

Hedge Fund ALERT

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Bridgewater Questions Need for Back Office

Bridgewater Associates is giving serious thought to outsourcing its massive and complex back-office operations.

Such a move would have huge implications for fund administrators, technology firms and other service providers that cater to hedge funds, given Bridgewater's status as the world's biggest fund operator. The thinking is that if the \$75 billion firm were to replace even a portion of its roughly 200-member back-office staff with outside contractors, then other hedge fund managers would likely do the same.

"Once Bridgewater does it, everyone will follow," said **George Michaels**, chief executive of **G2 Systems**, a New York technology consulting firm.

The big question is exactly what "it" is. An executive at one service provider said Bridgewater has told prospective contractors that it is considering turning over all back-office operations — presumably including asset valuation, profit-and-loss statements, risk-management functions and the like — to third-party administrators. But a source close to the Westport, Conn., firm said the changes won't likely be so dramatic, and for now the effort remains in the exploratory stage.

To be sure, the source said, Bridgewater is taking a hard look at its back-office functions with an eye toward cutting costs. But the firm periodically reviews all of its operations in an effort to maintain best practices at the most reasonable expense, he added. Whatever decision is made, it will likely take a couple of years to implement.

Bridgewater is weighing the cost benefits of outsourcing against the potential for diminished control — a particularly sensitive issue at a time when institutional investors are demanding more rigorous internal controls. Indeed, an executive at one administration shop said the hedge fund firm has been sending "mixed signals" about its plans.

The same dilemma faces other large fund operators. For ex-



ample, a \$17 billion manager is currently "second guessing" why it needs to support a back-office staff that generates no revenue or profit, according to one industry player. The moves reflect growing recognition that fund administrators and technology firms are better equipped than hedge funds themselves to design and continually upgrade back-office infrastructure. ❖