

# Hedge Fund ALERT

www.HFAlert.com

## BofA Revamps Hedge Fund Services

**Bank of America** has reorganized its hedge fund-servicing business, bringing under one roof a range of products and services previously provided by separate units.

The bank, which markets itself to hedge funds under the Bank of America Merrill Lynch label, combined its prime-brokerage group with a division that provided equity and fixed-income financing. The goal is to provide fund managers with one-stop shopping — everything from capital-introduction and clearing services to securities lending and the execution of repurchase agreements and swap contracts.

The bank previously viewed these functions as distinct businesses, each with its own profit-and-loss line. For clients, it meant dealing with separate, often competing groups within the bank. “This is important because it’s harder to price services when they’re different silos,” said **Stephen Keller**, head of financing sales for the Americas. “Being on one team also fosters collaboration and a client-solutions orientation.”

It’s an approach other prime brokers are considering as well. Fixed-income specialist **Cantor Fitzgerald**, for example, is setting up a prime-brokerage operation that would provide fund managers with an integrated platform similar to the BofA model.

In the wake of last year’s market catastrophe, banks are looking at risk more “holistically,” said **Ellen Schubert**, chief advisor to **Deloitte’s** asset-management-services practice, which advises hedge funds. “Their capital requirements have increased,” she said. “They’re looking across business lines to ensure balance sheet usage is commensurate with profitability.”

One area where prime brokers see an opportunity to earn handsome profits once again is helping hedge funds leverage their equity. Leverage all but dried up after the market meltdown last fall, but there are signs that prime brokers once again are willing to provide various forms of financing.

“Primes are now waking up to the fact that there’s real money to be made in financing, and are offering one-stop shopping,” said **George Michaels**, a principal at **G2 Systems**, a boutique financial-services consultant in Boston. “They’re admitting there’s a problem with the old system and are combining different business units.”

BofA’s Keller said the prime-brokerage operation has steadily increased the amount of financing it provides to managers this year. “We’re noticing a thawing in leverage, and appetite for risk has increased in the last three to four months,” he said. BofA is focusing in particular on the fixed-income side, which is significant because up until its acquisition by BofA at the start of this year, Merrill’s traditional strength was in stocks.

Deloitte’s Schubert said one result of pending regulatory changes will be an increase in multi-strategy vehicles, which invest across a broad range of asset classes. “Primes are just adapting to the growing product demands of their client base — the ability to clear, custody and finance all products,” said Schubert, who counts **UBS** among her former employers.

Anticipating an increase in its overall prime-brokerage business, BofA has been adding to headcount, especially in sales, capital introduction and synthetics trading. The hiring is expected to continue into 2010. ♦

