HUG YOUR COO

BY JAYESH PUNATER

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The role of the COO is becoming more and more paramount in an increasingly volatile, competitive, and regulated market landscape. Historically, money management activities, followed by marketing and raising capital, have been the most important activities for a fund. However, now, the role of the fund's operating platform, and hence that of the COO, is equally important for investors, regulators, and the funds.

While the PM is responsible for taking the right risks to bring in alpha, the COO's job is to mitigate operational risk and ensure operational stability – both necessary to any firm's success.

Over the last five years, three key factors have played a role in this change:

1. There has been a tremendous amount of regulatory and investor scrutiny that, if not handled correctly, would de-focus the principals from the important job of making investment decisions. The ability to manage this while fees decline is often the defining factor of a fund's success
2. Issues like compliance, cyber security, and reporting/data management are becoming critical to funds' ability to operate on a day-to-day basis and grow. There is a heightened need to manage these areas well in order to thrive
3. Due to greater investor transparency, there is an increased need to manage expectations, costs, and counterparties in times of turmoil. Firms with COOs who can manage this well often have a competitive advantage

This shift in the importance of the COO is further augmented with new roles and responsibilities that expand beyond the historic scope of the role. The COO has traditionally focused primarily on three key functions:

1. A strategic partner to the investment team: Allow portfolio managers to focus on investment decisions
2. Run the shop: Make sure critical and non-critical day-to-day functions are running smoothly across all departments
3. Handle people and processes: Ensure that the firm has the right people in the right place, has established best practices and processes, and is leveraging data and technology optimally to mitigate risk and create scale

While these functions still remain at the core of COOs' roles and responsibilities, contemporary trends in talent management and increased investor demands have expanded the role to new domains.

For instance, COOs are now at the forefront of managing firm culture and values. With the advent of millenials entering the workplace, culture and values have become an important stake for recruiting and retaining valuable talent. COOs are typically entrusted to screen for these values and culture traits in new recruits while also promoting them within the firm.

COOs are also often responsible for navigating professional development in new ways that are effective and resonate with top-tier talent. Instead of traditional incentives such as compensation and title changes, COOs must promote new learning opportunities and individual growth among top talent, hence maximizing their contributions and development within the firm.

Another new frontier is that COOs are having a larger impact in client-facing marketing activities. In collaboration with the PM and IR teams, COOs work to address investor needs around transparency, compliance, and controls. We are seeing an increasing involvement of the COO in portfolios, risk management, hedging, and treasury functions.

Given this multifaceted, complex, and crucial role, if I were a manager, I would hug my COO.

JAYESH PUNATER
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Jayesh Punater is the founder and CEO of Gravitas and has more than 22 years of experience working in entrepreneurial, high growth companies servicing the financial industry.

Founded in 1996 as a technology consulting firm, Gravitas has been servicing the alternative investment industry as a trusted provider of IT services including infrastructure, cloud hosting and support. Two decades later, Gravitas has evolved into a fully integrated, cloud-based front and middle office services platform exclusively for hedge funds and asset managers.

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