

Why outsource? 4 trends influencing GP operations

- 1. Increasing regulation for U.S. managers, from PFA compliance to criteria for raising in Europe.**
 - 2. The cost of in-house technology and expertise is increasing, outsourcing offers economies of scale.**
 - 3. Keeping up with the latest technology and LPs ever growing list of demands.**
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Regulation, LP attitudes and technological advancements are increasingly driving fund managers to outsource their operations, as Aztec Group's [Ore Adegbotolu](#), Head of Markets, U.S., and Lynne Westbrook, Director, Private Equity, U.S., now explore.

Outsourcing is increasingly a priority for CFOs, according to [Private Funds CFO's Insights 2024](#), conducted by PEI in partnership with the Aztec Group. For fund administrators this comes as no surprise, as managers grapple with how to manage their fund processes against a challenging economic backdrop amid increasing regulatory and LP scrutiny, as well as advancements in technology.

As such, [outsourcing](#) back-office functions has become increasingly appealing to fund managers who want to focus on the key issues affecting their business, such as deploying capital and creating products to distribute to investors.

Managers look to outsource for a variety of reasons, including:

1. Tightening regulation

There's no doubt that regulation is tightening across private markets. It's imperative, therefore, that GPs are aware of the incoming regulatory change to ensure they remain compliant. The U.S. Securities and Exchange Commission (SEC) recently announced its Private Fund Advisers (PFA) ruling, which generated a backlash in the industry even before it was formally passed. Some bodies reacted vociferously to the proposed changes, so much so there has been a lawsuit issued to contest the new rules. One aspect of the ruling seeks to compel fund managers to increase disclosure to investors, while quarterly reporting must now be delivered within a 45-day period.

These changes seek to create safeguards and increase transparency for investors, and while the ambitions are noble, they will increase workloads for those firms managing their operations in-house. As a result, these rule changes could encourage fund managers to consider whether now is the right time to reassess their operating model, and potentially seek third-party support to ease the additional administrative burden.

Change in the alternatives regulatory space has already occurred in Europe through the Alternative Investment Fund Managers Directive ([AIFMD](#)), and the [PFA](#) could have a similar impact in the U.S.

2. Technological advancement

The advancement of technology is another factor in the evolution of private fund operations. GPs must decide between investing in state-of-the-art software and systems to complete their fund administration in-house, or leverage the market-leading technology of a scalable fund administrator.

Leveraging data is one of the biggest challenges that fund managers face. They want to be able to use technology to analyze, interpret and liberalize the data they hold. Machine learning and [artificial intelligence](#) (AI) will help with predictive analytics around portfolio monitoring, with platforms such as [Lantern](#) helping to provide managers with greater data insight and learning capabilities. Technology will also help drive the [democratization](#) of private markets, with digital channels and marketplaces allowing managers to market their funds to a wider investor base, including retail investors.

Sourcing tech in-house to serve these requirements, not to mention hiring the

skilled workers required to operate these systems, will come at a huge cost to a fund manager – something a third-party administrator can provide more efficiently through economies of scale. A third-party provider can also offer insights and best-practice guidance in this space from the full range of managers they are already serving.

3. Internal cost and resourcing pressures

The role of managing a private fund has become increasingly complex, with growing labor challenges including increasing staff turnover, training and the cost of retaining and rewarding the best talent making it difficult to sustain fund operations in-house.

For any manager facing these kinds of pressures, the first step is to assess what support their operations will need to consistently deliver against the requirements of the business. Then a manager needs to quantify the firm's appetite to invest in the internal operating model to deliver these results. This might mean further investment in technology, in people, and in understanding how core processes could be improved.

At this point it might be worth having a conversation with a third-party provider, to understand whether this service could be provided through a strategic partnership.

4. LP demands

While there are many considerations for fund managers around outsourcing, for LPs the main issue is risk: is their data safe? Can they access it securely? Are there robust controls in place? With this risk-averse approach in mind, LPs are scrutinizing fund managers' operating models more closely than ever, and in some cases are becoming active in the process of appointing a fund administrator.

LPs are also very aware of the fact that their experience in dealing with the fund manager is shaped by the fund administrator. They want the due diligence and onboarding procedures to be as seamless and robust as possible and to have secure, on-demand access to communications and standardised reporting (such as ILPA) in place.

[Listen](#) to our podcast to find out how investor data demands are evolving.

Operating models: choosing the right one

If you've decided to outsource some or all of your operations, then selecting the right provider is, clearly, a hugely important decision to make. Your due diligence will be vital, ensuring your potential partner has an experienced team of professionals who are experts in your field, with a market-leading technology stack at their disposal. Good fund administrators will continue to embrace automation and explore ways to leverage tools to deliver increasingly platform-agnostic solutions to provide their clients with increased flexibility, accuracy and access to their data. The best providers will also have a perfect blend of the best people, processes and platforms.

What's also key is flexibility. You'll want a partner with whom you can develop an operating model which works specifically for your business. Do you outsource fully, or consider a co-sourcing arrangement? Though an outsourced model delivered by a progressive and strategic partnership is often the best solution, for some a co-sourcing model is the best fit.

It depends on what you're looking for, which is why it is so important to have a thorough discussion with your third-party provider, to ensure your operating model works for you, both now and in the future. What are the strategic objectives of your business, and how could your operating model help you achieve those outcomes over the short-, medium- and long-term?

If you want to discuss any of the points raised in this article, please contact [Ore](#).

