

## How to repair leaks in hedge-fund data

By Simon Osborne | 29 July 2010

If a hedge fund is dripping information, blowing up the pipeline may be the answer, says EthosData, and several fund managers agree.

Transparency is great, apart from when some smart-ass publishes your data for all to see. For example, one fund had an investor who posted its performance report, including positions, on the Albourne Village website.

The difficult balance is that investors feel the need for independent monitoring of the portfolio -- and they also want to aggregate the risk of their hedge-fund investments in their broader portfolio. They might use an external risk-measurement service, such as the one offered by Hong Kong-based QRMO.

An independent risk manager receives access to the positions of the fund, accompanied with confidentiality agreements, and can then provide summary measures of risk and exposure to the end investor. They monitor the risk of each fund on a forward-looking basis and to aggregate it across the portfolio and control access to the position data.

If you don't have that service provider, hedge-fund managers themselves may be able to control this data. They can use a technology such as that provided by EthosData, which allows the manager to remotely control the information an investor can access.

"Since Senators Grassley and Levin proposed the Transparency Act of 2009, the landscape for transparency for investors into hedge funds has changed," says Sara Gilbert of EthosData in Hong Kong, a data-protection company. "As we know, hedge-fund managers are notoriously cagey about their position data, often citing commercial reasons for the lack of transparency. They view this information as contributory to their "unique selling point" and how they deliver their above-industry returns."

With this service, if an investor redeems from a fund, the manager can immediately "blow up" any performance PDFs they have sent previously. EthosData also allows a manager to lock PDFs for printing and water-mark the investor's name and e-mail address (indelibly, so that, if circulated, you can see who has been the blabbermouth), to discourage them from sharing

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sensitive information.

A number of hedge-fund managers in the region say they have started to use the service, with one saying: "Our current capital-raising pipeline is mainly from US institutions who are demanding top five or 10 positions. We need this information to remain confidential between us and our investor, which is why we bought this."