



# OUTSOURCING FUND ADMINISTRATION



## WHY OUTSOURCING?

Outsourcing fund administration, also known as the “outsourcing imperative,” is a big decision for fund managers, yet internal and external factors continue to drive the increase in adopting third-party administration among funds of all sizes in recent years. Many managers have begun to realise that self-administration and doing everything in-house can be a misuse of precious resources.

If you're going to move to a third-party fund administration solution, how do you do so securely, and how do you do so cost-effectively? Because in fact, it should be possible to outsource fund administration in a way that frees your bandwidth, boost investors' satisfaction, and actually lowers your operating expenses — but the steps needed to get there aren't always obvious.

### Psychology of outsourcing

To really understand the “why” behind outsourcing, it's a good idea to take a quick step back and focus on the psychology behind it. A lot of the reasons behind outsourcing, in general, are influenced by individual decisions, and how people who make these decisions are wired to make them.

Think about it for a minute. Most successful private equity managers have started from scratch and have built a track record over time by keeping intact control of their processes, of the people they hire, of the selection investments. They've effectively created this little bubble of environmental control, which can be challenging to let go of.

### Control vs. Change

To relinquish control, positioning change management is therefore really important. There has to be an overall consensus among internal stakeholders, as well as a clear understanding of the drivers that justify outsourcing, to make it work. The overall analysis, related to outsourcing, has to be supported by sufficient safeguards to reduce risk during the transition process itself, as well as for outsourcing arrangements going forward.

### Why now?

We are living in unprecedented times. In this pandemic, the intuitive response of many is to focus inward. A lot of our clients have deployed business continuity plans and operational infrastructures that were instantly tested to the max.

This immediately identified the flaws occurring in operational support processes clients put in place, which led to an accelerated discussion around outsourcing. This inward-focused reaction, paradoxically, has increased adoption of outsourcing.

There are also several internal and external drivers unrelated to the pandemic which make outsourcing a good decision — and may actually make it an imperative, if you want to scale your competencies in investing capital.

Another reason to discuss outsourcing now is that, as an industry, we're already behind.



## INTERNAL DRIVERS

The decision around outsourcing is usually motivated by several key internal drivers, so it is necessary to take a proactive - rather than reactive - approach to these issues. By not being judicious, this puts unnecessary pressure on the manager, which distracts them from their core competencies.

### Keeping up with growth

The single biggest challenge, for many managers, is the resource challenge. How far can a fund grow with its in-house resources? There is a real risk of delaying the launch of new funds if resources are not available as needed and adding resources in a pinch is difficult.

Many managers look for the natural transitional break when outsourcing starts to make sense. But is there even such a thing as a "natural" or obvious time to make this step?

Many times, this occurs with the transition from private capital to more institutional investors. This shift immediately increases the administrative burden and the investor's expectations. At this point, managers really need to start rethinking their operation.

There's also a difference in approach between established managers and emerging managers.

Established managers typically take more of a gradual approach to outsourcing, and structure the move around launches or reporting cycles or new fund launches.

Emerging managers, on the other hand, tend to decide on outsourcing much earlier, because they see this resource challenge on the horizon. However, if the onboarding process is not carefully managed, it takes away critical time from the actual focus on their investment strategy.

### Back-office turnover

Back-office turnover is another internal driver, and it's also a type of resource challenge. When people leave the firm, there is a real risk of losing institutional knowledge - and of course, it seems to always happen at the wrong time. Therefore many administrators have processes in place to safeguard continuity.

Protecting institutional knowledge also relies, increasingly, on technology. In fact, we've seen technological adoption act as a key differentiator during the pandemic, such as the managers who rely on self-administration tend to have less of a technology focus, and they instantly became stretched. Others who had already outsourced their processes could lean on the support of their third party administrator's technology solutions.

### The changing role of the CFO

The role of the traditional CFO has fundamentally changed as well. CFOs are now faced with a much larger set of responsibilities than in decades past. It's becoming increasingly clear to funds of all sizes that a CFO's time is not best spent on internal administration, and this has increased adoption of third-party solutions.

### Competition for capital

Obviously, among fund managers, there is significant competition to attract capital. Back-office excellence, achieved through outsourcing, can actually differentiate funds in this regard - a majority of institutional investors want to see a third-party administrator in charge of the fund accounting.

When a fund begins to attract the attention of institutional investors, it's certainly time to outsource. A lack of third-party administration will almost certainly be a deal-breaker during the due diligence processes, whereas outsourcing signals to investors that the GP embraces the highest levels of security, transparency, and compliance.



## EXTERNAL DRIVERS

### LP PRESSURE / DEMANDS

Investor expectations continue to expand, and institutional investors are generally more demanding than private investors. They want customised reports, at a moment's notice - something seasoned third-party administrators are equipped to deliver.

Another main driver on the LP side is the discussion around fees and margins. This encourages managers to look towards outsourcing as a means of cutting costs or structure costs more efficiently.

### LESSONS LEARNED FROM THE PANDEMIC

During the pandemic, Prequin reported that 45% of managers expect a correction in their portfolio performance. These managers are now focusing on improving infrastructure and operational efficiencies to reduce costs - and in most cases this means outsourcing.

Another interesting takeaway from the last few months is the risk inherent to offshoring - those who had spread their administrative workload across various locales tended to suffer operational breakdowns. And a similar impact has occurred in fund operations. Funds who were using multiple service centres around the world have tested the infrastructure of some of the largest fund administrators.

### DUE DILIGENCE

Do your due diligence - focus on the processes, available expertise, what technology the administrator uses. It's important, especially during the pandemic, to look for a true partner who really brings value (and is able to display that during the selection process). With the majority of employees having to working from home, and the inability to meet face to face, you want a partner who is personable, empathic and approachable.

### INCREASED REGULATIONS

As a manager, you must adapt to new reporting standards. Changing reporting requirements have significantly increased back-office workloads, and this is doubly true when dealing with institutional investors.

Increased regulation demands increased expertise. Regulatory complexity has had a big impact on outsourcing, and the complexity only increases as funds become global. This complexity also has a direct effect on the cost of compliance. Once again, a focus on value alone encourages managers to outsource.

### HOW TO EFFICIENTLY OUTSOURCE?

It starts by getting internal consensus, and it continues with change management. You have to have clear buy-in from stakeholders. You need to prepare your teams, and you also really need to understand their needs, which includes taking inventory of the tasks that need outsourcing and which do not.

### A PARTNER WHO LISTENS

Communication is key to effective administration. Don't hesitate to voice your needs and concerns - if you don't speak up, you're more likely to get generic answers and solutions.

Look at the corporate culture of your administrator - do they share your organisational values? And again, most importantly, does this administrator have the ability to support your growth, whether it's operationally or geographically?



## BENEFITS OF OUTSOURCING

To summarise, what are the benefits of outsourcing?

### 1 REDUCING RISK

This is one of the biggest benefits of outsourcing, whether it relates to people, processes or regulatory compliance. Deploying a successful outsourcing model will give you the safeguards to mitigate and reduce risk.

### 2 SYSTEMS

Investors are demanding more transparency, and many want to know which systems are being used. Spreadsheets are no longer sufficient; specialised accounting systems have become truly essential in our industry. But specialised systems can be very expensive, not only due to vendor cost, but also to support, maintenance and training. The cost can easily outweigh the benefit of buying the administration technology yourself.

However, administrators are able to handle these technology platforms at scale - at a minimum. It is better to find an administrator that doesn't use off-the-shelf technology at all, but one who has developed their own purpose-built solutions.

### 3 PEOPLE

Some work is cyclical, so it is difficult to staff during peak demand periods. And given staff turnover, you are continually training people. Third-party administration can offer overflow resources when your in-house staff is under too much pressure.

### 4 COST

Outsourced solutions are often regarded as expensive, but when you compare the cost vs. doing the work in house, there are frequently cost factors that are either a) underestimates or b) not even taken into account. For instance, your working environment, office space, infrastructure, IT, human resources, recruitment, training, management time... It all adds to the cost of being self-administered. The discussion around this being a fund expense versus a management company expense is highly relevant, especially in a time where limited partners are putting pressure on margins and fees.

### 5 INDEPENDENCE

General Partners' returns are based on calculations of IRR. Isn't it a conflict of interest if these calculations are also performed by the GP? Having an administrator perform these calculations provides investors with an assurance that there is no undue influence.

### 6 SPECIALISATION

GPs' talents lie in doing deals, raising capital and making prudent investments...not necessarily in overseeing accounting administration functions. Working with a fund administrator gives you access to people who have specialised expertise in the space.

### 7 STABILITY

As you grow, you are going to launch new funds. By working with an administrator, you don't need to worry about scaling your back office.



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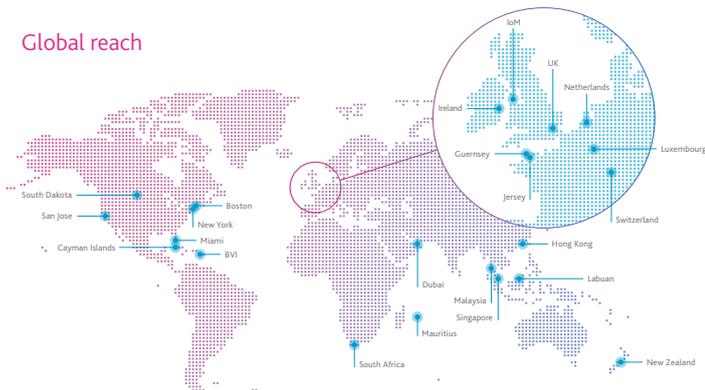


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### Global reach



## ABOUT JTC

JTC is a publicly listed, award-winning provider of fund, corporate and private client services.

Founded in 1987, we have c.900 people working across our global office network and are trusted to administer assets of c.US\$130 billion.

The principle of making all our people owners of the business is fundamental to our culture and aligns us completely with the best interests of our clients.

### We value shared ownership

- We operate around the principle that if our people have a stake in the business, they will do a better job for our clients.

### We value relationships

- We aim to work with clients who share our belief in the importance of building strong relationships over time.

### We invest in our people

- Over 85% of our employees hold a relevant professional qualification or are working towards this through our dedicated JTC Academy.

### We embrace technology

- We operate a variety of best-in-class systems to deliver and maintain an impeccable standard of administration and use technology to innovate in both service delivery and efficiency.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

- At JTC, we recognise our responsibility to conduct our business in a sustainable way, working within legal and regulatory frameworks that are constantly developing and evolving; respecting the natural environment and creating a positive impact within the communities where we live and work.
- The Group's ESG framework has, at its heart, our culture of shared ownership and the principal items considered under each element of the charter are those that we believe are both meaningful and material to the business.
- We work to continuously develop and improve our approach in all of these areas, creating clear links with our commercial strategies, engaging with our value chain and seeking to provide ever greater levels of measurement and disclosure.
- We also understand the ESG risks and opportunities for international asset managers and the detailed work that is required to appropriately consider and address them as part of their wider approach to Corporate Responsibility. As an administrator, with extensive expertise across a range of asset classes, we are confident in our ability to support our clients in delivering their own ESG commitments.

## REGULATION AND TERMS OF BUSINESS

JTC Group entities that carry on regulated business are (respectively): regulated by the British Virgin Islands Financial Services Commission; the Cayman Islands Monetary Authority; the Guernsey Financial Services Commission; the Jersey Financial Services Commission; the Commission de Surveillance du Secteur Financier and the Ordre des Experts-Comptables (Luxembourg); the Financial Services Commission (Mauritius); De Nederlandsche Bank (Netherlands); the South African Financial Sector Conduct Authority (FSCA) as an authorised financial services provider; chartered and regulated to provide trust services by the South Dakota Division of Banking in South Dakota (USA); a member of l'Association Romande des Intermédiaires Financiers (Switzerland)\*; licensed by the Isle of Man Financial Services Authority; registered with the Dubai Financial Services Authority; authorised by the Department of Justice and Equality of the Republic of Ireland to operate as trust or company service provider and authorised and regulated by the Financial Conduct Authority (UK).

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\* l'Association Romande des Intermédiaires Financiers (ARIF) is a self-regulatory body approved by the Swiss Financial Market Supervisory Authority (FINMA) for the supervision of financial intermediaries covered by Article 2 para 3 of the Swiss Federal Law on Combating Money Laundering and Financing of Terrorism in the Financial Sector (LBA). ARIF is also recognized by FINMA as a professional organization for the outlawing of rules of conduct relating to the exercise of the profession of independent asset manager within the meaning of the Swiss Federal Act on Collective Investment Schemes (CISA).

