

Cloud technology could push down the costs for hedge funds of all sizes but fears over counter-party risk need to be addressed.

## Simplifying the cloud

Selecting an IT provider for a hedge fund does not have to depend on the brain power of a technology guru. The decision to put a fund's entire communications and technology operation into the care of a 'cloud' often starts with recommendation rather than technical knowledge.

This is because the people making these crucial decisions often are not experts. "I would say about 50% of the time it is an IT person in a hedge fund making this decision. The other 50% of the time it is an operations person, typically the chief operations officer or the chief financial officer of that hedge fund," says Chris Grandi, founding principal of Abacus Group.

"Most often the decision makers have a background in finance, accounting or operations and don't completely understand core IT architecture. We explain it to them. Their goal is to deploy the best IT service possible and they need to find a knowledgeable and experienced group they can trust."

According to Grandi, chief financial officers (CFOs) usually consult with their peers in other funds when choosing technology and, particularly, when looking at using the cloud.

Abacus focuses specifically on hedge funds and it offers a 'private cloud' that enables organisations to

outsource basic IT requirements such as email services, management of files and data back-up. Abacus also manages the framework for applications, including order management systems, accounting and risk software.

Abacus has links to many of these providers and also handles centralised data feeds from, for example, Bloomberg, which previously were fed directly into offices individually. This means cost savings for funds could eventually push down the cost of data overall.

"In the old model, once you hit the maximum amount of data that your infrastructure can handle, you would have to go out and buy more storage resources or more servers and that would take time to deliver and install," explains Grandi.

Another saving for funds is on the cost of internal IT staff.

However, the two big issues that hedge fund managers have to weigh-up are whether or not a cloud solution for their IT will actually save them money and then how much risk they introduce by handing these services to one provider.

Grandi believes funds of any size, from start-ups to established, larger staffed management companies, can benefit from the cloud.

"We have funds in the 50 to 60 employee range and we're talking to several in the hundred range and it is absolutely economically beneficial for them too," he says.

"It's our intention to make sure that cloud technology makes sense economically for companies with 50 to 70 users and that they are going to save money by coming into cloud versus buying all the infrastructure on-site."

Assuming the cost argument is won by clouds, the next big question is



Chris Grandi,  
Abacus Group

whether the cloud is safe. "The counter-party risk is definitely real," admits Grandi. "What happens if Abacus got wiped off the map? As their primary provider, we hedge this risk by replicating all of a fund's data to a third-party back-up facility that is not affiliated with Abacus."

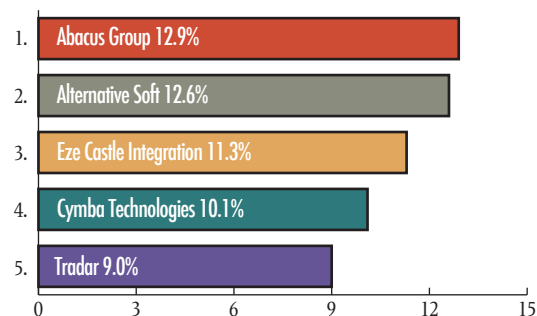
In such an event, Grandi says that the transfer migration of information is easy because it is in the cloud. "What used to take days or even weeks now takes hours," he says.

Regulators are also becoming interested in the cloud. "What they are looking for from us is proof and validation of message archiving and a working disaster solution. They need reassurance that all messages are archived in a manner that they can't be altered. Second, they want proof that their disaster recovery solution is workable and has been tested."

From his interaction with regulators, Grandi is confident there is little to question about the use of the cloud by fund managers.

"There has been very little push back or very little questioning of running a fund's IT services out of a cloud." ■

### Top five rankings: technology provider



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