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AUGUST 2025

HEDGEWEEK®

THE TIPPING POINT

ARE PRIME SERVICES RIPE FOR A STRATEGIC RESET?

EXECUTIVE SUMMARY

The hedge fund industry's prime services evolution presents a striking paradox in 2025. Despite mounting operational friction – with 27% of managers struggling with inefficient collateral use and equal numbers battling service inconsistencies – 70% of funds haven't touched their prime brokerage arrangements in the past two years.

Why? Because changing prime brokers is extraordinarily difficult. "With all the effort that goes in, you don't really want to be unwinding that in a hurry," as one chief operating officer put it. Onboarding alone can take a year. Legal documentation runs to hundreds of pages. And there's always the risk of disrupting carefully calibrated financing arrangements that took years to optimise.

Yet beneath this stability, pressure is building. Our research, based on surveys of over 100 hedge fund managers and detailed interviews with operations chiefs, reveals an industry searching for a third way – not the wholesale consolidation that compromises risk management, nor the inefficient status quo, but something in between.

The stakes are highest for smaller funds managing under $250m, who face an existential squeeze. They experience the most operational pain yet can't afford solutions that would add substantially to their expense ratios. Meanwhile, larger funds juggle increasingly complex multi-prime arrangements that consume enormous operational resources.

In the report below, we look at the current state of affairs and map three potential paths forward. We examine why 70% of funds maintain inefficient arrangements despite clear pain points, analyse what 'integration' actually means to different managers and identify the narrow but viable solutions emerging for funds of different sizes.

The findings suggest the industry's future isn't about choosing between efficiency and diversification, but about building coordination frameworks that preserve risk management benefits while eliminating operational friction. For managers willing to move first, the opportunity to define this new operational paradigm is significant.

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, including representatives from BNY | BNY Pershing, Eicos Investment Group, Lombardi Capital, Acer Tree Investment Management and selected managers who asked to not be named.

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.

Chart 1: Regional Distribution

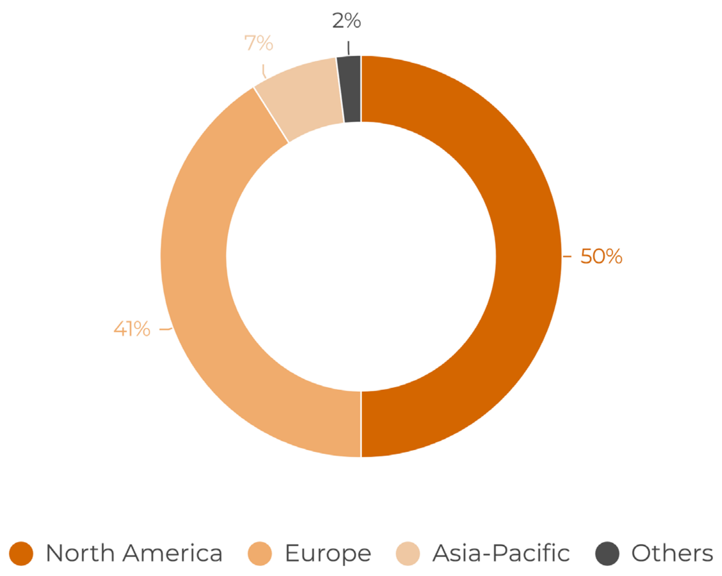


Chart 2: Fund Size Distribution

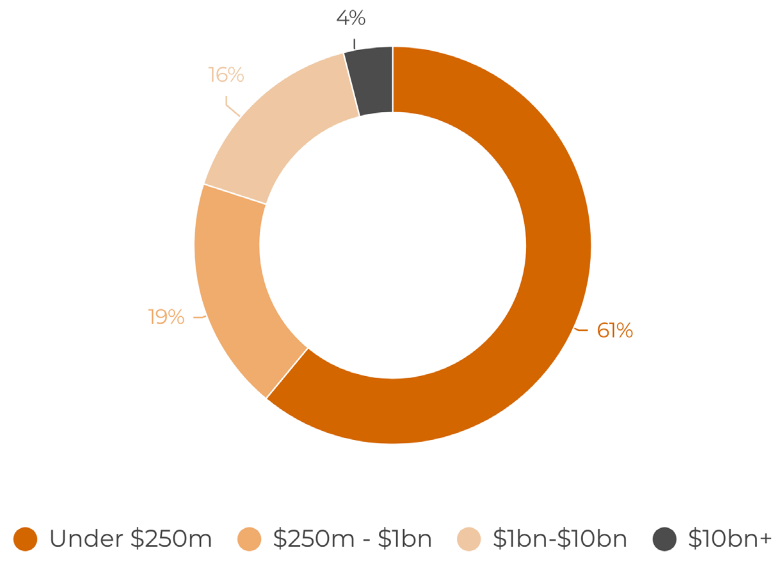


Chart 3: Strategy Distribution

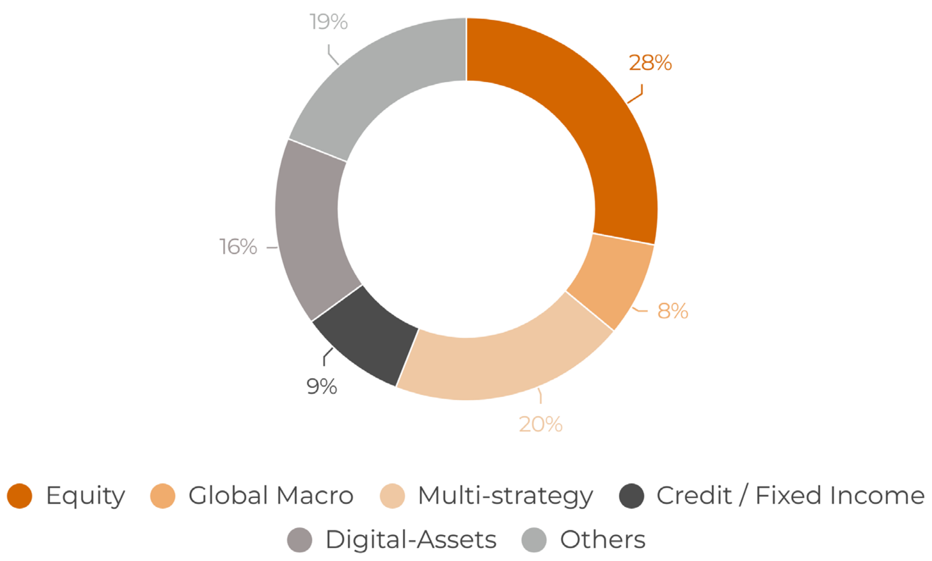
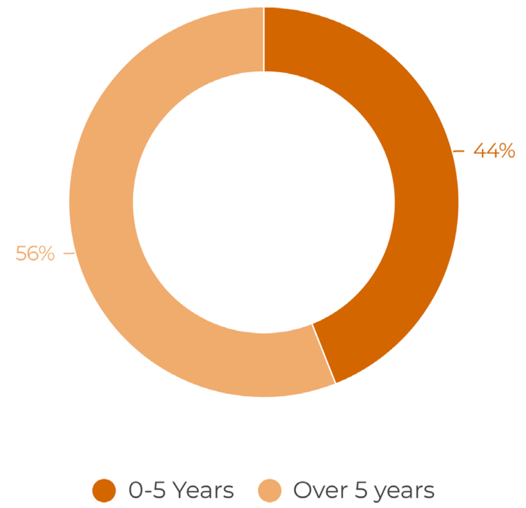


Chart 4: Years in Operation



Source: Hedgeweek® 2025 Investor Survey

KEY FINDINGS

1

The Change Paradox

Over 70% funds haven't altered prime arrangements in two years, despite having clear operational pain points. Most frequently cited issues include fragmented reporting systems (26%), inconsistent service quality (31%) and technology integration challenges (24%).

2

Integration Means Different Things

Three in four hedge funds see benefits in integrated financing solutions when it comes to prime services and 60% say that operational efficiency would be their primary motivation for considering it.

3

Counterparty Risk Concerns Limited

57% of surveyed funds do not consider counterparty risk diversification a significant concern, while only 27% view it as important. However, 13% indicate it's becoming increasingly important, suggesting a potential shift in risk management priorities as market conditions evolve.

4

Size Determines Solution Viability

Smaller funds (under $250m) face most operational friction but minimum resources to address it. These funds experience the highest service inconsistencies and manual coordination burden, yet almost all of them say high relationship costs are putting them off investments.

5

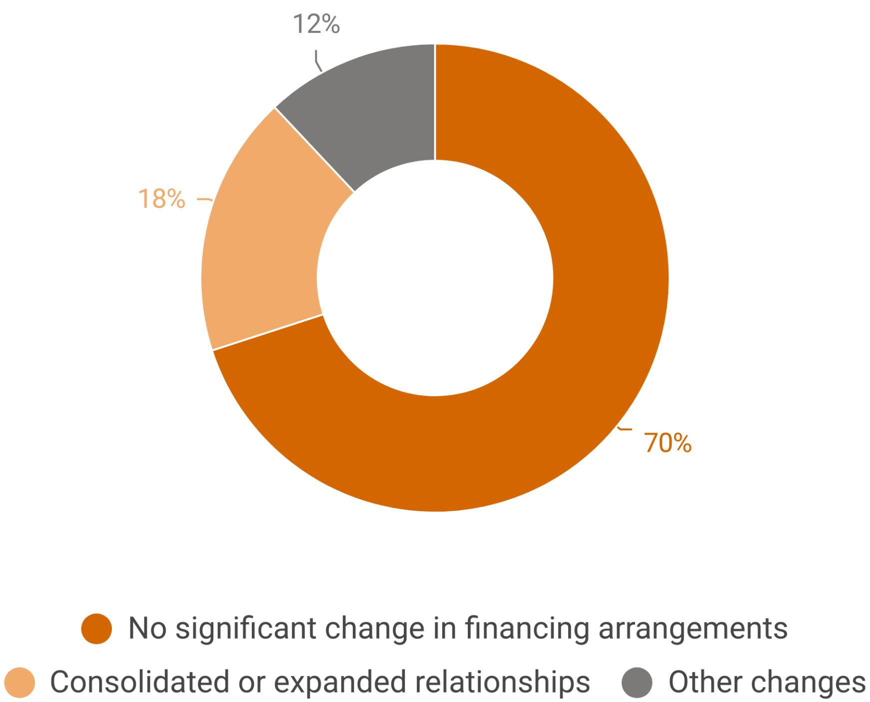
Collateral Is King

Over a quarter of funds identify inefficient collateral use as their top challenge, with funds maintaining 10-15% excess liquidity buffers to manage multi-prime complexity. This is the clearest opportunity for targeted solutions that don't require relationship changes.

PART I:

WHY NOTHING CHANGES. BUT DOES IT NEED TO?

Chart 1.1 Relationship Changes (Q3 2025)



Source: Hedgeweek 2025 Investor Survey

The Prime Broker Divorce That Nobody Wants

"You could easily launch a product with a single prime broker," explains Marc Marsdale, Chief Operating Officer at Lombardi Capital. "But I think most boards would probably hesitate to have just one sole provider, because then you really do have counterparty risk."

Coming from an operational leader, who manages relationships with Goldman Sachs, UBS, and Morgan Stanley, it sounds like orthodox risk management. But here's the thing – many top operational leaders we spoke to say they would prefer to have fewer relationships. They just can't stomach the risks associated with it.

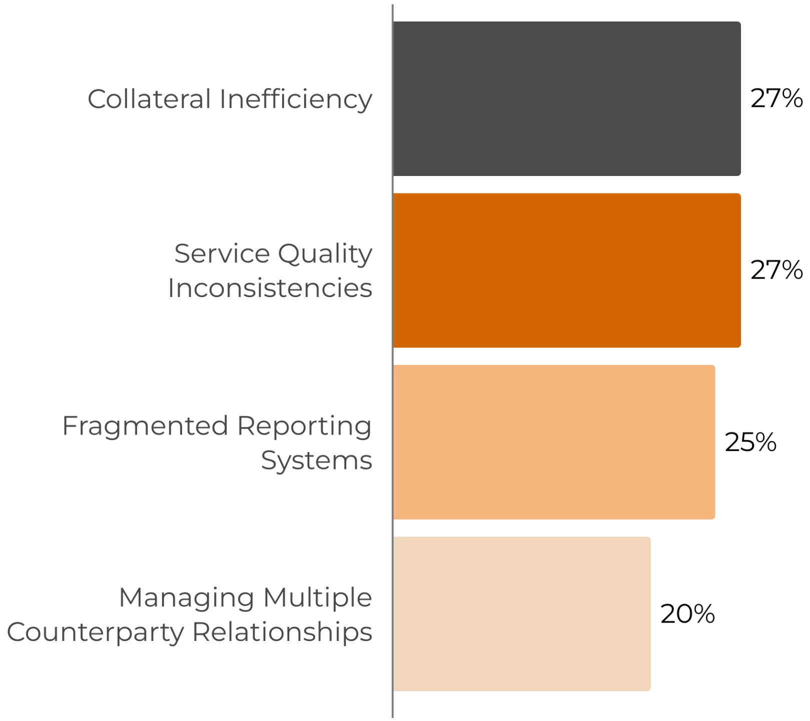
The numbers back this up. Our survey of over 100 hedge funds found that 70% haven't significantly changed their prime brokerage arrangements in the past two years. Just 18% have either consolidated or expanded relationships. In an industry that optimises everything, this stability stands out.

Robert Galione at Acer Tree Investment Management explains why: "Once you're onboarded, you generally want to stay with them unless there's a very good reason to move. A number of prime brokers take a long, long time to onboard you – we're talking about six months to a year and more."

But time is just the start. Legal negotiations can drag on for months. Technology integration means connecting order management systems, risk platforms, and reporting tools – each with its own quirks and requirements. Teams need retraining. Existing positions might need unwinding and re-establishing. And during all this, the fund keeps running, markets keep moving and allocators keep watching like hawks.

But change is sometimes forced. Two separate hedge fund COOs who wished to remain anonymous and told us they were Credit Suisse clients, had to scramble when that firm exited prime services. Funds typically just slot in a replacement rather than rethink their entire setup. "We had a great relationship there," one of them recalls, "and clearly, unfortunately, Credit Suisse were no longer in the business, so we had to move." They moved the assets to their second prime and found another to fill the gap. The multi-prime structure stayed intact.

Chart 1.2 Primary Operational Pain Points



Source: Hedgeweek® 2025 Investor Survey

Pain Points: Where Operations Struggle

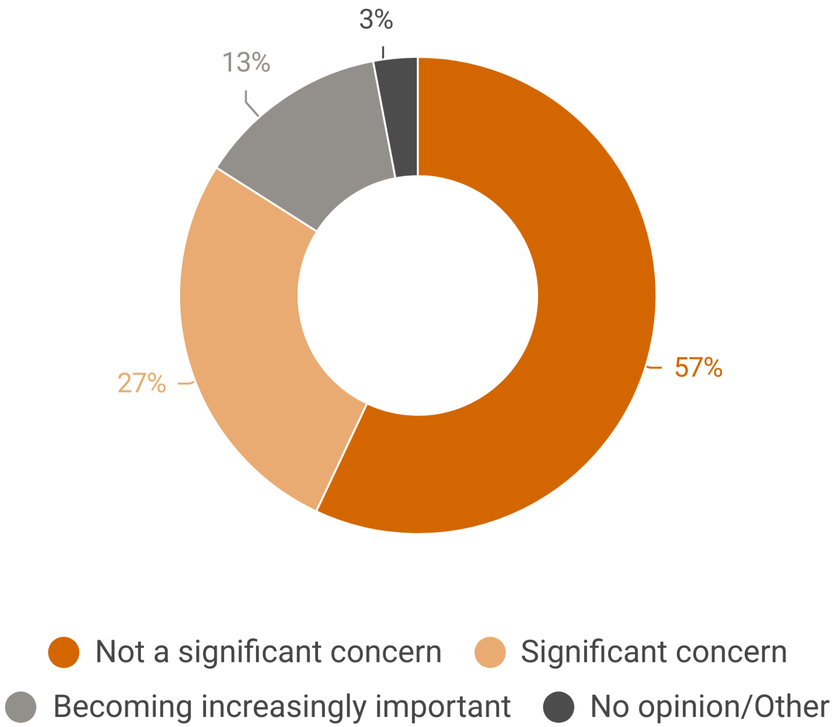
Our research reveals three primary operational challenges that dominate the current landscape, each affecting roughly a quarter of respondents but manifesting differently across fund sizes and strategies.

Collateral Inefficiency (27% of managers): The inability to optimise collateral across multiple providers represents the single largest operational challenge. Assets held at one prime broker cannot offset margin requirements at another, forcing funds to maintain excess liquidity buffers that drag on returns. During volatile periods, this inefficiency becomes acute – managers report situations where they hold excess margin at one provider whilst facing calls at another, with transfer processes taking days rather than hours.

Service Quality Inconsistencies (27% of managers): Equal numbers struggle with varying service levels across providers. Different response times, technological capabilities and operational processes make planning difficult. One operations manager describes the daily reality: "Provider A might process a margin call in two hours, Provider B takes two days. We have to operate to the lowest common denominator, which means holding more buffer and moving slower than we should."

Fragmented Reporting Systems (25% of managers): The lack of consolidated reporting creates significant operational overhead. Managers face multiple logins, incompatible data formats and manual reconciliation requirements. Nearly a quarter also cite technology integration challenges specifically, suggesting that the promise of technological solutions remains unfulfilled for many funds.
Interestingly, whilst these operational challenges are clear, only 20% of managers identify "managing multiple counterparty relationships" as a top-three pain point, suggesting the issue isn't the relationships themselves but rather the inefficiencies in coordinating across them.

Chart 1.3 Counterparty Risk Perception



Source: Hedgeweek® 2025 Investor Survey

Nobody's Worried About Counterparty Risk (Until They Are)

Here's a bit of a juxtaposition: only 27% of managers view counterparty risk diversification as a significant concern, according to our Q3 2025 hedge fund survey. The majority – 57% – say it isn't. Another 13% say it's "becoming increasingly important," which sounds like hedge fund speak for "we're watching but not worried."

This seems peculiar given recent history. But it makes sense when you realise diversification has become so embedded that it's like wearing a seatbelt for hedge funds. You don't think too much about it until you need it.

The COVID-19 margin crisis showed exactly why funds maintain multiple relationships. A hedge fund COO recalls one prime broker's risk system "kicked in and significantly increased our margin requirements from 18-19% to over 70% on some names."

"We spent many hours speaking to the risk team trying to understand why the parameters were reacting the way they were," they say. Meanwhile, their other prime broker "didn't budge from a margin perspective." So they moved balances. "If you only have one sole provider, you don't have the option."

That's the reality. It's not that managers actively worry about counterparty risk daily. They've already built protection into their structures. The diversification is done. Now they're dealing with the consequences.

What “Integration” Actually Means (And Why Nobody Agrees)

According to our survey, three-quarters of managers say they’d benefit from “integrated” prime services. But what exactly are they asking for?

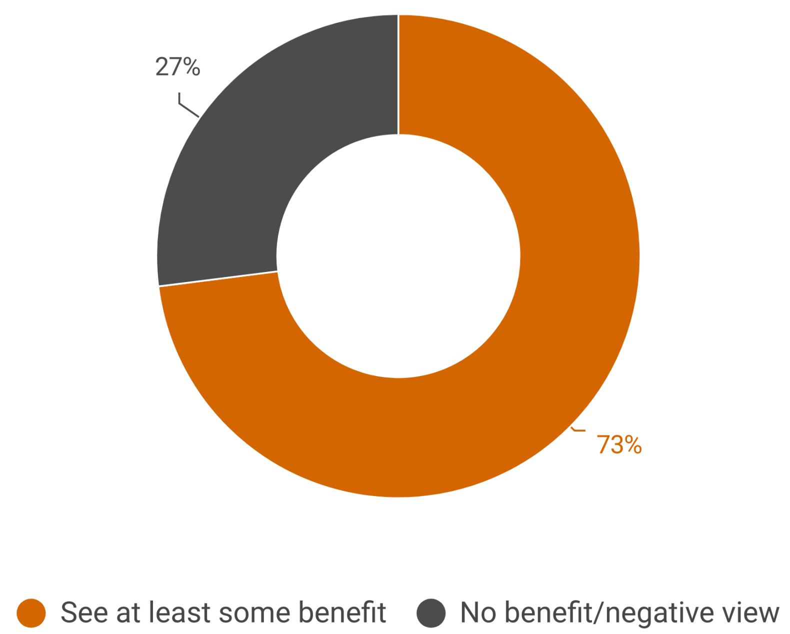
The answer depends on who you ask. Our survey defined it as “comprehensive solutions combining prime brokerage, securities lending, custody, and banking services under one relationship.” But many managers heard different things.

For one chief operating officer, integration already exists in their setup: “We use Goldman Sachs primarily, and then our secondary prime broker is JP Morgan, who is also our fund admin.” That’s two relationships instead of three or four. That’s integration.

For another, integration means something completely different. He doesn’t want fewer prime brokers but rather better tools to manage the ones he has. “If there was a credible source to consolidate that data so you had one login rather than going into each prime broker’s portal, that’s a win in my mind.” They are not talking about relationship consolidation but about a control tower that gives them visibility across all the different providers.

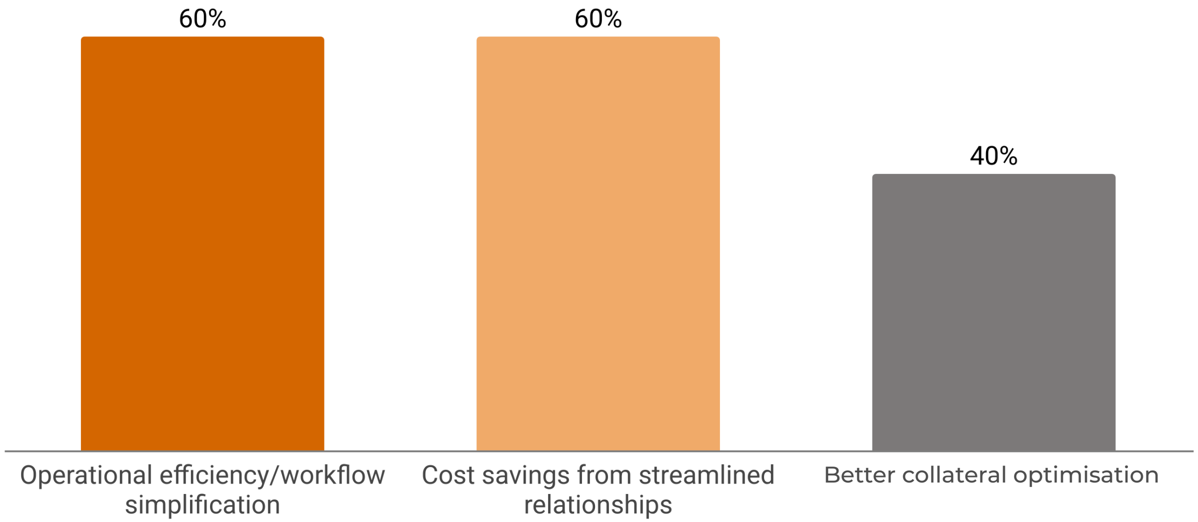
For others still, integration means their existing prime brokers actually talking to each other. Another COO points to one narrow success: “Most prime brokers are fairly integrated when it comes to OTC clearing. They can move margin automatically between your CCP and your prime brokerage account.” That’s it. That’s the integration victory. Automatic margin movement in one specific area.

Chart 2.2 Comprehensive Solution Benefits



Source: Hedgeweek® 2025 Investor Survey

Chart 2.1: Integration Benefits Sought



Analyst note: Respondents could select multiple choices for this question

Source: Hedgeweek® 2025 Investor Survey

This definitional difference matters. When 60% of managers cite "operational efficiency" as their primary motivation for considering integration, they're not all imagining the same solution. Some want fewer relationships to manage. Others want the same relationships working better together. Still others just want to stop logging into three different systems every morning.

The Issues With Multi-Prime Reality

Let's talk about what managing multiple prime brokers actually looks like day-to-day.

One operations manager walked us through their morning routine: "Check Goldman's platform for prime broker margin, then log into State Street for securities lending availability, then call JP Morgan for repo rates." That's before 9am. Then comes monitoring multiple margin calls from different counterparties, each with different deadlines and requirements. Then reconciling positions across systems that don't talk to each other.

The inefficiency isn't just a lot of work, but it's quite expensive. 27% of Hedgeweek survey respondents identified inefficient collateral use as their biggest pain point. What does that mean in practice? Capital trapped in the wrong place at the wrong time. "We had plenty of collateral, just at the wrong providers," one COO recalls about the COVID crisis. Moving it cost three days and $2 million in unnecessary funding.

The technology challenges also pile on. A quarter of managers cite tech integration problems as a major pain point. In the case of most hedge funds, each prime broker has its own portal, its own data format, its own reporting schedule. Not much syncs automatically. And a lot of it requires manual intervention.

Yet managers persist with these arrangements. Why? Because the alternative – concentration risk – is worse. The question isn't whether to have multiple prime brokers. It's how to make multiple prime brokers setup work more efficiently.

AARON STEINBERG
Head of Commercial Enablement – Principal Finance
BNY

Our research revealed that 75% of managers see benefits in integrated prime services, but 71% haven't changed their arrangements. Were you surprised by this paradox?

Not at all. This validates what we've been observing in the market. A significant portion of hedge fund assets are concentrated amongst the largest managers – the multi-manager funds, multi-strats and pod shops. These firms seem to have done a lot already when it comes to integrating their financing providers because they have the resources, time and wallet to invest in better technology and operational integration to maximise the value of an integrated solution.

These large managers have accumulated such a significant portion of assets in the hedge fund industry and can afford to create efficiencies from both economic and operational perspectives. Many smaller managers would like to achieve the same efficiencies, but they either lack the infrastructure to support it or don't have sufficient budget to pay for multiple specialised providers whilst also integrating the financing and operational pieces of their business.

How do you quantify the cost benefits of integrated solutions versus multi-prime relationships?

It is definitively more cost-efficient to have integrated solutions if you have the resources to support it. However, adopting integration doesn't mean abandoning all traditional prime relationships. What it means is streamlining those relationships and ensuring the providers you retain offer specific, differentiated value.

Integration allows you to leverage more services within a single provider whilst focusing other counterparties on their unique strengths. This creates cost efficiency by reducing the total number of counterparties you're managing, which immediately reduces operational overhead. You extract more value from the counterparties you do use by ensuring each relationship is optimised for what that provider does best.

There's also internal efficiency gains. When you reduce the complexity of managing multiple relationships, your own operational costs decrease significantly. The time and resources previously spent reconciling data across multiple systems can be redirected towards actual investment activities and alpha generation. The cost savings come from operational efficiency, reduced counterparty management burden, and better negotiating positions when bringing more business to fewer, strategic relationships.

How do integrated platforms address operational inefficiencies like fragmented reporting and service quality issues?

The more integrated a client becomes, the more aware the organisation is of that client's needs, which should elevate communication and awareness between client and counterparty. Integration provides leverage – clients have more say in their coverage model and how they're serviced across the organisation.

When a client utilises multiple services across a platform, they naturally become more embedded in the institution. When you're providing prime brokerage, cash management, fund administration and custody services to the same client, your teams develop a comprehensive view of their operations and needs.

The goal is seamless service where clients don't feel they're dealing with 20 different people for 20 different needs. Instead of separate points of contact for different services – each potentially giving conflicting information – integrated clients get a coordinated coverage model. This means better understanding of workflow requirements, more proactive problem-solving, and faster resolution times because we don't need to coordinate between separate institutions with different priorities.

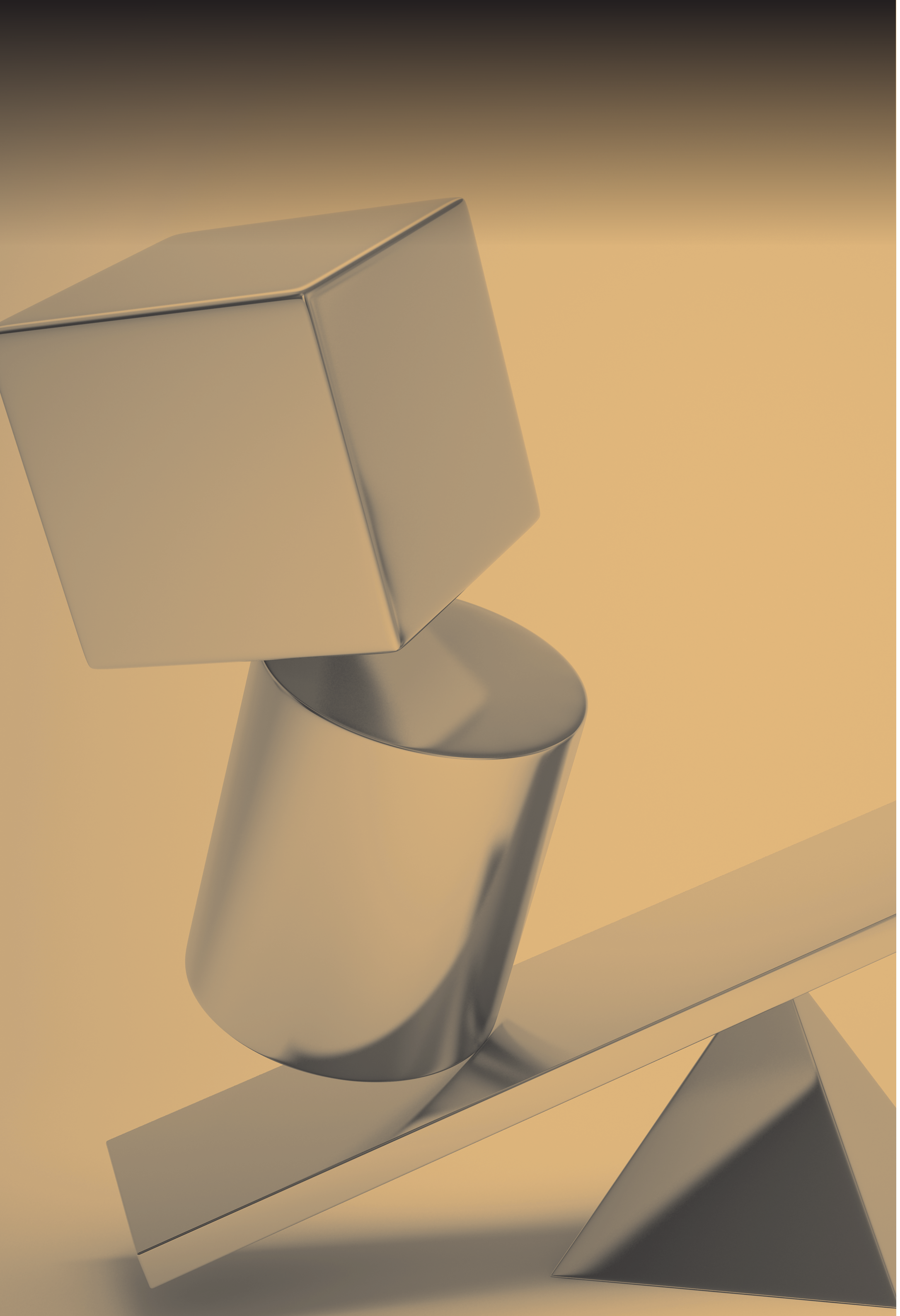
What differentiates BNY's integrated offering?

Being a global systemically important financial institution can provide credit quality advantages over investment banking-oriented providers. Our ability to offer funding solutions through both bank and broker-dealer channels provides diversification within a single relationship – which is a unique and differentiated model for financing.

This dual capability is valuable for managers concerned about counterparty concentration risk. Rather than needing separate relationships with an investment bank for prime brokerage and a commercial bank for cash management, they can access both types of services whilst maintaining diversification within the relationship structure.

We have one of the strongest cash management platforms globally – BNY touches a significant portion of world assets, giving us unique capabilities like access to money market funds, including our new on-chain money market fund. Additionally, our fund administration and custody business allows operational efficiencies by connecting custody accounts with financing and prime brokerage accounts. This operational integration – "marrying" the custody account with the financing account – eliminates much of the manual reconciliation that managers typically experience when these services are provided by separate institutions.

Prime Services is a service of Pershing LLC (member FINRA/NYSE/SIPC), a BNY company.



PART II:

THE SEARCH FOR SOLUTIONS THAT ACTUALLY WORK

Does Economics of it all Work, If You're Small?

There's a brutal math facing many early stage smaller funds: the solutions that would fix their operational problems might not be the best for their business.

These funds are the ones that face the most operational friction which could include manual reconciliation, Excel-based tracking, multiple system logins. But most can't invest excessively in order to fix it.

"Softwares like that are sophisticated and exist," says COO of a hedge fund which manages under $250m, discussing platforms that could streamline multi-prime coordination. "But especially in the early days, it has a huge impact on expense ratios when AUMs are smaller."

How much is this impact? Solutions that could transform operations might add tens of basis points to expenses. For a fund charging 1.5% management fees, that's potentially a quarter of their revenue. For a fund trying to attract institutional investors sensitive to costs, it might mean the difference between viable and unviable.

This creates what Victoria Snow of Eicos Investment Group calls the infrastructure paradox: "The expectation from allocators these days is to have an institutional setup from day one, which means a multi-prime model." But maintaining that institutional-quality infrastructure with emerging manager economics is getting increasingly difficult.

The situation is especially acute for 44% of funds operating less than five years. They need to look institutional to attract capital, but they need capital to afford institutional infrastructure.

Mid-sized funds have it slightly better. With assets between $250m and $1bn, the math starts to work. "We designed our infrastructure to launch day one, but with a view to building out," Snow explains. "There were must-haves that we have in place now, and things that are nice-to-have that we want in future."

But Galione remains cautious about technology spending. "You have to be cognisant of making sure it's a two-way process, a symbiotic relationship," he says about prime broker relationships. The same applies to technology – it has to earn its keep.

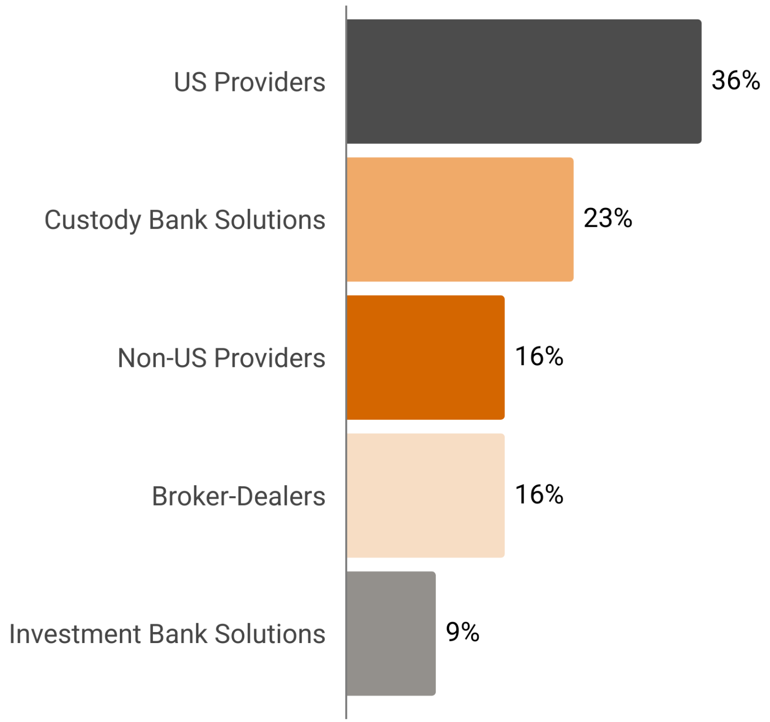
Are vendors selling what managers need?

When we asked managers what would improve their operations, the responses revealed sophisticated thinking about solutions.

The majority of managers want operational efficiency and workflow simplification, while seeking cost savings. 40% prioritise better collateral optimisation. But these statistics hide the nuance.

Managers don't want comprehensive platforms that require operational revolution. They want targeted fixes to specific problems. Marsdale articulates what many feel: "When someone's

Chart 2.3: PB Financing Counterparties Characteristics Sought



Source: Hedgeweek® 2025 Investor Survey

trying to be all things to all people, it generally falls down somewhere."

His scepticism comes from experience. Describing attempts by custody banks to provide prime services, he's blunt: "The custody relationship is four times harder than the prime brokerage relationship because the prime broker is used to the servicing levels we require, whilst the custody bank technology is dated and slow."

Instead, managers gravitate toward narrow solutions that work. Galione points to OTC clearing as a success story: "Most prime brokers are fairly integrated – they can move margin automatically between your CCP and your prime brokerage account." It may not be a comprehensive solution but it solves a specific problem without requiring wholesale change.

The "control tower" concept emerges repeatedly in our conversations with hedge fund operations leaders. Managers see value in platforms providing unified views across providers, automated rate comparison, and streamlined reporting – without touching the underlying relationships. They want coordination, not consolidation.

PB Financing Counterparties Characteristics Sought

When asked about valuable characteristics in their prime broker mix (Chart 2.3), preferences are telling: 36% prioritise US providers for dollar funding, 23% value custody bank solutions for stability, 16% want non-US providers for geographic diversity. Only 9% seek additional investment bank solutions. The message: managers have the relationships they want; they just need them to work better together.

Can a Crisis trigger a major change?

The current equilibrium – inefficient but resilient – has survived recent tests. Credit Suisse's exit was managed. COVID volatility was painful but not catastrophic. Yet these events also revealed the costs of inefficiency.

During March 2020, a hedge fund COO we spoke to, watched one prime broker jack up margins to 70% while another didn't budge. Moving positions took three days and millions in unnecessary funding. "We had plenty of collateral, just at the wrong providers."

These experiences suggest the industry may be one crisis away from fundamental change. The next disruption might finally tip the balance toward more integration of different services. Or might even reinforce diversification, pushing funds toward even more complex arrangements.

What seems certain is that the current situation – operational inefficiency as the price of risk management – is unstable. Something will give. The question is whether the industry will evolve gradually or be forced to transform in another crisis.

> **"You have to be cognisant of making sure it's (manager-prime broker relationship) a two-way process, a symbiotic relationship**
>
> **Robert Galione**
> COO, Acer Tree Investment Management

Conclusion: The Path Forward Is Narrow But Clear

The prime services landscape reveals an industry stuck between necessary diversification and unnecessary friction. Our research suggests the resolution isn't choosing one over the other but finding ways to achieve both.

For smaller funds, the path is narrow. They must build scalable processes that can grow with assets, resisting expensive solutions to tomorrow's problems while managing today's constraints. The key is identifying which inefficiencies they can tolerate and which will prevent growth.

Mid-sized funds should exploit their flexibility, testing targeted solutions to specific problems. They're big enough to matter to providers but small enough to adapt quickly.

Large funds must accept that complexity requires sophisticated solutions, but wholesale transformation isn't the answer. Incremental improvements that compound over time beat revolutionary changes that might fail.
For all funds, the future isn't about consolidation but coordination. The winners will build frameworks that preserve diversification's benefits while eliminating its friction. This means embracing the control tower vision—unified oversight without unified risk.

Service providers who grasp this nuanced demand will thrive. The industry doesn't need another platform claiming to solve everything. It needs specific solutions to specific problems that work within existing structures.

As one allocator told us: "The best managers show us integrated dashboards providing real-time views across all providers. If it takes an hour to tell us total exposure, that's a red flag." This expectation will only intensify.

The hedge fund industry has proven multi-prime structures provide necessary resilience. Now it must prove these structures can deliver operational excellence. The tools are emerging, the pressure is building, and the need is clear.

Those who move first—building efficient coordination while maintaining strategic diversification—will define the industry's operational future. Those who wait may find themselves choosing between efficiency and resilience at exactly the wrong moment.

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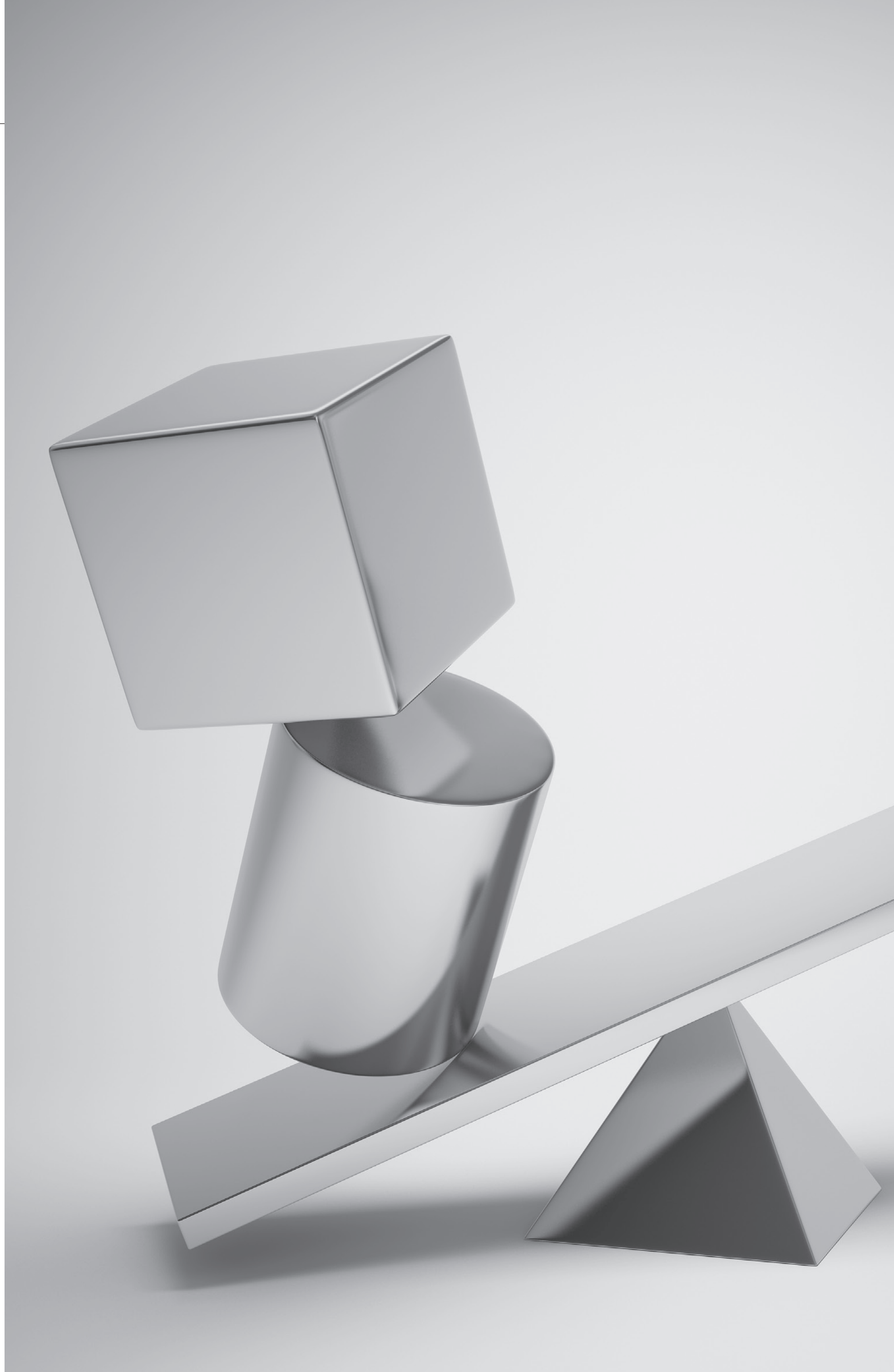

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