

# Outsourcing's evolving landscape

In an exclusive interview with Private Funds CFO, [Scott Kraemer](#) discusses the many ways in which third-party fund administrators can add value to their clients. You can read the interview in full below:

*"The thing about outsourcing is that it means different things to different people,"* Scott notes as he explains how the strategic relationship between a fund manager and a third-party provider is evolving. *"It could be a cost-saving measure to some, while to others it's about accessing specialist skills and expertise."*

Read Scott's full interview below:

## How has the outsourcing landscape evolved over the years?

The percentage of market activity that is outsourced continues to escalate, particularly in the private funds space. Its adoption varies by asset class but is driven by a number of factors. A key one is regulation.

In Europe, regulation of alternatives funds has been increasing since the introduction of the Alternative Investment Fund Managers Directive in 2011. Managers see outsourcing as a good way to help them deal with the ever-changing regulatory landscape continuously creating new administrative and reporting requirements, and a means to work with teams of experts who can take responsibility for monitoring processes and controls to ensure compliance.

Technological advances are also changing the outsourcing landscape. As tech gets more advanced and complex, it requires specialists to ensure it is configured, maintained and updated in the most effective way. There are more and more asset class-specific applications designed especially for administering private funds, like Investran and Yardi, so it often makes sense to partner with a provider that can stay abreast of solutions and access best-in-class technology.

Accessing the right talent is another advantage of outsourcing. There are really good people working at fund administrators focused on technology, regulation, fund accounting for private funds. It makes sense to partner with a third-party provider to access that expertise rather than building an in-house team that is vulnerable to single person dependencies and comes with additional recruitment

and retention challenges. Finally, globalization is encouraging outsourcing. As firms grow, it is important for them to have access to expertise in other locations so they can understand geopolitical implications, regulatory regimes and local operational nuances.

## **What impact on outsourcing are U.S. Securities and Exchange Commission regulations having?**

Regulation in general is one of the biggest drivers of outsourcing, simply because it's increasingly complex and burdensome to follow the rules and understand when and how they apply. A good example is the potential impact of private fund adviser rules proposed by the SEC and ultimately set aside. It was an attempt to regulate the frequency and nature of reporting back to investors, along with standardizing things like fee tables, calculations and methodologies. Managers spent a lot of time preparing for that regulatory change, including engaging with fund administrators to meet those requirements.

Caution should also be exhibited when considering the Corporate Transparency Act, which was originally found to be unconstitutional before being brought back into play, only for the U.S. Treasury Department to say it wouldn't be enforced after all, at the start of March. Staying abreast of changing regulatory updates can be time-consuming, and managers don't want to be spending their time studying regulatory change to ensure their operations are adjusted to remain compliant.

Plus, regulatory and compliance staff are expensive. By using a specialist fund administrator, managers can shift some or a majority of the regulatory burden to their outsourcing partner, who will have teams of experts focusing on these statutory changes and how to apply them to their processes.

## **Do investors care about which GPs choose as third-party providers?**

Investors certainly have a growing interest in which administrator a GP is using. We see that in the ever more complex due diligence questionnaires that managers are being asked to complete. DDQs are now quite comprehensive in relation to fund administration, with questions on the administrator's control environment, the technologies used, staffing models and so on.

Investors also want regular, reliable and transparent reporting on fund performance, risk, asset allocation and cost, which is resource-intensive and often best delivered via an outsourcing model.

## **And do LPs have a view on technology?**

Technology can greatly enhance investor experience. Fund managers are taking a lot of care to show investors how technology is being used to make their interactions more seamless and more in line with what they expect out of technology in other areas of their lives.

Investors want a frictionless experience. We spend a lot of time digitizing processes so that data can move through systems and back to investors in the way that they want it, making use of dashboards and online reports.

The tech we're using helps managers to source and screen new investors; it also helps to streamline investor onboarding. It can provide investor reporting and in-fund management tools like automated capital call notices, distribution notices and net asset value updates.

## **How does outsourcing impact fund performance?**

Whether a GP is growing from a \$1 billion to \$2 billion operation, or from \$10 billion to \$20 billion, their focus is always going to be on raising capital, getting returns on existing investments, and finding new opportunities. Outsourcing means managers can offload the burden of completing fund operations, administration and investor reporting, thus freeing up their resources for activities specifically related to fund performance.

As a fund manager grows, their admin partner should be able to scale their team to grow with the fund, rather than the manager having the headache of growing their own team internally. One of the biggest impacts is when managers are changing or adjusting their strategies. A private equity focused manager might be moving into private credit, for example. They can scale and adjust their operations more quickly if they have a fund administrator that understands both of those asset classes.

Administrators can enable process optimization and automation, something that might not be possible without significant investment in technology, with

initiatives like auto reconciliations and automated validation of identification documents, for example. Managers can also leverage third-party expertise in areas like risk management, tax compliance and regulatory compliance.

## **For managers selecting an outsourcing partner, what are the key considerations?**

Those fall into four buckets: reputation, expertise, compatibility and scale. For reputation, it is extremely important that you know who you are hiring, obtain some exceptional reviews and have received word-of-mouth confirmation from your peers that they are a good choice. You also need to ask whether your partner has the expertise in your specific asset class, and access to the best people in tech, risk, compliance, tax and investor servicing. Compatibility is also key: will your partner act as an extension of your team? Will they personally answer when you call? Will they be able to marry up a high-tech offering with a high-touch level of service, delivered by the best and most experienced people in our industry? And finally, does the administrator have the size to scale and grow with your business, whether that means looking at jurisdictional coverage or expertise in additional asset classes.

If you'd like to read the full report, click [here](#).



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