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HEDGEWEEK®

THE INFLECTION POINT

SCALING HEDGE FUND INFRASTRUCTURE AMID INVESTMENT COMPLEXITY

EXECUTIVE SUMMARY

For much of the hedge fund industry's history, operational infrastructure was viewed as a function that evolved alongside asset growth. Investment performance came first, with systems, governance and operational processes often developing as firms matured. That model is rapidly becoming outdated.

Today's hedge fund managers face a markedly different environment. Institutional allocators expect operational excellence from day one, while the continued growth of SMAs, more diverse fund structures and increasingly complex investment strategies have raised the demands placed on operational platforms. At the same time, periods of heightened market volatility have reinforced the importance of resilient infrastructure capable of supporting investment teams when markets are under stress.

As a result, operational infrastructure has shifted from being a supporting function to becoming a strategic differentiator. The ability to scale, satisfy due diligence, manage complexity and deliver data has become central to attracting capital.

This report examines how hedge fund managers are responding to these changing requirements. Drawing on Hedgeweek's Q3 2026 Hedge Fund Manager Survey, alongside interviews with industry specialists, this report explores how firms are adapting their operating models, where operational pressures are emerging, and which capabilities managers now consider most critical.

The findings suggest the industry has reached an inflection point. As hedge fund business models continue to evolve, operational infrastructure is no longer simply an enabler of growth – it has become one of the foundations upon which future growth depends.

MANAS PRATAP SINGH
HEAD OF HEDGE FUND RESEARCH

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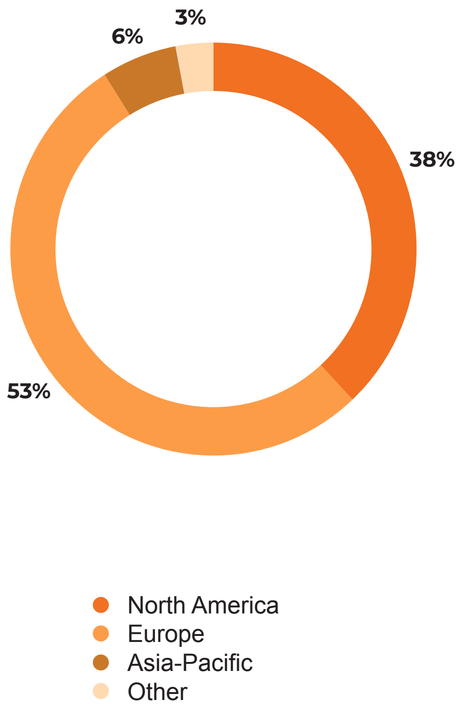
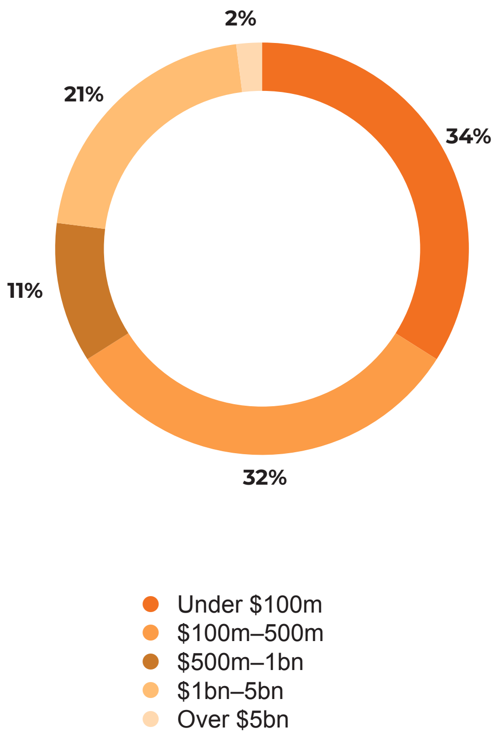
METHODOLOGY

The key source of data in this report is Hedgeweek's Q3 Hedge Fund Manager Survey conducted in June 2026. The nearly 100 managers that participated in the survey were spread across the major global domiciles, as well as AUM size category and flagship strategy type. Further insights were gathered during interviews in July 2026 with named hedge fund and allocator sources as well as additional third-party research and intelligence.

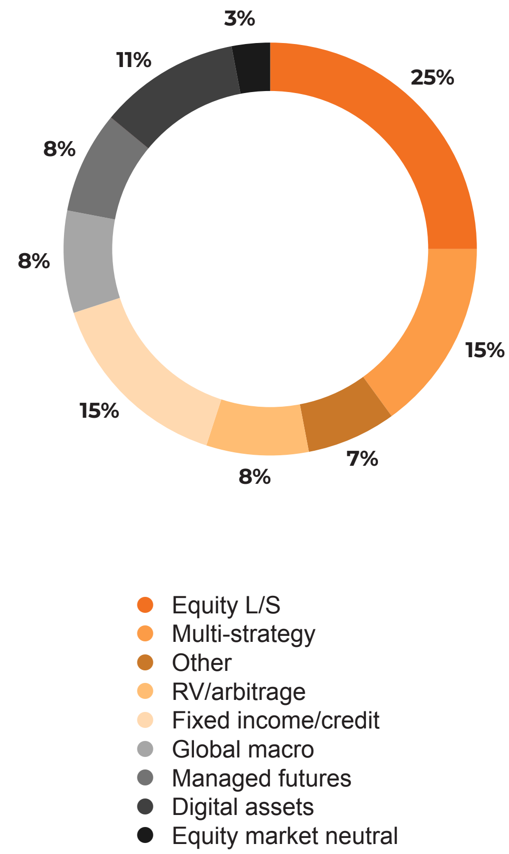
MANAGER SURVEY DEMOGRAPHICS – LOCATION



MANAGER SURVEY DEMOGRAPHICS – AUM



MANAGER SURVEY DEMOGRAPHICS – STRATEGY



KEY FINDINGS

1

Emergence of new fund structures

The majority of hedge funds (82%) made structural changes to their offering during the last two years. A large minority (44%) increased their SMA book while 29% launched at least one new fund structure and 18% expanded into new asset classes – complicating the requirements for infrastructure.

2

Infrastructure is prioritised early

Operational infrastructure has become a strategic priority even during hedge funds' earliest stages, with a combined 85% of funds considering it to be a strategic priority at the pre-launch and sub-$250m AUM stages. This response was prompted by pressure exerted by asset allocators.

3

Allocators' expectations have increased

Hedge funds' most significant operational challenge is their ability to meet asset allocators' increasingly rigorous operational due diligence requirements (29%). Allocators expect funds to demonstrate robust institutional-grade infrastructure at all levels of AUM. This is a particularly challenging situation for sub-$100m hedge funds (58%) as they have fewer resources.

4

Infrastructure proves its resilience

Infrastructure performed very well throughout the volatile period of 2024-25, with 71% of hedge funds reporting it fully met expectations and a further 23% noting only minor gaps. Reconciliation & position management and intraday data availability were the weakest areas.

PART I: OPERATIONAL EXPECTATIONS AND CHALLENGES

STRUCTURAL EVOLUTION

Over the past two years, by far the most important structural evolution among hedge funds was the growth of SMAs. 44% of hedge funds grew their book and this percentage more than doubled for those exceeding $1bn. In addition, almost a third (29%) of hedge funds launched at least one new fund structure and almost a fifth (18%) expanded into new asset classes during the period.

SMA growth is being driven by investor preference for control, transparency and better alignment, according to Majid Khan, Director, Alternative Investments at Russell Investments. “Many allocators, especially the multi-strategy external allocations, want direct ownership of exposures, bespoke risk limits and clearer look-through, rather than pooling capital into a commingled vehicle.”

At the heart of all customisation and agility is operational infrastructure, which has become a strategic priority even at the pre-launch stage, rather than becoming a bolt on as firms began to scale. Almost half (47%) of hedge funds reported that this was the point it became a priority, with a further 38% prioritising it before reaching $250m.

Josh White, Co-Founder and Chief Investment Officer of Regents Gate Capital, says: “Prior to day one, it is critical to cater to our institutional investors and hire deep experience across the business to meet their expectations.”

Equally important, he adds is to recognise that the regulatory environment continually evolves and that institutional investors focus closely on this.

Moreover, infrastructure is particularly important for emerging managers, with it becoming a strategic priority pre-launch for over two-thirds (67%) of those with under $100m AUM.

Tom Hawthorn, Senior Investment Consultant and Head of Manager Research at Cartwright Group, says that hedge funds’ prioritisation of infrastructure resulted from buy-side pressure. “Emerging hedge funds know that they won’t get through consultant and investor due diligence without building credible and sustainable operational infrastructure. There is effectively no point trying to raise AUM before you have credible infrastructure in place.”

Hedge funds therefore need to clear this hurdle before allocators even consider their investment and trading strategies. Fortunately, as Hawthorn recognises, it has become cheaper and easier to put effective operational infrastructure in place so it is “no longer tempting” for investors to look past the challenges created by expensive and unwieldy operational infrastructure.

For emerging hedge funds, the objective is to reduce uncertainty rather than just trying to avoid failure, according to Khan. “A strong operating platform signals that the investment process can scale, survive deep scrutiny and handle growth in capital without creating fragility.”

Chart 1.1 The structural evolution of funds over the past two years

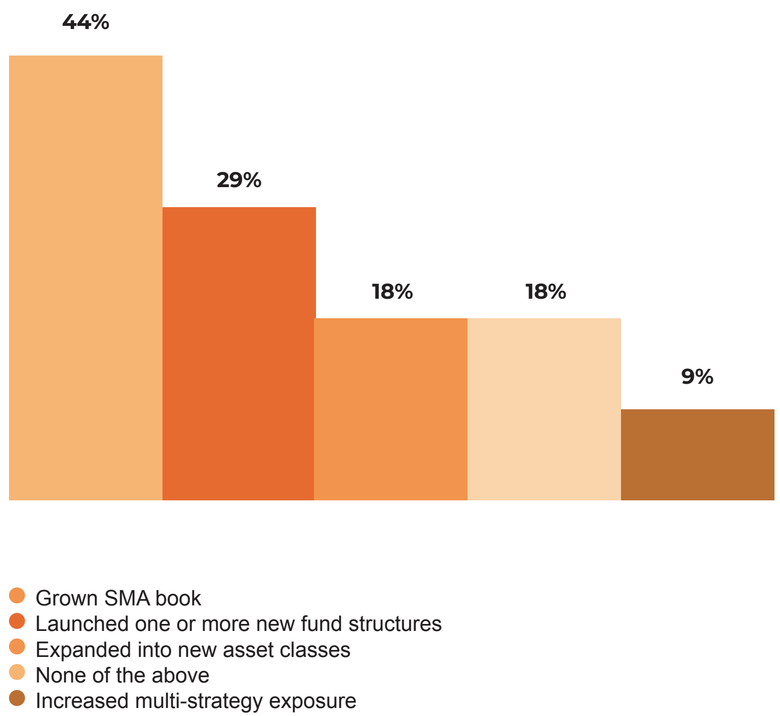
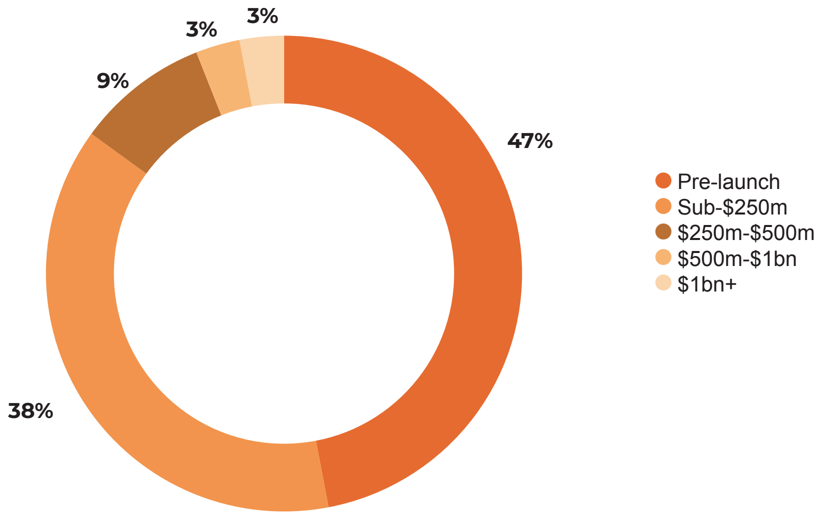
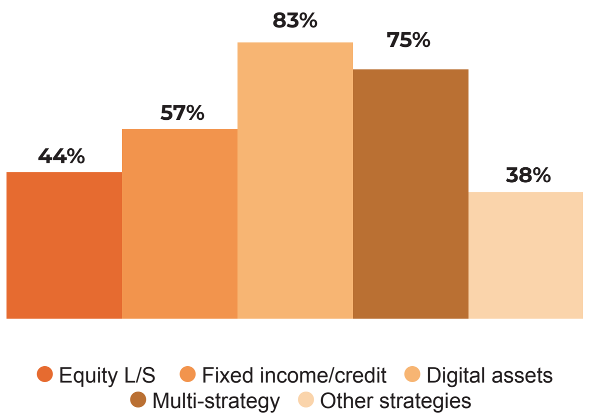


Chart 1.2 Point at which infrastructure becomes a strategic priority



Infrastructure as a priority pre-launch, by strategy



OPERATIONAL CHALLENGES

Meeting asset allocators' increasingly rigorous due diligence is the single biggest operational challenge for growing hedge funds. Almost a third (29%) state this as their top challenge while fund AUM has grown.

This number jumps to over 40% among managers with AUM under $500m and 58% with those with under $100m, confirming that emerging managers are feeling pressure from increasing investor expectations.

White says: "Investors expect a seasoned team with all members having prior experience with leading hedge funds or financial institutions. They need to be able to show they recognise best practice and meet or surpass that standard."

He added that the aim is not just to meet a minimum threshold; it is to build fully robust and institutional grade infrastructure. "It is vital to continually update approaches in line with new developments and implement changes early on. As an investment firm grows, the regulatory burden compounds."

Khan added that allocators expect a manager to be ready from day one, with clean controls and independent valuations, robust trade capture and clear governance.

"Allocators have shifted their focus from a checklist-style approach to a deep assessment of operational maturity – looking for evidence that the firm can handle complexity, exceptions, service-provider risk and growth without improvisation," he says. "Is the operating model resilient under stress? Are the controls working? Can the manager support future requirements?

Hawthorn adds that a differentiated approach from brokers and counterparties has increased expectations. "Any perceived weakness in a fund's operational standards can result in less attractive terms being available to hedge funds in respect of financing and/or trading access and costs."

It should be noted that the operational challenge is partially driven by AUM. It appears that operational pain shifts from 'attracting investors' to 'handling complexity' stages as AUM grows.

While the challenges for the smallest managers are dominated by allocator due diligence, this concern becomes substantially less important for mid- and large-sized managers. Instead, their concerns are focused on supporting a growing SMA and customised mandate book (31% and 50% respectively).

White says Regents Gate is open to both SMA and fund investments. "While it creates an element of workflow duplication, we are well placed to accommodate. The demand has mostly been driven by cash efficiency and desire to increase hedge fund exposure across portfolios in a more efficient way."

According to Hawthorn, the SMA trend is driven by investors wanting more control and looking to avoid previous pitfalls, such as being gated in an underperforming fund while paying high fees.

"SMAs reflect a desire from investors to have better visibility into how they are invested at any point, so they can monitor how the portfolio fits within their overall strategy. They also allow investors to replace underperforming managers more easily, negotiate bespoke mandates and potentially negotiate better fees."

On the other hand, the manager must bear increased operational complexity and costs from running a series of SMAs. They need to ensure all SMAs are treated fairly, where the same position is implemented across a number of portfolios, and the additional reporting requirements create a strain in terms of time and cost.

Hawthorn added: "There will also be added pressure on risk systems, as covering more portfolios, which may have different position sizes or other risk constraints in their mandates, requires more modelling and monitoring, and therefore more human input and oversight."

The operational pressure it creates is significant, as every SMA can introduce different cash management rules, compliance constraints, reporting formats, and broker or custodian arrangements, which multiplies operational workload. "The danger for managers is that what looks like attractive AUM growth can become an operational drag if the firm does not have a scalable client-service and reconciliation engine," says Khan.

The operational burden is not uniformly borne by managers across strategies. Digital asset managers found meeting increasingly rigorous due diligence to be the most significant operational challenge while equity long-short ones were most concerned about growing SMA books.

Multi-strategy managers were an outlier, due to their distinct operational burden. They uniquely cite managing multiple fund structures (50%) as their top challenge and were the most concerned about managing multiple portfolio managers and capital allocations (25%).

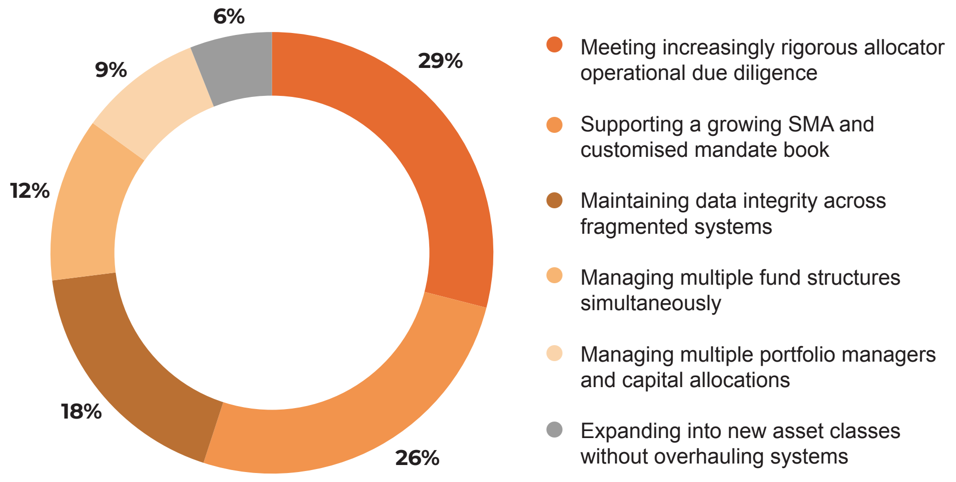
Hawthorn says multi-strategy funds can inadvertently increase risk, or cancel out active positions, by taking the same or opposing positions within different strategies run within the same fund. This creates a more challenging picture for a risk model to interpret, and the more strategies and overall positions in the fund, the more complicated the picture becomes.

"Addressing this requires the highest-quality infrastructure, clear thinking in advance, fixed rules and clear execution," he says noting, for example, complications relating to the netting of positions.

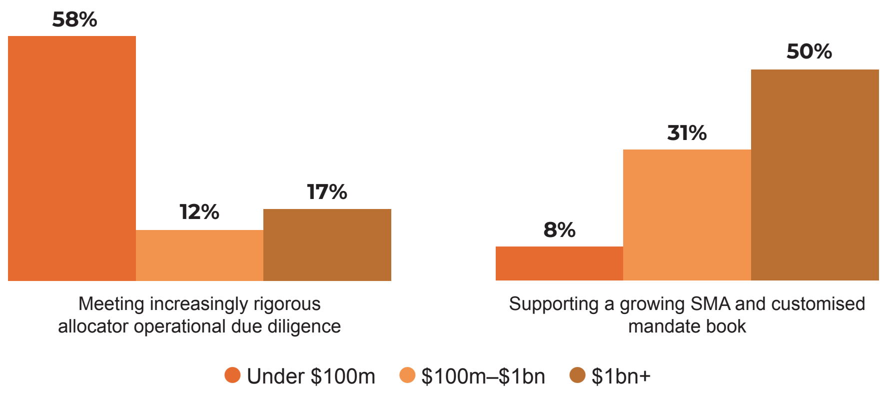
"Another challenge is the management of different investment teams within the fund. An outperformer is unlikely to be relaxed about being paid less than they otherwise would have because another strategy within the same multi-strategy fund has dragged down overall fund performance."

The message appears to be that fund design should be clearly defined in advance, with fixed rules that have been stress-tested under a range of scenarios to ensure they work in all conditions. The operating model should be built as an integrated platform rather than separate desks as managers need robust cross-strategy risk aggregation, transparent P&L attribution and strong governance.

Chart 1.3 The single biggest operational challenge as the firm has grown



Diverging operational challenges, by fund size



AANI NERLEKAR

Managing Director, SS&C Technologies

Our data suggests that infrastructure is now no longer a back-office afterthought, but a pre-sale concern. With infrastructure becoming a clear priority pre-launch and critical for 85% of managers before reaching $250m, how is this shaping decision-making during the early stages of launching a fund?

I think that infrastructure has become such a core part of the ecosystem for every manager. A lot of managers are aware of the value in thinking about it up front. In this environment where AI is the dominate theme, it needs a strong infrastructure behind it. So, it's even more crucial to think about how you pick vendors and products and are they able to scale both horizontally and vertically.

How does this strong focus on infrastructure impact other areas of the fund build-out, such as investment processes, hiring, or speed to launch?

Where managers can focus is on getting the right PM's and investment ecosystem. Having the right vendor to take on the operational burden of deploying and managing the infrastructure, giving best practises and recommendations, allows managers to be focused on the high-value functions to deliver alpha for their investors.

Meeting allocator due diligence requirements is often cited as the single biggest challenge for funds as they scale. In practical terms, what separates managers who consistently meet those demands from those who struggle to do so?

When managers are meeting these requirements, they can't just think about what's important today, but also in the future. Having that more strategic view will help them deliver returns.

Allocators have a lot of options in the market, so they have become more demanding in their requirements of managers. You need to have the right operational setup they can trust, so they can see accurate data and real time signals.

SMAs have grown massively in the hedge fund industry over the past 12 months, with 44% of managers growing their SMA book over the past two years. What makes implementing them so operationally challenging for hedge funds? And why does this become even harder once firms exceed that $1bn mark?

We've seen huge growth in SMAs. A lot of managers are launching them in addition to their funds. Once you go down that route it comes with a lot of complexity as you are catering for an individual who will likely want more customised or robust reporting. Therefore, from an operational perspective you need the right reporting and analytic tools to be able to provide that data and service those individuals.

Despite volatility over the past several years, 71% of managers that we spoke to say their infrastructure has performed fully as expected. Do you believe this reflects genuine improvements in operational resilience, or have managers simply benefited from a relatively favourable market regime?

I think these results reflect a more favourable market environment. Managers are becoming more intentional about building scalability and more demanding for data and transparency. From our client base, we get asked to do a lot more with our cloud native products, and we can service those manager demands and deliver data they require quickly and easily to them.

And what areas of a fund's infrastructure would be most vulnerable when they were placed under a high amount of stress?

Certainly data, as you need to report much faster and more frequently, that places a stress on the ecosystem because you need to deliver insights in a very user-friendly format that can be consumed by investors. I would also add that trading can be placed under stress, as managers need to execute quickly and not miss out on opportunities, so you need a platform that can cater for fast, high frequency decision making.

Scalability with AUM growth is often cited as a key consideration when upgrading operational platforms. What should managers prioritise when selecting a partner or platform, particularly when their scaling roadmap is the primary driver of their decisions?

A lot of managers start with a specialist strategy, but they don't want to be homed in on one area. So, they need to think about what vendors to partner with from an infrastructure perspective that could potentially handle several asset classes. A fixed income book compared to a long-short equity, those analytical requirements are quite different.

Our research highlighted that multi-strategy funds face a distinct operational burden. They have multiple fund structures and multiple PM allocations. How do you advise in outsourcing their operational infrastructure to help negate against those potential problems?

We have seen a lot of growth in the multi-manager space. And the key part of the muti-manager platform is they can trade anything, so being able to manage that operational burden from a manual process perspective you need to have the right solution and product in place.

Then you can also add a co-source function, where you have an extension of your operational staff to do certain functions such as reconciliation or position management but within your data. This is where I think you can really scale, because you're pairing the expertise of the people who know those products and solutions and the business side who understand how to grow operationally.

PART II: INFRASTRUCTURE RESILIENCE AND PRIORITIES

RESILIENCE AMID VOLATILITY

The operational infrastructure at hedge funds passed the 2024-2025 volatility test with flying colours –with 71% of managers reporting that their infrastructure performed fully as expected and only 6% identifying either significant weaknesses or notable breakdowns.

The strength of this data inevitably leads to the question of whether they reflect genuine or perceived improvements in resilience. Are there still weaknesses beneath the surface, perhaps masked by a degree of self-assessment optimism?

White is very confident in his approach. “The investment in our infrastructure and our close working relationships with top-tier service providers served us well. Every aspect of our operational platform has performed as expected since day one and we didn’t experience any operational impact from the market volatility.”

While infrastructure performed relatively consistently across the strategies in the survey, operational resilience was rated most highly among fixed income/credit, then digital assets, equity long-short and other strategies, with multi-strategy showing the least resilience.

“There is evidence that operational infrastructure demonstrated resilience through the market volatility generated by the US tariff announcements in early April 2025,” says Hawthorn, noting that numerous hedge fund managers reduced their leverage around the announcements, and then quickly releveraged once the dust had settled.

“However, it is hard to know definitively how much of the apparent resilience is due to improved systems resilience and how much to additional human intervention and skill during crises.”

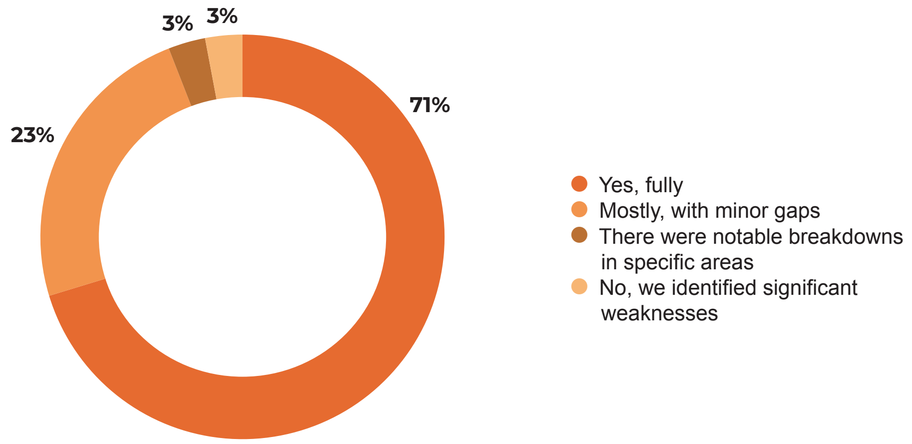
He adds that the most resilient funds combine robust infrastructure with skilled investment professionals. “Arguably, being over reliant on infrastructure and technology can be a weakness.”

Among those reporting gaps during volatile times, reconciliation & position management and intraday data availability were the most-cited breakdown areas.“We suggest that managers would only be impacted if they are underresourced and lack the appropriate operational expertise,” says White.

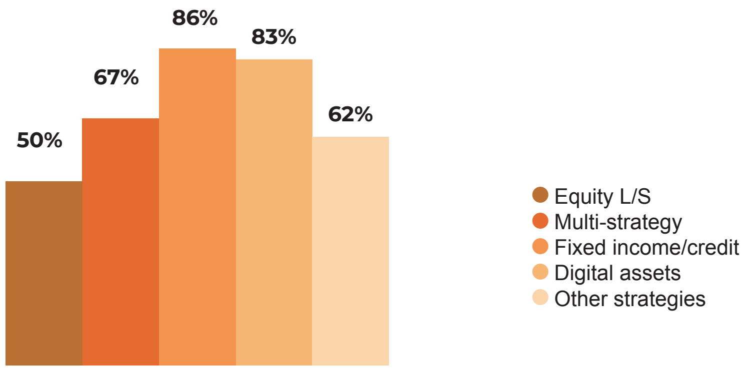
Accessing accurate intraday data is vulnerable to market volatility, according to Hawthorn, because the more quickly and erratically prices change, “the more difficult it becomes to establish and act on an accurate price – and the shorter the time period before it will no longer be accurate”.

Reconciliation remains challenging because it relies on data from multiple counterparties, making it slower to produce and less useful during periods of market volatility. White said these difficulties are becoming more pronounced as the shift towards SMAs requires managers to service multiple portfolios.

Chart 2.1 Did infrastructure perform as expected during volatility?



Firms that responded yes fully, by strategy



PLATFORM PRIORITIES

Hedge fund managers need to determine their most important consideration when evaluating and upgrading their operational platform. The ability to scale with AUM was the runaway priority, with half of the surveyed managers citing it as a the most important consideration. This was far ahead of cost-benefit (38%), integration (18%) and other factors. The focus on scalability confirms the allocators top priority for a 'clear scaling roadmap' in last year's report.

According to White, scalability requires "investment in systems and finding long-term partners who are prepared to grow with you", while outsourcing more commoditised functions can also improve efficiency.

Khan says a scalable platform should support multiple accounts, instruments and jurisdictions without "becoming brittle", adding that the real test is whether a manager can "double or triple in size" without sacrificing discipline or relying on significant manual effort.

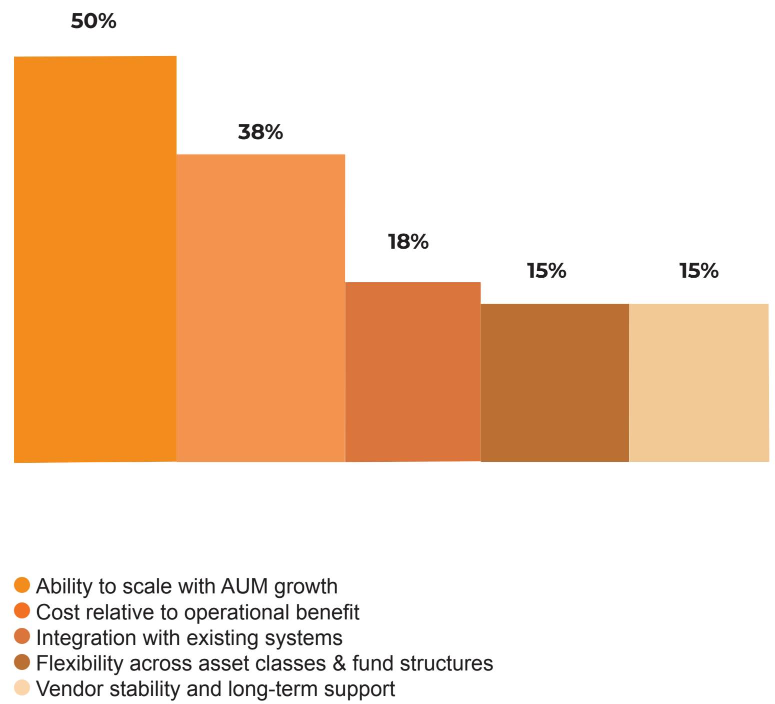
Cost relative to operational benefit is the second most important consideration, by a very clear margin. While 38% cite it as important overall, its importance is heavily dependent on AUM.

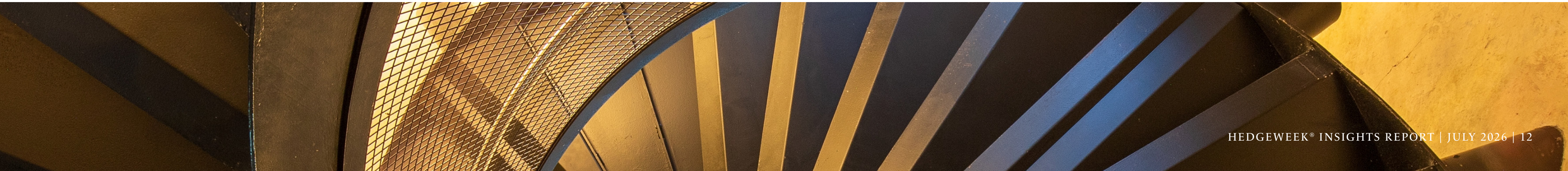
The smallest funds felt the pain most acutely, with 67% of those with under $100m AUM citing it as one of the most important considerations. This is almost certainly due to the relatively fixed costs of institutional-grade systems being shared over a smaller volume of business.

On finding the balance between infrastructure investment and fiscal prudence, White says: "Hire an experienced COO who understands the importance of sourcing the right partners, at the right cost, at the right time."

Hawthorn warns that hedge funds should not attempt to avoid necessary expenditure in this area as doing so risks operational weakness. "If funds don't prioritise infrastructure, it can lead to significant investment underperformance during periods of heightened market volatility, which could vastly outweigh any cost savings achieved by using inferior infrastructure."

Chart 2.2 Manager priorities when assessing operational infrastructure





CONCLUSION

The findings in this report suggest that hedge fund operational infrastructure has undergone a fundamental shift in purpose. Once viewed primarily as a support function that expanded alongside AUM, it is increasingly becoming a strategic capability that influences fundraising, scalability and long-term competitiveness.

Institutional allocators are raising the bar. Operational due diligence is more rigorous, expectations are increasingly demanding regardless of fund size, and investors expect managers to demonstrate institutional-grade governance, resilience and scalability from the outset. At the same time, the rapid growth of SMAs, more sophisticated fund structures and increasingly complex investment strategies are placing unprecedented demands on operating models.

Encouragingly, the survey shows that the industry's infrastructure has generally proved resilient through recent periods of volatility. However, areas such as reconciliation, intraday data and the management of growing operational complexity remain important priorities as firms continue to expand.

For hedge fund managers, operational infrastructure has become a source of competitive advantage and a key enabler of growth. Firms that invest early in scalable technology, robust governance and trusted operating partners will be better placed to meet allocator expectations, navigate future market complexity and convert operational excellence into a lasting strategic advantage.

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