact our capacity," the COO notes. "That said, being completely dependent on SMAs would be a bit scary."


Richard Fenton, IG Prime

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After acquiring existing fund structures to quickly launch his strategies, Martin Redgård has only recently begun onboarding larger institutional discretionary mandates, which are often a less stable source of capital. "There is a real point in trying to diversify your client base, as these types of SMA investments are not always sticky," Redgård explains. "One bad quarter can lead to significant withdrawals – you're never sure. External factors can also influence their decisions." He advises against becoming overly reliant on SMA structures, stating, "Ideally, you need the best of both worlds and if you have the opportunity, try to maintain a balance between SMAs and other types of clients."

Stuart Abel from Tidan Capital, who previously served as COO at the multi-billion-dollar systematic manager IPM (Informed Portfolio Management), observes that the stickiness of managed account investments has shifted over the past five to ten years. "My personal view is that a managed account used to be considered a far more long-term commitment," recalls Abel, "as it took more effort to establish that managed account for an investor than it did for them to simply subscribe and redeem in your fund." Today, however, a significant amount of SMA investments is sourced from large global multi-strategy vehicles that treat managers and funds as external pods. "In that scenario, they can easily switch it on and off within a quarter or even a month. I believe the long-term commitment associated with typical SMAs has fundamentally changed."

"SMAs provide a pathway for a relatively small fund to grow without having to rely on organic growth to meet the expected size required by certain investors."

Martin Rudling - ProxyP


Joakim Lundmark, Coeli


Joakim Agerback, Global Security Fund

Redgård expands on Abel's observation by highlighting that the stickiness of an SMA investment can change over time. "I believe there are varying degrees of 'stickiness.' Initially, an investor might allocate a substantial amount, but you're still quite disposable," Redgård explains. "They essentially want to see who performs well in a given environment. If you demonstrate success over a year, they might increase the mandate, leading to greater stability," he adds. "In those early stages, you are highly replaceable. It's crucial to recognize this and implement a strategy to manage that volatility on the business side."

Martin Rudling, representing the fund boutique Proxy P Management, believes that SMAs offer two significant advantages at different stages of building a fund management business. "First, SMAs provide a pathway for a relatively small fund to grow without having to rely on organic growth to meet the expected size required by certain investors," Rudling explains. "Secondly, depending on the investor, an SMA investment can serve as a strong endorsement for a small, unproven firm, signaling that you're capable enough to meet their standards and addressing many lingering doubts some investors might have." He emphasizes that securing a first SMA investment can be crucial for a small manager, as it can "simplify marketing efforts for both the commingled fund and additional potential SMA investments."

As many boutique funds encounter challenges in raising capital directly for their funds, Oscar Severinsson of Origo Fonder believes that "SMAs help us create a more stable firm and benefit from diversification in our investor capital." For investors, he notes, "SMAs provide a flexible structure that can be tailored to specific strategies, accommodating restrictions some investors may have regarding exposure to certain sectors or countries." Severinsson adds that SMAs also mitigate risks for investors, particularly those concerned about holding a significant portion of a fund's capital. For asset managers, "a strong mix of fund capital and SMA

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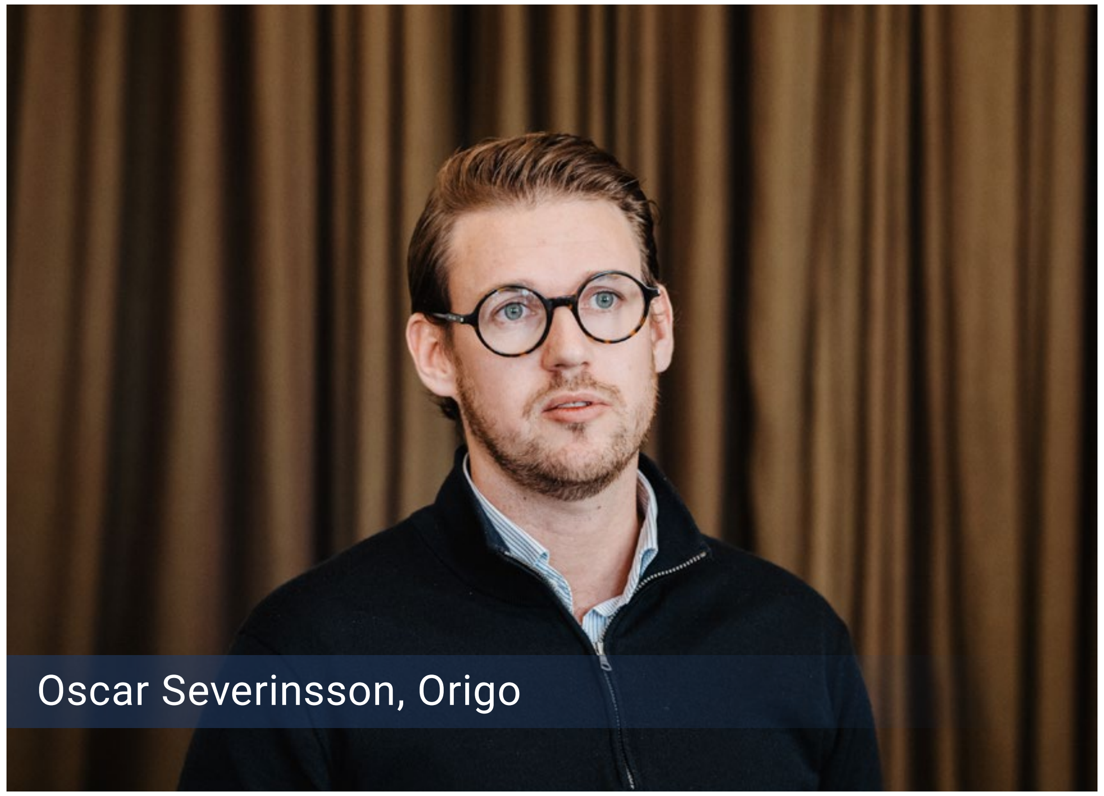
Oscar Severinsson, Origo

capital establishes a solid foundation for focusing on running and growing our strategies."

Joakim Agerback shares Severinsson's view, highlighting that SMAs enable investors to customize strategies and adjust fund exposure to meet their specific needs and restrictions. "Since we manage a fund in the defense industry, SMAs offer a pathway for investors to access the sector without necessarily replicating the fund's exact exposure, which may include companies or regions they are restricted from investing in," Agerback explains. For those seeking exposure to niche sectors that require specialized expertise, SMAs present a flexible solution. "SMAs are an excellent alternative for investors who may not have internal analysts but still wish to gain exposure without incurring full fund fees, or who need to exclude certain companies from their portfolios," he adds.

Volt Capital Management was set up to run managed accounts from day one, accommodating the diverse needs of institutional investors. According to Patrik Säfvenblad, "Each client has a clear preference; they either prefer to invest in the fund and would never consider a managed account, or they require an SMA and would never invest in the fund." Investors typically make a firm decision between the two options right from the beginning. "It's not that you can specifically target SMAs in my business," Säfvenblad confirms, noting that more sophisticated investors with larger assets tend to favor SMA structures. For managers, one significant advantage of working with SMAs, aside from broadening their asset base, is the reduced reporting burden. "These investors have direct access to the portfolio, which makes my life easier as a portfolio manager because I can minimize the reporting requirements compared to what a fund investor of the same size would need."

Joakim Lundmark speaks to the fact that Coeli primarily accommodates managed accounts for larger investors, such as sovereign wealth funds, who cannot participate in their commingled funds. As a result, most SMA investments at Coeli are considered "sticky" capital. However, Lundmark acknowledges that some investors perceive their allocations as non-sticky and seek to avoid significant subscription and redemption challenges. "When investors are clear about wanting exposure for a specific macro event over the next six to nine months, we appreciate that level of transparency," he states. The Coeli team generally adheres to a rule that limits any single investor to account for no more than 20 to 25 percent of a fund's capital. More importantly, they exercise caution with "SMA clients who may require more effort than those in the commingled funds, particularly those who lack essential functions like fund accounting."

Martin Rudling from Proxy P concurs that managers, particularly smaller boutique firms, must be aware of the effort and costs associated with onboarding SMAs. "Many of us operate relatively small teams within a global context, focusing primarily on servicing our commingled flagship funds," says Rudling. "I believe we often underestimate the costs involved; the onboarding process alone can consume significant organizational resources," he emphasizes. "As a rule of thumb, regardless of the size, onboarding any SMA will require the equivalent of half a full-time employee."

While Daniel Mackey from Protean acknowledges that technological advancements have greatly reduced the operational burden of onboarding SMAs compared to commingled funds, he cautions that this ease can lead to diminished investor stickiness. "It's much easier now for investors to withdraw their money," says Mackey. "With every OMS, PMS system, and prime broker now designed for a plug-and-play approach, SMAs can be initiated within a relatively short timeline but also carry the risk of rapid capital withdrawals," he explains. "There are both positives and negatives to these technological advancements but, ideally, performance is what keeps the investor satisfied," Mackey concludes.

Plans and Trends Over the Next Few Years

The Nordic region has long been recognized as a fertile training ground for asset managers, consistently producing innovative strategies and skilled professionals. As Martin Rudling from Proxy P observes, "Scandinavia is a region that has been exceptional at producing outstanding managers and strategies." However, he notes, "If you walk down memory lane, many of these funds have vanished, not solely due to performance issues but because of the challenges in reaching the critical mass necessary for sustained business longevity." This situation presents significant obstacles in achieving the scale required for enduring success, particularly amid increasing complexity, regulatory

> "SMAs help us create a more stable firm and benefit from diversification in our investor capital. SMAs provide a flexible structure that can be tailored to specific strategies..."
>
> **Oscar Severinsson - Origo**

scrutiny, and rising operational costs. Rudling foresees a trend of consolidation driven by external pressures from both investors and regulatory bodies. Daniel Mackey from Protean adds that this consolidation may not necessarily serve the best interests of investors.

Mackey advocates for a level playing field for smaller firms competing against larger asset managers. "Everyone here isn't managing a relatively small fund just for fun; we genuinely want to deliver strong returns for our clients, whether institutional or individual. It is crucial to have an even playing field where we can compete with the larger asset managers who dominate both the pension and advisory business due to advisory and captive client model," Mackey states. He expresses a desire to expand opportunities for smaller firms to showcase their ability to provide attractive returns for all investors. "It's not purely altruistic; it's rather about trying to shake up the status quo and creating a more competitive market." Sweden is a highly advanced market where many people have private savings, investment portfolios and are knowledgeable about investments. "It is essential that investors have the freedom to choose products that best suit their needs rather than being limited to those that are simply available or more beneficial from their advisor's perspective. I hope to see this shift in the coming years," he adds.

Joakim Agerback, manager of the Global Security Fund, agrees on the importance of diversity of product offerings for investors and portfolio benefits. He emphasizes that supervisory authorities should consider how the scope of regulatory requirements may impact competition and product diversity, while ensuring that supervision remains effective and adequate. One potential regulatory burden that managers may face is the Digital Operational Resilience Act (DORA), an EU regulation that establishes a new framework for the EU financial sector concerning information and communications technology (ICT).
Oscar Severinsson from Origo Fonder is keenly aware of the implications of DORA. "Our aim is to manage all the regulation that is coming in 2025 with DORA, which is a huge undertaking for a small firm," says Severinsson. He hopes for a classification as a micro company to mitigate some regulatory burdens. However, he argues that DORA creates challenges by applying the same standards to firms of all sizes. "Large asset managers and small firms must implement the same measures to comply with DORA, which I find quite unfair given our limited resources," Severinsson explains. "We cannot allocate 50 people to reading the documentation and maintaining compliance in the same way a larger manager can."

Stuart Abel, representing a growing multi-fund boutique aiming to attract a more international investor audience, is navigating the challenges of regulatory burdens and uncertainties in its expansion efforts. "We recently launched our first managed account for a U.S. investor and are looking to raise additional assets and funds," says Abel. "The new fund vehicles will be led by investor demand, so these could involve new regulatory frameworks such as UCITS, or new regions. This means that the number of regimes we operate – currently Sweden, Luxembourg and the U.S. – will likely increase." Given the evolving and different regulatory landscape in the various regions Tidan Capital aims to operate in, Abel "can foresee the need for an internal compliance officer to manage multiple outsourced regional compliance officers, covering each of the regions we operate in." As Tidan's investor base expands globally, "we face increasing regulatory requirements and burdens." An outsourcing model for this function could potentially offer a viable solution for smaller managers facing these regulatory challenges.

As a provider of solutions to hedge funds and asset managers, Enfusion stands to gain from regulatory changes, with Stephen Roberts saying: "We quite like regulation as it often requires a software solution." He observes a growing trend among firms reevaluating their operations to ensure they maintain sufficient controls moving forward. Roberts emphasizes that Enfusion's primary focus is "to take away from managers all non-value-added tasks." He notes that boutique managers in the Nordics "don't aim to differentiate themselves through operational excellence in the middle and back office." Therefore, Enfusion aims to help managers "focus on what you do best, which is managing money, and pass the rest to us or providers like us."

Peter Chan of MSCI has also observed an increase in regulatory oversight across Europe. "While our clients are outsourcing, there is still a crucial oversight requirement," says Chan. One solution to addressing this requirement is for MSCI to collaborate with outsourcing providers, whether fund administrators or platforms that integrate their analytics. "This allows investors to access consistent data across various platforms, ensuring they can maintain oversight with a unified data source."

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