Open Protocol Enabling Risk Aggregation

Why Hedge Fund Investors Need to Embrace Open Protocol

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As a former hedge fund analyst, I'd been dreaming of standardized risk reporting from hedge funds since Pertrac introduced me to their P-Card five years ago. Among several benefits, standardized risk reporting enables hedge fund investors to capture significantly more data, enhance exposure accuracy and aggregation, improve productivity, and save money. Who wouldn't love those benefits?

When I heard about Open Protocol for Enabling Risk Aggregation ("Open Protocol" or "OPERA") and its purported industry backing (Albourne, Goldman Sachs, a few pensions, Och-Ziff, Citadel, DE Shaw), I figured my standardized risk reporting dreams were just about to come true. But I was wrong. Hedge fund investors have been glacially slow to adopt Open Protocol; Albourne seems to be the only hedge fund investor that is really pushing this initiative. And that's unfortunate because there are some truly great benefits to an open source, standardized risk reporting platform. Here are my top three reasons why hedge fund investors need to join Albourne in the push toward standardized risk reporting.

Track thousands of hedge funds instantly

Hedge fund investors seek to dissect an expansive and disparate universe of data. Returns, AUM, and risk reporting are vital data points used in hedge fund analysis. Yet the vast majority of hedge fund investors are not able to capture this data on more than couple hundred funds; it's too burdensome from a resource and cost perspective. Open Protocol solves this problem. It enables hedge fund investors to track all of these key data points across thousands of funds with little more than the push of a button – a fact that most investors seem to be missing. An incredible amount of data is out there to be analyzed and included in investment decisions. Open Protocol would make this possible for both large and small hedge fund investors.

Reduce risks

Open Protocol offers standardized hedge fund exposure reporting across various investment strategies. For a hedge fund investor, this makes portfolio-level exposure aggregation more accurate. It eliminates inherent risks in the current exposure systems including the discretionary categorization of exposure by investments and risk teams (e.g. one analyst classifies an investment as high yield debt while another classifies the same investment as distressed debt), misinterpreting numbers from the managers' reports, mistyping numbers from the managers' reports, misunderstanding leverage calculations, out-of-date calculation assumptions, etc.

Save time and money

Open Protocol saves time for members of a hedge fund allocator's investments team, providing a meaningful boost in productivity. Hedge fund investors large and small use teams of analysts to track the exposure of their existing investments. With Open Protocol, analysts would be freed up to spend their time analyzing investments as opposed to spending it entering and reviewing exposure. Along a similar line, there are hedge fund investors that pay a third party vendor hundreds of thousands of dollars to track their exposure so they can focus on investing. With Open Protocol, these investors could save themselves hundreds of thousands of dollars.

Open Protocol isn't perfect. It doesn't provide position-level data. Not everyone is going to agree with how Open Protocol categorizes certain investments. And one hedge fund could interpret a bucketing rule different than another. Still, it's absolutely a step in the right direction.

It's important to highlight that Open Protocol doesn't belong to Albourne. Hedge funds don't exclusively send their Open Protocol reports to Albourne. All hedge fund investors have equal, unencumbered access to these reports. Don't let Albourne be the only hedge fund investor to benefit from Open Protocol. Start pushing your organization to move toward standardized risk reporting.

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happy to discuss how you can enable Open Protocol at your firm. He can be reached ataagran@claritycon.com or 312.863.3473.