Curious about outsourcing?

Here's what goes on behind the scenes.

Our UK private equity specialist, Paul Harrison, spoke with leading publication Unquote" in this year's UK and Ireland Fundraising Report about modern fund administration and how the role has adapted to a new market.

What influences a fund manager's decision to outsource?

Firstly, outsourcing allows fund managers to focus their time and effort on their core activities and investment decisions, rather than getting bogged down in the day-to-day running of a fund. A modern-day administrator takes care of a range of tasks and is effectively a one-stop shop for fund managers, in many cases acting as both the middle and back office.

Second is the access to skills. A fund administrator with expertise and experience will know the ins and outs of the relevant laws and regulations, and will know what constitutes best practice in financial reporting and structure administration.

A third reason is that administrators can make use of technology that would be overly expensive for managers to use individually. Technology plays a major role in fund administration, helping to drive efficiency and enabling decisions to be made quickly. Why invest in technology and IT professionals when you can use the scalable platform of an outsource partner?

A similar principle applies with risk mitigation. A fund administrator can invest in resources and implement scalable processes to ensure the appropriate risk based control frameworks and governance are in place. Additionally, outsourcing enables the fund manager to relinquish the burden of recruitment, hiring, training and housing employees.

Is there such a thing as a typical set of outsourcing requirements?

Not as such, and that is why it is important for administrators to take a flexible and tailored approach to accommodating the varied requirements of fund managers. The service provider needs to be flexible enough to support clients at both ends of the requirements spectrum; some will seek standalone services such as an independent depositary or fund accounting, whereas others will want the administrator to take over the day-to-day running of fund and investment vehicles.

The requirements will be driven by factors such as the size of the manager's fund and investment scope. For example, whether they are in or outside the scope for AIFMD, which would not only determine if a depositary is required or not, but whether the fund would need to be domiciled in the EU or structured through a national private placement regime. The fund administrator needs to be able to tailor their offering to the circumstances of the client – one size doesn't fit all.

What should a fund manager take into account when selecting an outsourcing partner?

A number of things are important.

GPs should look for consistency of the servicing team. High employee turnover and frequent organisational restructures can lead to personnel changes which naturally impact service levels. An administrator with a stable management team and high staff retention is more likely to provide service continuity.

Another point related to personnel is ensuring clients are served by teams rather than departments. Ultimately, clients like familiarity and working with individuals who know their requirements inside-out.

Managers also need to consider the track record of potential administrators. High client turnover suggests promises are not kept – whether that is due to service issues, unreasonable fee increases or some other reason. A high client retention rate and a client base who are prepared to provide testimonials on service quality are generally a good sign that the administrator will live up to expectations.

One final key consideration is access to jurisdictions. Depending on factors such as the size of the fund and investment strategy, the fund structure may need to span different jurisdictions. An administrator that can provide access to the leading jurisdictions and deliver a consistent service across those jurisdictions is key to the smooth operation of the fund.

How has the role of administrator evolved in recent years?

The type of relationship has certainly altered. Some clients cherry pick particular services, but increasingly many are looking for a full outsourcing partner who can support with the set-up, launch and ongoing administration of a fund. Critically, though, today’s client does not want the hassle of dealing with multiple departments and offices, meaning the administrator needs to channel those services through a single relationship team, which may even include services delivered across different jurisdictions.

Operational risk is obviously a hot topic at the moment, particularly with regard to information security, and this is an area where we are seeing significant investment at the moment. Building robust controls and a security framework around established industry standards such as ISO 27001 are essential elements to help mitigate these risks.

Administrators are also far more compliance-focused than they used to be. Today’s regulatory landscape is almost unrecognisable from a decade ago. We have seen an abundance of new laws and regulations on both an international and jurisdictional level in areas such as money laundering and financial crime as well as far more stringent codes of practice to comply with. The move towards greater transparency in financial services has led to the introduction of regulation such as FATCA, CRS and BEPs, where non-compliance can lead to significant penalties. Compliance is now far from being a couple of people locked away completing paperwork – it is a core component of fund administration.

Which jurisdictions are outsourcing services typically provided from and why?

It depends on the investment manager, the size of their fund and the investors in that fund. A fund may be outside the scope of the AIFMD, with the potential cost savings from going “offshore” negligible or perhaps not even factor. In this case domiciling the fund in the UK and having the administration done in the UK makes more economic sense. It can also be the more convenient option, particularly if the investment manager continues to do certain elements of the administration in-house, such as the company secretarial work.

Larger funds with an international or European investor base may need to be structured in locations such as Guernsey, Jersey or Luxembourg.

Download the full report

Download