

Selecting a portfolio monitoring and reporting provider?

The checklist will help.

It is a difficult decision for any onshore general partner to give elements of fund control to a third party, but such a decision is always reversible – the information held is likely to be transferrable between systems, and manageable in terms of size. So, while it may be an onerous and sometimes daunting exercise, it is far from impossible and we will help every step of the way

As an institutional investor, your decision making process must be even more comprehensive. Any engagement with a third party is likely to be longer-term than one-off funds, and will involve integrating procedures and processes across both companies.

An important tool in this process will be the Request for Proposal (“RFP”). While meetings and face-to-face discussions will obviously play a critical part, the role that the RFP plays in helping you arrive at a list of potential service providers should not be underestimated. It is a vital part of any transfer of services between providers, and should be detailed enough for the prospective service provider to price accurately and build their governance structure around it.

So what should you ask in the RFP? Well, that depends on what’s important to you. In our experience of answering RFPs, the questions typically fall into four categories: systems capability, reporting capability, supplier capability and business sustainability:

Systems capability

A main difference between providers will not just be the systems they use, but rather how they use them. As service providers in the alternative space, the systems used by administrators are likely to be one of only a handful, and so how they use their systems and the system’s adaptability of use becomes crucial to any decision made by an institution.

Some issues to think about include:

1. What technology/system(s) are used?
2. Why were they selected, and what are their key benefits in comparison to others in the market?
3. How long has the system solution been in place?
4. What expertise is held in-house on this technology system?
5. What level of tailoring is available for this technology, and who delivers the tailoring?
6. What level of system access can be given by the administrator to your information?
7. Do you need read-write access to the administrator's system?
8. What operational efficiencies does this technology deliver?
9. What improvements are expected over the next three years, and how will they benefit you?
10. Does the technology system, as utilised by the administrator, run all aspects of the operations, for example is the underlying portfolio tracked in spreadsheets rather than the system?
11. Are all administrator clients fully migrated onto the system?

Reporting

Having your information held on a system brings a level of control, completeness and confidence, but the real benefit is likely to be seen in how that information is both extracted and interrogated by the users of the system. Finance teams will always want their core trial balance and nominal ledger reports, but what about risk teams, or investment teams? What do the trustee boards or investment committees need to see in order to make an informed decision at the point of selecting a fund to invest in?

Some points to cover in the RFP would include:

1. What accounting policies govern the bookkeeping of alternative investments?
2. Does the make-up of any call or distribution by investee funds need tracking?
3. Does the current system allow for the tracking of recallable distributions, and are they dealt with in the same manner as other distributions?
4. Are income and capital distributions dealt with differently?
5. How do the performance metrics by which investment teams are judged

- differ to the accounting of those investments? Are they monitored appropriately?
6. Do investment teams want the underlying investments of the funds tracked by the system?
 7. Does the risk team require reporting of concentration levels, and are these wholly accessible, without undue administration, at present?
 8. What level of information is held on the underlying portfolio company trading sector, and its trading results and returns?
 9. Are requests from investee funds reconciled against terms of investment specified in the limited partnership agreement?
 10. Are fees paid by the investee funds to managers tracked, both at general partner share / management fee level, and once in carry?

Supplier capability

The service provider should be able to prove that they are able to meet and exceed demands, through the work they do with other clients. We would recommend asking for contacts within a similar sector or engagement level to yours.

Other institutional investors will have thought of solutions to these issues, and so it would make sense to ask around your network, and discuss with your potential providers:

1. Whom do they already administer, and are they prepared to provide referees from any client?
2. What level of experience is held within the office selected to perform the work?
3. How many clients have been won in the last five years?
4. How many clients have been lost in the last five years?
5. Of the client wins, who are most comparable to you in terms of service requirements?
6. Do they document corporate governance around the engagement? How will the project of migration be managed?
7. Will you 'know' senior management as the administrator, and how often will you meet to discuss performance? Will you have an independent route to feedback to the administrator?
8. Who are your team, and where are they located? Are you able to meet

your team before engagement?

9. Will they enter into a service level agreement with you?

Business sustainability

The outsourcing of services to an administrator is a crucial point in the growth of your alternative asset portfolio, and as a result the culture within the provider selected is as important as their technical capability, as the engagement should last a number of years. This can often be as simple a process as gut-feel, but you should also be comfortable with your due diligence around the administrator's constancy.

The administrator should be able to document:

1. Their ownership plans for the future;
2. What proportion of their workforce work with large institutions and how much sustainable revenue equates to those staff;
3. Their framework around the provision of services (incorporating an ISAE Type II audited report);
4. Their disaster recovery/business continuity plans;
5. Their standard terms of engagement and service level agreements; and
6. Their policy for staff engagement, and metrics for their retention of staff.

In summary, there's no right or wrong way of building an RFP. Hopefully, this acts as useful guide as to the type of questions you may want to ask.