

Outsourcing demystified

Simon King, Co-Head of Private Equity - Jersey, explains why more fund managers (and their local intermediaries) are outsourcing operational and administration activities to a specialist service provider.

It's a decision most fund managers will consider at some point: should they outsource their operational and administration activities to a third-party fund administrator? In many respects, while the need to outsource is a sign the firm is maturing and perhaps expanding into new jurisdictions, many still feel apprehensive about outsourcing, with the name itself implying an element of relinquishing control. Therefore, we thought we should 'demystify' outsourcing, to help fund managers and their intermediaries get more comfortable with the concept.

Outsourcing in a nutshell

First, let's define outsourcing. We view it as a tailored arrangement between an investment manager and a specialist fund administrator, who takes care of specified operational and administration activities. Outsourcing should be about making life easier for the investment manager, ensuring they focus their attention on their core investment activities. That's the broad characterisation, but what are some of the key benefits that a fund manager can expect from an outsourcing arrangement?

Why do fund managers outsource?

First, outsourcing can provide a ready-made solution to the day-to-day complexity that threatens to overwhelm many investment firms - particularly those looking to expand operations into new jurisdictions.

For example, a UK fund manager launching an offshore fund this would not just involve significant product development, but also the establishment of a completely new internal operational environment. All of a sudden, the fund manager is dealing with the burden of new regulation, reporting and accounting standards, compliance, IT security, and so on.

But outsourcing to a service provider with experience within that jurisdiction means the manager benefits from an operational and procedural infrastructure built using 'tried and tested' people, processes and, of course, technology. Outsourcing means the fund manager eliminates the need to own the advanced platforms required to administer their funds, as well as the high upfront costs of set-up, configuration, and ongoing maintenance. Instead, they get all the advantages of 'plug and play', and benefit from the continued investment - in resources, technology and IT support - made by the third party.

Access to specialist expertise

Second, in a competitive marketplace where specialist resources come at a premium, outsourcing provides access to specialist, highly-experienced individuals critical to the effective day-to-day operation of a fund. More importantly, the service provider assumes responsibility for the recruitment, training and development of these skilled people, who the fund manager can simply call on as and when they are needed.

Cost savings and efficiencies

Third, at a time when fund managers are acutely aware of the importance of keeping administrative costs to a minimum, outsourcing will not only ensure a more stable cost base, but also makes it inherently easier to create a structure of independent, but co-ordinated, controls - which in turn can help to deliver cost savings and efficiencies. Also, choosing an independent fund administrator means the fund manager can meet the best-practice standards imposed by its limited partner investors and share the costs of their third-party administrator through its funds and across its client base.

Entering new jurisdictions with reliable partners

Finally, outsourcing can dramatically extend a fund manager's scope and reach, helping it to enter core fund jurisdictions without relocating key personnel or switching operational resources from one region to another. A fund administrator working in multiple jurisdictions gives the fund manager a competitive advantage in terms of understanding relevant laws and regulations, as well as what constitutes best practice in financial reporting and structure administration.

Outsourcing in action

One of the most important features of outsourcing is that there's really no 'one-size-fits-all approach'. Our clients appreciate that we offer a menu of operational and admin services (including company secretarial support, accounting, transfer agency middle office) which allows them to 'dial up' or 'dial down' based on their current priorities. Over the last few years, more of our larger corporate clients want us to provide a comprehensive middle and back-office service. This gives them the ability to focus their attention on launching new investments, without having to also worry about resourcing implications and regulatory (and jurisdictional) requirements. They know we will take care of that aspect for them.

Another area where our clients value the support of a third-party provider is in terms of security. Since the pandemic forced more people to work from home, investment companies - and their clients - have faced near-constant attacks from fraudsters and hackers. Our clients feel reassured that our people are highly trained and our systems are fully up-to-date to fight off these cyber-attacks on their behalf, preventing them from suffering financial or reputational losses.

Making outsourcing work for you

You could be forgiven for believing that outsourcing means relinquishing control over important aspects of the business. But as investment management in different jurisdictions has become increasingly complex, more fund managers - and their intermediaries - recognise that in fact, outsourcing gives the fund manager far greater control than they might have had previously, as well as giving them the solid platform they need to make business expansionary decisions.

Also, fund administration comes with so many hidden costs (in terms of recruitment, training, retention, technology considerations, to name a handful), that an outsourcing arrangement is really the most cost-effective way of removing pain points and ensuring the fund manager can focus enough time and effort on its core investment management activities.

But the real advantage of outsourcing is that it offers fund management companies clarity and certainty. It allows them to extend their operational resources seamlessly, while maintaining service continuity and stability, and

demonstrates the belief that the business - and its investor base - deserves the very best people, controls and technology.