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The AlphaPipe/HFMWeek-Service Provider Snapshot

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Large moves in prime brokerage and custody services see provider tables changing in the first quarter

While recent studies have shown little movement in most of the categories, 2016's first quarter instalment of the AlphaPipe/*HFMWeek* Service Provider Snapshot has shown a relatively large amount of change.

The three-month period was a tough one for hedge funds as the HFRX Global Hedge Fund Index fell -1.9%, marking its worst start to a year since the beginning of 2008.

According to AlphaPipe data taken from funds' Form ADV filings during the quarter, prime brokerage and custody services have witnessed the most movement, with some firms experiencing large losses of funds and others attracting swathes of new business.

JP Morgan Chase has seen large drops in both its custodial services and its prime brokerage with its competitors appearing to take advantage of the recently discarded business.

In all, the bank has dropped 824 hedge funds from its custody services as its fund count fell to 1,692 from 2,516.

Click here to see custodian rankings

The drops see JPM fall from the top of the custodian table for the first time since the *HFMWeek*/AlphaPipe Service Provider Snapshot was launched in 2014.

Its total prime broker funds fell -8.3% to 1,507, down from 1,643 at the end of December although its prime broker RAuM rose 2% to $2,278bn, rising from $2,233.6bn over the quarter.

Sources close to the firm point to the closure of its broker-dealer unit Broker Dealer Services, which it announced in 2014 with contractual obligations running until the end of 2015.

But while JP Morgan has shed a large numbers of custodian clients, other banks have seen big increases. Northern Trust acquired 310 new clients in its custody services, taking its total client base up 58.5% to 840 and moving from seventh to fifth in the rankings.

For its part, Northern Trust's custodian AuM rose 80.7% over the period, up to $1.3trn from $720.6bn at the end of the fourth quarter.

"We're pleased to deepen our services and relationships in the hedge fund market sector as we strategically respond with administration, custody and regulatory service solutions for funds facing heightened regulatory and institutional investor demands," said Peter Sanchez, head of Northern Trust Hedge Fund Services.

Wells Fargo also benefited after adding 124 hedge funds to its roster, taking its total to 597, an increase of 26.2% over the three months as its custodian AuM rose 26.5% to $968.6bn, up from $765.9bn 12 months prior.

In the prime brokerage rankings, four out of the top five saw a decrease in the number of funds they service. Goldman Sachs remained top of the pile despite a fall of 42 funds (-1.9%) as its total fell to 2,206, down from 2,248 at the end of Q4.

Click here to see prime brokers

Despite the fall in funds, Goldman's prime broker assets rose 1% to $2,518bn, up from $2,493.9bn three months earlier.

Credit Suisse took fourth place, as the Swiss group's prime broker fund count fell by some 147 funds, marking a -12.6% drop in its total, which meant a -5.1% fall in its brokerage assets to $2,262.8bn, down from $2,385bn over the three months.

Second-placed Morgan Stanley was the only gainer out of the top five, adding 32 funds (1.8%) to its count, increasing numbers to 1,846, up from 1,814 at the end of December. This meant a 1.2% rise in its broker assets, up to $2,442.8bn.

BNY Mellon/Pershing, Wells Fargo and Interactive Brokers were the biggest winners in the prime brokerage ranks, BNY increased its fund count by 38 funds, up 16.6% to 267 from 229, from three months earlier as assets more than doubled to $376.7bn from $158.1bn.

Wells Fargo increased its number of funds to 248, a rise of 19.2% as assets rocketed to $133bn, rising from $36bn over the quarter.

Interactive Brokers also added 40 funds, a rise of 23.3% as assets jumped 12.8% to $25bn from $22.2bn.

In the administration stakes, SEI was the big winner. It added 47 funds, a 9.5% rise, taking its total to 543 and increasing RAuM by 11.5% to $162.1bn, up from $145.3 at the beginning of the quarter.

Click here to see administrator table

"As the industry continues to become more competitive and is under greater scrutiny from investors and regulators alike, forward-looking managers are understanding that they need to be more operationally adept in order to compete effectively," says SEI Investment Manager Services president Steve Meyer.

Table-topper SS&C saw a 3.4% drop in its fund count as its total fell by 49 to 1,387 from 1,436 as assets fell 2% to $1,166bn, down from $1,189.8bn.

Apex Fund Services was a new entrant into the top 20 administrators according to hedge funds' SEC filings, moving into nineteenth position with 87 funds and RAuM of $9.7bn.

"We have seen a significant amount of business transitioning to Apex over the past year, predominantly from the large bank-owned administrators. The development of our specialist private equity and real estate accounting teams in key centres around the world means we are able to deliver tailored services and technologies to managers in this sector; the result has been the addition of larger funds to our client base and 35%

growth annually for Apex in this asset class,” says Apex Fund Services North America managing director Dennis Westley.

Click here to see audit rankings

In the audit table Marcum performed well, moving up to eleventh in the table as it boosted its fund count by 13.5% to 59 and increased its RAuM to $13.6bn.

"Marcum’s Alternative Investment Group is an alternative to the 'big 4' because we have the deep knowledge and technical expertise hedge fund managers are looking for, we provide a high level of service and great commitment to our clients, and we are significantly more cost effective. As an entrepreneurial firm, we are extremely nimble and responsive, and are able to support fund managers in all of their functional and operational needs," said national partner-in-charge Beth Wiener.

Four out of the top five saw decreases in their fund counts, notably KPMG saw a decrease of 83 funds (-3.7%) taking its total to 2,155 from 2,238 as assets at the firm fell -6.7% to $940.5bn, down from $1,008.3bn over the quarter.

The big four accountancy firms continue to enjoy domination of the space with a combined market share of 75.6%.