

The great disconnect

The true cost of manual processes in
a trillion-dollar industry built on data



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Executive summary

Hedge funds have built their reputations on a simple premise: Extracting coveted “alpha” by reading the same market data better than everyone else. The industry, however, faces a not-so-silent data issue that threatens to erode its fundamental value proposition. Our latest research, involving over 100 hedge fund managers, reveals widespread data workflow fragmentation across their infrastructure, which in turn creates costly inefficiencies in fund operations.

A third of all our hedge fund respondents worldwide reported experiencing regular errors from these systems, which often fail to communicate with each other and require manual intervention at many junctions. Meanwhile, one in four routinely misses investor reporting deadlines. Despite this dysfunction, only 16% are actively investing in solutions, with many just making do as “this is how things have always been done”. This suggests an industry trapped between recognising problems and committing to transformation.

The dysfunction cuts deeper than efficiency metrics. European funds fail operationally at twice the rate of their US counterparts (44% vs 18%). Asian funds somehow maintain the lowest error rates despite running the most complex system setups. This suggests the crisis isn’t just about technology – it’s about culture and strategy.

While institutional investors increasingly demand “day one” operational sophistication, most funds remain trapped between recognising their problems and doing something about them. Those that don’t act risk being left behind as operational excellence becomes a selection criterion rather than a nice-to-have.

Manas Pratap Singh

Head of Hedge Fund Research

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Methodology

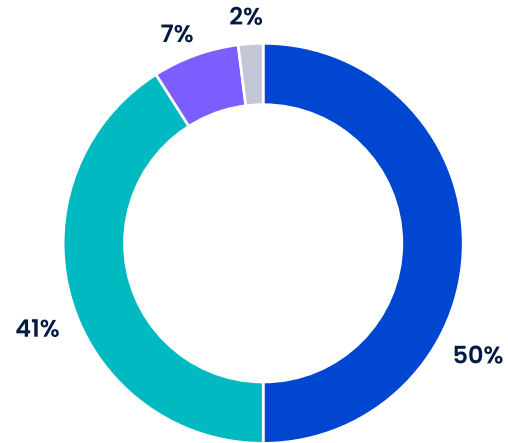
A key source of data in this report is our hedge fund survey conducted in Q3 2025. The survey collected responses from over 100 hedge fund managers globally, spanning various AUM ranges, strategy types and geographic regions. Further insights in this report were gathered during interviews with industry experts.

The survey captured a diverse range of fund sizes, from emerging managers with less than £100m AUM to established players managing over £10bn. Strategy types represented include multi-strategy, CTA, equity-focused, macro, event-driven, fixed income/credit, relative value, insurance-linked securities, digital assets, and volatility strategies.

Regional distribution of respondents provided transatlantic perspectives, with 50% of participants from North America, 41% from Europe and the remainder from Asia-Pacific.

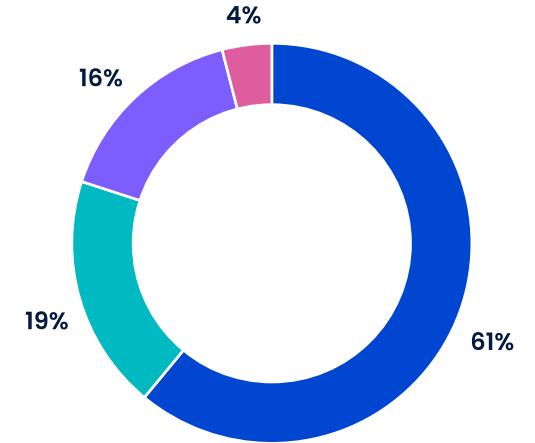
Regional distribution

- North America • 50%
- Europe • 41%
- Asia-Pacific • 7%
- Other • 2%



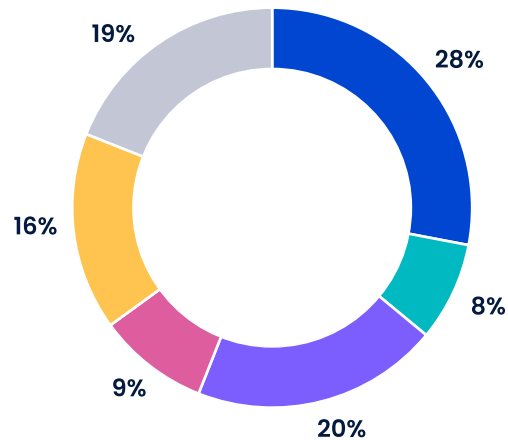
AUM distribution

- Under \$250m • 61%
- \$250m – \$1bn • 19%
- \$1bn – \$10bn • 16%
- \$10bn+ • 4%



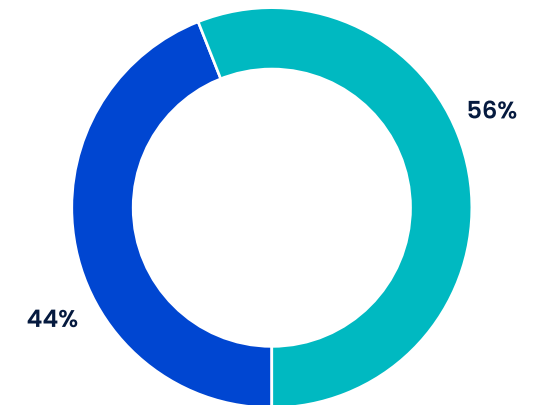
Strategy distribution

- Equity • 28%
- Global macro • 8%
- Multi-strategy • 20%
- Credit/Fixed income • 9%
- Digital assets • 16%
- Other • 19%



Years in operation

- 0–5 years • 44%
- Over 5 years • 56%



Our key findings

01

Widespread operational dysfunction

33% of funds experience regular operational errors due to fragmented data handoffs, while 28% routinely miss investor reporting deadlines. Only 2% have seen their data operations simplified in the past 2-3 years. Meanwhile, 98% are either treading water or drowning in additional complexity.

02

The integration investment gap

Despite 62% reporting increased system complexity over the past few years, only 16% are actively addressing the problem through data integration solutions. The remaining 84% are either fence-sitting (26%) or have abandoned hope entirely (59%).

03

Regional performance disparities

European funds fail operationally due to fragmented data systems at nearly twice the rate of North American counterparts (44% vs 18% error rates). Asian funds maintain the lowest error rates despite 67% using 4-6 different systems.

04

Expectation-reality disconnect

61% of managers expect only moderate efficiency gains from data integration focused system improvements, whilst 11% anticipate transformative change. This gulf between pessimists and believers may explain the industry's sluggish response to the crisis.

PART 1

The scale of the problem

The real cost hedge funds pay for their fragmented data systems



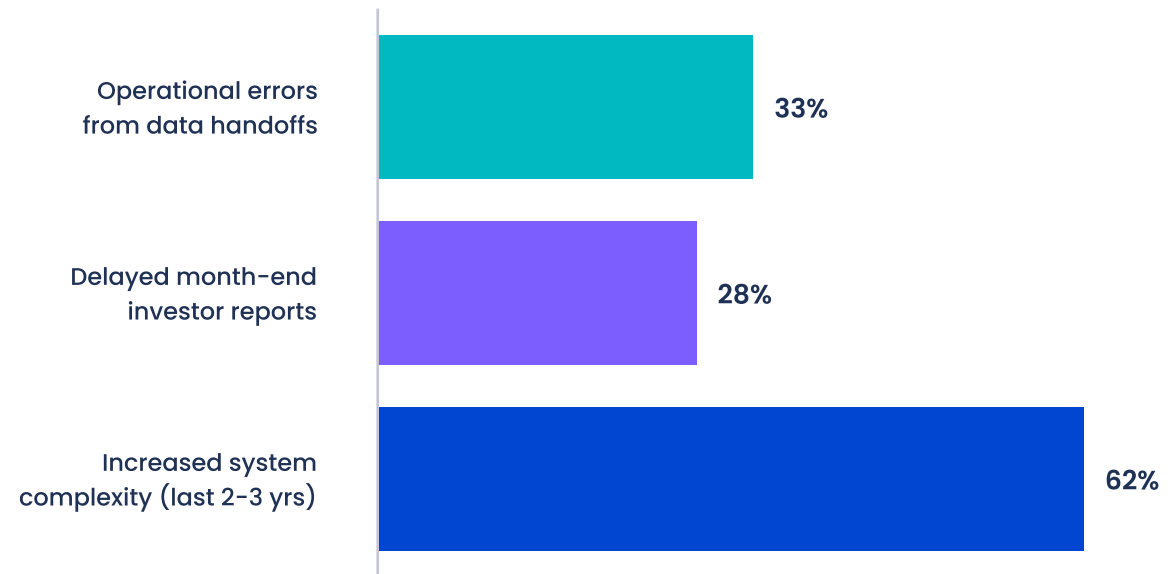
Data complexity: The fragmentation epidemic

The HedgeWeek® Q3 2025 survey numbers paint a stark picture of an industry drowning in data complexity. Operational errors from fragmented data handoffs plague a third of all hedge funds, while 28% routinely miss investor reporting deadlines due to this issue.

The root cause often lies in basic connectivity failures. As Shirin Dehghan, CEO of Oxford Algorithms, observed: “Most time consuming are the parts that are not automated because of poor API interface to Prime Broker software.” This technical limitation forces funds into manual workarounds, something they have been doing since the 1990s, that compound error risks across every trade.

“As a tech entrepreneur, I have been surprised by the lack of automation and good APIs in the hedge fund industry,” Dehghan explains. “It feels a bit like the 80s or 90s in the tech world. I think more tech entrepreneurs coming into the hedge fund industry could change this.”

Chart 1 Core operational issues



The trajectory is quite alarming, given that complexity is getting worse across the industry over the past decade, and especially in the last two years.

Over 60% of hedge funds report an increase in data system complexity over the past two to three years compared to just under 2% achieving simplification. Meanwhile, 14% report significantly increased complexity.

A head researcher at a \$30bn allocator into hedge funds, who wished to remain anonymous, told us that this could likely be due to funds adding new mandates without corresponding infrastructure investment, something they see quite often.

Chart 2 System complexity distribution

Number of systems used

- 2-3 systems • 61%
- 4-6 systems • 19%
- 7+ systems • 16%

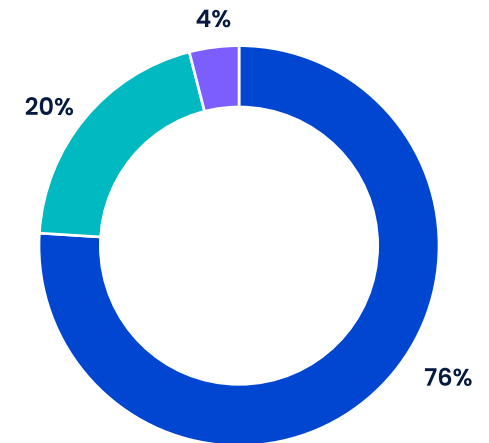
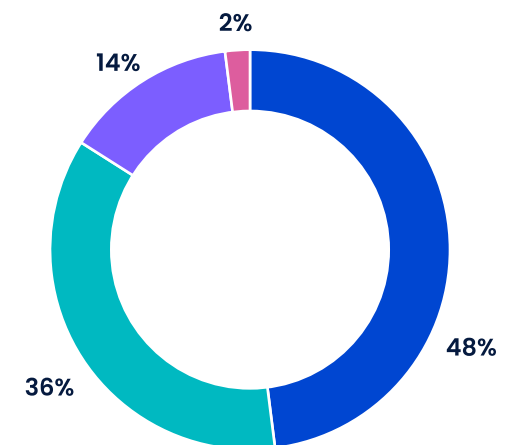


Chart 3 Complexity trends over time

System complexity changes in past 2-3 years

- Significantly increased • 14%
- Moderately increased • 48%
- Stayed the same • 36%
- Got simpler • 2%



The hidden complexity: Inside a single trade

To understand why operational costs spiral, it is important to consider what happens when a fund executes even one simple equity purchase. Scott Treloar, Chief Investment Officer at Noviscient, a Singapore-based multi-strategy platform, describes the reality: “There are a lot of moving parts” in what could be a straightforward transaction.

The journey begins with portfolio construction, where the portfolio management system (PMS) must integrate real-time market data, existing positions and cash flows. “That PMS has to be integrated with something where it gets your actual liquidity position,” explains Udit Gambhir, an operations expert with extensive experience across multiple jurisdictions. Without this integration, traders lack visibility into whether they have sufficient cash for settlement cycles that can extend three business days.

When trades execute, things get messier. Broker confirmations arrive as PDFs that “do not convert very well to a custodian’s requirement,” Gambhir notes. Operations teams manually extract data to populate settlement files – a process guaranteed to create errors.

The confirmation process itself requires multiple handoffs. “There is a secondary approval required, plus a middle office callback for confirmation,” Gambhir explains. “There’s usually duality of confirmation.” The stakes justify this caution: “You’re dealing with investment money, it’s not your

money, it’s your clients’ money.” Each handoff point represents both delay and error risk.

The hidden costs become stark when experts try to quantify it. For a hedge fund executing what Gambhir describes as “modest five to 10 trades a week – 30 to 40 trades globally per month – you require one full-time employee just dealing with this operational overhead.”

At \$50,000 annually for a junior operations analyst, that represents pure cost. As Gambhir characterises it bluntly: “You don’t need a junior associate analyst to do this dirty work, if you may. It’s no added value, but someone needs to do it.”

At Noviscient, Treloar says that “errors and extra work also tend to come from information coming back from brokers, which can be inconsistent and require some remediation. The heavy reliance on PDFs and csv files is a real problem for the industry.”

The error epidemic: When data goes wrong

A third of all hedge funds surveyed by HedgeWeek® say that fragmented data workflows caused operational errors at their fund in the past 12 months.

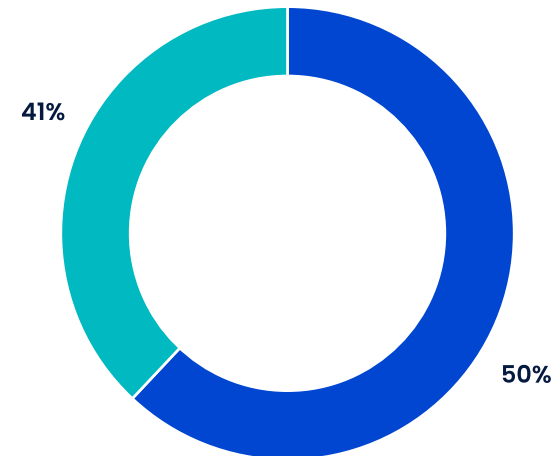
Error types follow predictable patterns, according to a London-based chief operating officer. Reconciliation failures between trading and accounting platforms are most common,

Chart 4 Error frequency

Have fragmented data workflows caused operational errors at your fund in the past 12 months?

● Yes • 62%

● No • 38%



often discovered only during month-end closing. Position sizing errors create both operational and investment risks, whilst currency conversion mistakes materially impact performance attribution.

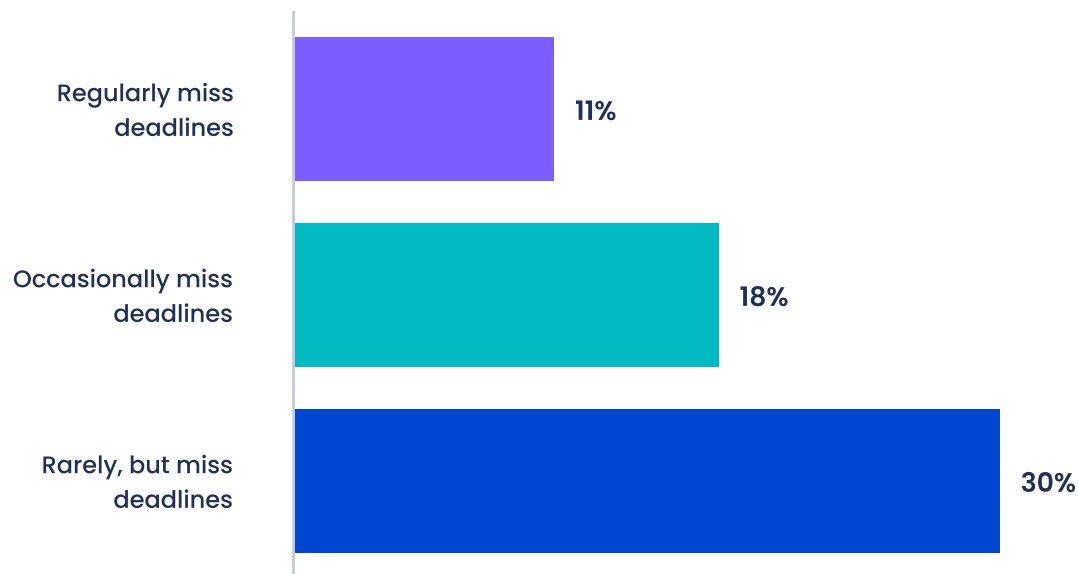
Deadline performance metrics are equally troubling. 11% of hedge fund managers say that they “regularly miss” investor reporting deadlines. “This indicates systematic failures rather than occasional oversights” says a London-based hedge fund researcher working at a \$30bn allocator. They say that funds often lack automated month-end processes.

The regional variations also reveal distinct operational cultures. European funds fail operationally due to fragmented data systems at nearly twice the rate of North American counterparts (44% vs 18% error rates). Meanwhile, Asian funds maintain the lowest error rates despite 67% using 4-6 different systems.

The Asian efficiency paradox becomes clearer when viewed through operational culture. As one Singapore-based operations head describes: “Markets force Asian funds to adopt a more flexible and adaptive approach to systems, which improves their overall robustness.” Rather than viewing complexity as a problem to avoid, Asian operations teams appear to embrace sophisticated architectures while maintaining disciplined processes.

Chart 5 Reporting deadline performance

Have data handoffs between systems caused delays to your month-end investor reporting?



The expectations gap: Modest ambitions, major problems

Three in five hedge fund managers expect only 0–20% efficiency gains from potential solutions available in the market, revealing profound scepticism about available solutions.

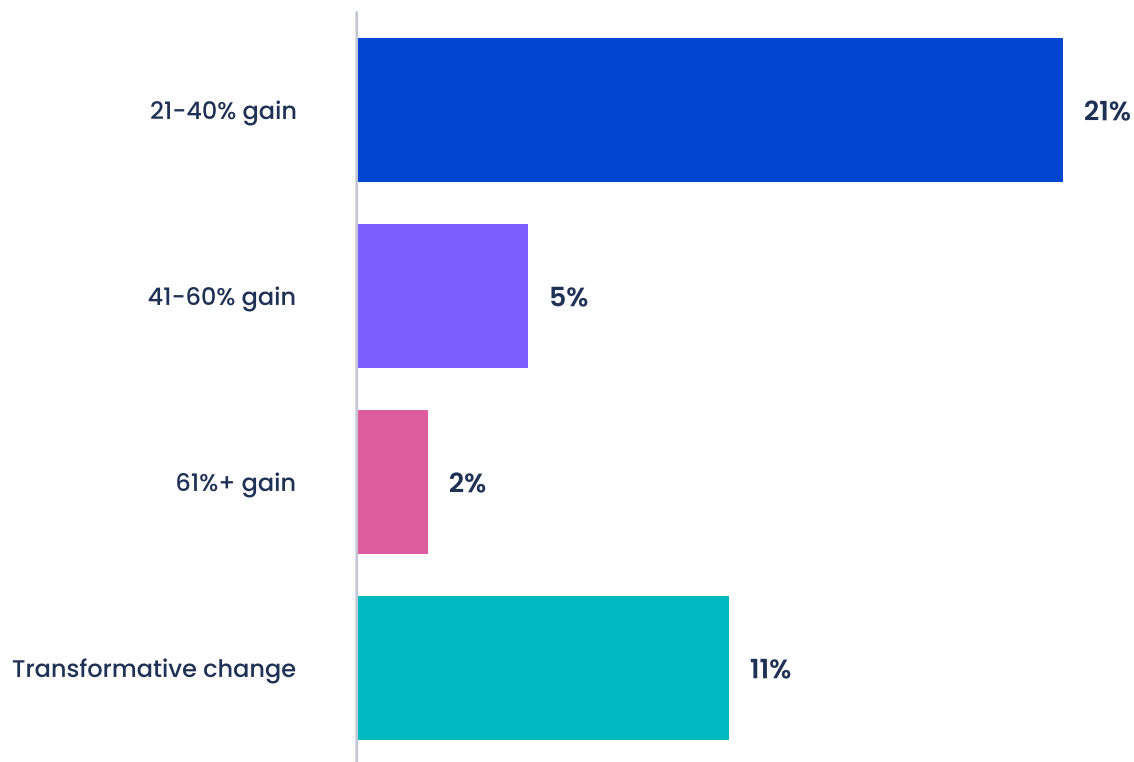
This conservative outlook may reflect defensive pessimism or genuine doubt about implementation success. “We’ve seen too many promises from technology vendors that don’t deliver,” explains one anonymous operations head at a \$2bn European fund-of-funds. “Managers that we work with tell us they’ve been burned before by systems that promised integration but delivered more complexity for both them and investors.”

Another allocator adds context to the industry’s caution: “The funds that are most sceptical are often those that have tried and failed with previous technology rollouts. They’ve invested significant resources only to end up with systems that create new problems rather than solving old ones.”

Meanwhile, one in five expecting 21–40% improvements represent realistic middle ground, whilst the 11% anticipating “transformative” change suggest recognition that operational excellence extends beyond efficiency to competitive repositioning.

This disconnect between problem severity and solution confidence explains industry inaction. If managers believe benefits are minimal, significant resource investments seem unjustifiable. Yet early adopters report transformative results extending far beyond simple efficiency metrics.

Chart 6 Expected ROI from integrated data workflow





“Tech projects are hard, and if you don’t pick the right partner and understand the right architecture for your business, you end up with halfway houses or failed implementations, and that leads people to give up.”

Kirat Singh

President, Risk & Alternatives,
Clearwater Analytics (CWAN)

CWAN

Why do hedge funds struggle with fragmented data workflows despite recognising the problem?

The fundamental issue lies in siloed systems across the investment lifecycle. Portfolio managers utilise order management systems (OMS) for real-time trading, which feeds into position management systems (PMS), then onwards to middle/back-office systems for accounting and confirmations. Each handoff creates potential errors because systems employ different reference data and APIs. The challenge is exacerbated by multi-manager platforms operating separate technology stacks for different asset classes – long/ short equities, global macro, crypto, and commodities – each with its own APIs and specialised to different products.

Why have majority of funds essentially given up on solving these problems?

Recent market volatility – COVID, massive rate changes, supply chain disruptions, Ukraine war – drove hedge funds to create new strategies to capture market opportunities in different asset classes. How do you deal with that? Funds literally hire a person to deal with the operational overhead for each new strategy. If you don’t pick the right partner and understand the right architecture for your business, you end up with halfway houses or failed implementations, which lead people to give up.

How does this impact competitive advantage?

There’s absolutely operational alpha. We see this especially in private credit – hedge funds will trade complex deals, but at some point it becomes too operationally expensive to manage and very hard to say what their exposure is across all of the deals. The ability to react to market events and capture market opportunities with the least operational overhead is what’s going to cause people to win. Look at Citadel – they’ve completely unconstrained traders, and the systems they’ve built allow them to identify and jump on market opportunities early, which is a massive advantage.



“Firms need to consider not the average daily impact, but the impact of a one-in-a-million error.”

Gavin Little-Gill

Go-To-Market Strategy and Execution,
Clearwater Analytics (CWAN)

CWAN

What prevents funds from investing in solutions despite facing the real costs and investor pressures associated with fragmentation costs?

Systems are just one piece in a firm’s operating model. Swapping them out requires firms to think about the interconnected people, processes and data that make up the investment lifecycle. Often applications are added to existing environments to meet new needs, resulting in a patchwork of fit-for-purpose solutions. Even start-ups come with the history and experiences of founders, and it’s not uncommon to see cobbled-together solutions follow people from firm to firm. What prevents firms from fixing core issues is the impact that consolidating or changing systems can have on people, processes and data, and how fundamentally disruptive seemingly small changes can be. Firms looking for advice on how to think about changing technology often find it is worth taking the time to think about their ideal operating model.

How do you quantify ROI for sceptical prospects?

Firms fall into two categories. The first doesn’t understand the extent to which manual processes are creating both real and opportunity costs – these are best influenced by client stories. We have brilliant stories of clients doubling the number of funds without adding staff, slashing outsourced service provider costs and freeing up key personnel to innovate and drive new asset acquisition activities. The second type looks at manual reconciliation and errors as a cost of doing business. Those firms need to consider not the average daily impact, but the impact of a one-in-a-million error. What does that do to their business? What’s the operational risk, financial risk and reputational risk?

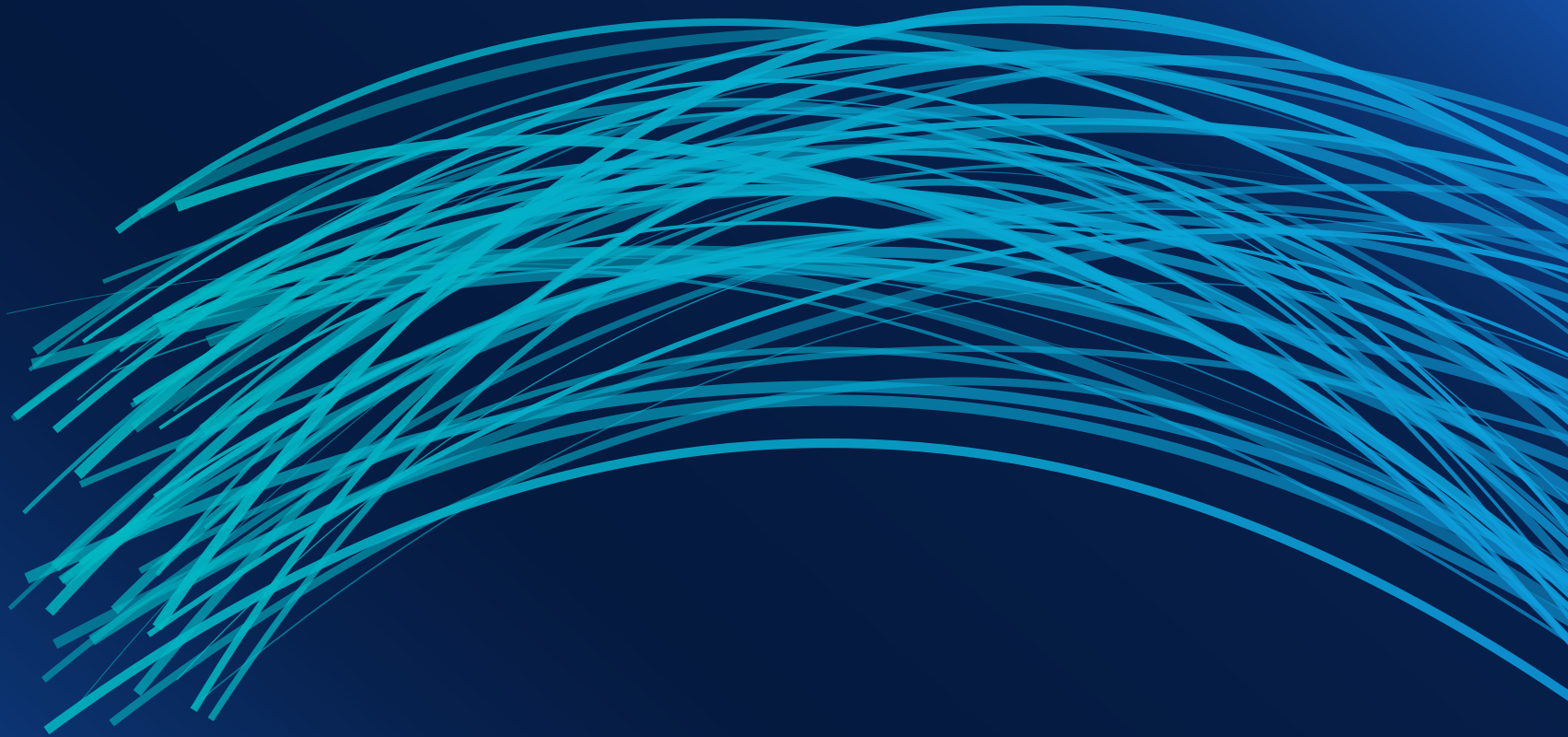
How do you address the “size paradox” – small funds can’t afford to upgrade but can’t afford not to?

Our strategy has been to create a platform that scales to meet the needs of funds of all sizes. Our modular, multi-tenant cloud architecture makes it feasible to offer full functionality to every client. Out-of-the-box capabilities and configurability eliminate the need for customizations for most smaller firms. Our managed services capabilities enable firms to add services as they grow and optimise the cost of their operating models. We find this creates the business architecture to lower total cost of ownership for small firms, making it possible for them to afford to upgrade.

We also have some of the largest and most successful hedge funds in the world operating on our platform. As firms grow, our cloud-based technology smoothly scales with them. But our open architecture and APIs, also allow firms to extend the core applications with proprietary components, is the reason why they can’t afford not to. Our “Buy and Build” platform gives all clients the power to extend their capabilities with the customizations that make them unique, while making operations a contributor to alpha, instead of a cost.

The response crisis

Why hedge funds recognise the problem but won't fix it



Trapped between problems and solutions

Be it an undervalued equity or a data-solution which could help them streamline their workflow, hedge funds are not easily convinced without digging deeper into it.

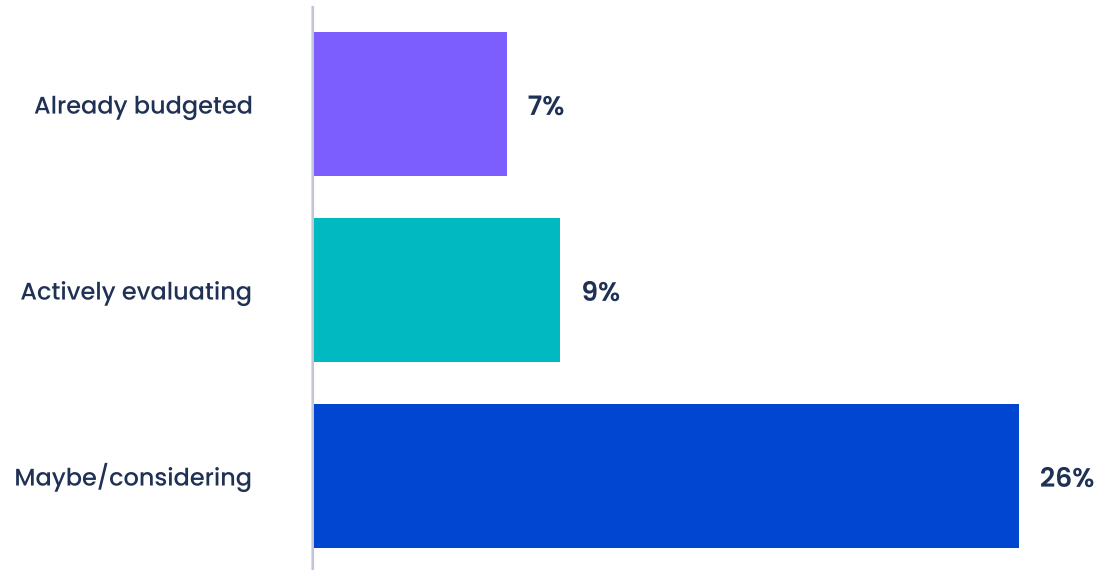
According to our survey, one-third of global hedge funds demand clear ROI proof before proceeding with solutions which fix their fragmented data issue. This seems quite understandable given capital constraints we have written about in the past two out of our three insight reports.

“But this resistance is potentially self-defeating given the difficulty of measuring operational alpha,” writes one London-based COO.

Another quarter seek turnkey solutions, whilst an equal number cite affordability concerns.

Chart 7 Solution investment status

Is your fund planning to invest in data integration solutions within the next 18 months?



This operational burden creates another cruel paradox for smaller funds. Those seeking to escape manual complexity through premium services face a cost trap.

“Private bank commercials are at least 3x of what a custodian bank will charge you,” Gambhir observes. Premium administrators offer sophisticated integrated solutions but “won’t take hedge funds that are less than \$150m or \$200m” in assets.

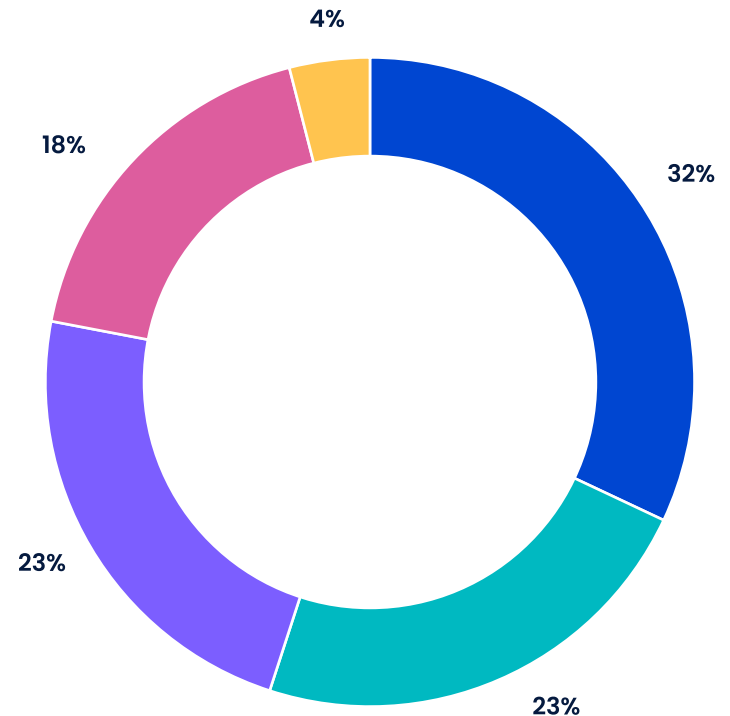
There are deeper systemic reasons for resistance. Singapore-based Treloar identifies several factors: “There is resistance to change as many funds believe that a new, integrated system is too expensive and disruptive to implement. They are comfortable with their legacy systems and see that everyone else is using the same systems.” This creates “a lack of imagination for what could be,” where funds “view manual processes as ‘the way it’s always been done.’”

The hidden costs compound beyond just salaries. Operations teams point to “higher headcount, employee burnout and the opportunity cost of time spent on error correction instead of more productive tasks.” Funds “underestimate the embedded costs and fail to recognise or care about the potential for improved investor engagement.”

Chart 8 Barriers to adoption

What would drive action?

- Need clear ROI proof • 32%
- Want turnkey solutions • 23%
- Need cheaper options • 23%
- Regulatory pressure • 18%
- Competitive pressure • 4%



“Fund’s view manual processes as “the way it’s always been done.” They underestimate the embedded costs and fail to recognise or care about the potential for improved investor (and regulator) engagement.”

Scott Treloar

Chief Investment Officer at Noviscient

Most telling is that only 4% view operational excellence as a competitive differentiator. This defensive mindset treats operational capability as a cost center rather than a profit driver – a perspective that may prove costly as the industry commoditises around performance and fee pressure mounts.

The regulatory environment is shifting in ways that should accelerate adoption. New reporting requirements across jurisdictions are making manual processes increasingly untenable, yet only 18% cite regulatory pressure as a potential investment driver. This figure seems certain to grow as compliance demands intensify.

Cultural and strategic barriers

The regional disparities suggest this isn't purely a technology problem – it's cultural and strategic. American funds learned harsh lessons from the 2008 crisis about operational risk. Every major blow-up had operational components: missing collateral calculations, miscalculated exposures, delayed reporting to regulators and investors.

European managers are catching up to this reality, but slowly. **“The relationship-driven culture that served the industry well during its growth phase may be becoming a liability in an era of institutional scrutiny and regulatory demands,”** says one allocator on the condition of anonymity.

Asian funds appear to have embraced integration from the outset, perhaps benefiting from newer infrastructure and different cultural approaches to

technology adoption. Their ability to manage complex architectures successfully offers lessons for the broader industry.

Treloar explains that most existing systems suffer from fundamental architectural problems: “Almost all of the existing technology solutions across execution management systems, order management systems, portfolio management systems, risk systems are pretty much all built on old, essentially legacy technology from 20 or 30 years ago.” The systems “were mostly almost all of them came up siloed” and “were never naturally integrated.”

This creates inefficiencies that other industries would find bewildering. “There are other industries that can handle real time, continuous transmission of information, without having to have some sort of primary process, and then a secondary checker, checking process, and humans trying to reconcile the differences,” Treloar notes.

The bifurcation risk

Well-capitalised funds with sophisticated systems pull ahead while smaller managers spiral into manual complexity. Those experiencing the most operational pain have least capacity to invest in solutions.

The competitive implications are stark. Integrated funds respond rapidly to reporting requirements, demonstrate sophisticated risk management, pivot operationally for new strategies. Manual funds become increasingly constrained. “Fees are going

down. Client expectations are getting more onerous,” Treloar observes. “Fixed costs are going up, pushing smaller managers out. But it's the smaller managers where innovation and alpha come from. So, it's quite paradoxical.”

The cost burden ultimately falls on investors. “Because it's a complex and opaque industry, they're not really driven to [improve efficiency] because the client pays, right? In the end, it's always the client that pays,” Treloar explains.

Funds can maintain inefficient processes because “clients are not sitting there going, Hey, you shouldn't be charging me one and a half percent management fees. You should be charging me 20 basis points management fees if you had a proper system.”

“Fees are going down. Client expectations are getting more onerous... Fixed costs are going up, pushing smaller managers out.”

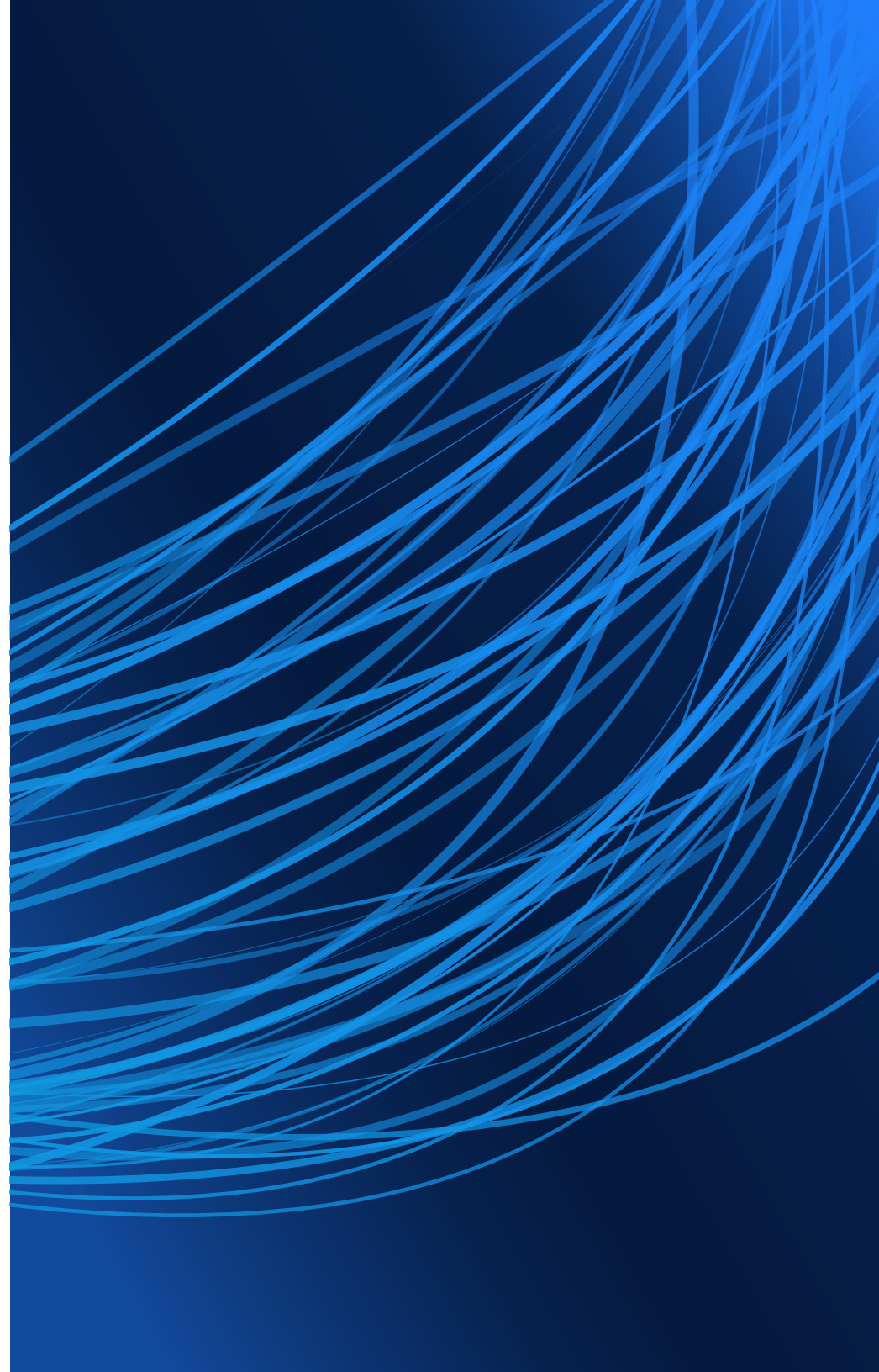
Looking forward

The transformation imperative

The path forward requires fundamental rethinking. “Investment into solid APIs is key to ensure systems can be connected to one another without any manual work,” argues Dehghan. “This reduces mistakes and operational headaches.” Yet as Treloar notes, “almost all existing technology solutions are built on legacy systems from 20 or 30 years ago” and “were never naturally integrated.”

The survey and conversations with industry experts highlight an uncomfortable truth about the industry’s economics. Operational inefficiencies like fragmented data workflows have historically been passed to investors through inflated management fees, yet clients rarely challenged funds on operational excellence if performance elsewhere justified it. This has created a perverse cycle where the very people paying for inefficiency aren’t demanding the solutions that would eliminate it. But over the past year, our surveys show that this trend is correcting rapidly.

The question facing the industry is whether transformation will be driven by competitive necessity or investor compulsion. Given accelerating institutional expectations on transparency and customisation, change appears inevitable. Fund managers can either lead this transformation or be compelled through it – but they cannot avoid it indefinitely.



Contributors

Manas Pratap Singh

Head of Hedge Fund Research

manas.singh@globalfundmedia.com

For sponsorship enquiries

Please contact:

sales@globalfundmedia.com

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