

What is Fund Administration & Why consider outsourcing it?



Fund administration is usually a third-party independent function carrying out middle and back-office activities of Funds. A Fund Administrator is usually acting as an intermediary between the Fund Manager and the Investors, protecting their interests by independently verifying the assets and valuations of a Fund.

A Fund Administrator's usual core activities include Accounting, Net Asset Value (NAV) computations, Transfer Agency (i.e. investor communications and facilitation of investors transactions) and Regulatory and Financial Reporting. The ever-changing regulatory landscape, increasing investors' demand for transparency and high-quality levels of service along with the rapidly evolving use of technology and increased operational risks gives rise to the dilemma of whether the fund administration function should be outsourced or not.

One can argue that the generic rationale for outsourcing this function is that it allows fund managers the freedom to focus on their core functions being portfolio management as well as meeting overall expectations of the Funds under their management and their investors. There are however additional strategic benefits and cost considerations for outsourcing the fund administration function as analyzed below.

Technology

The increasing need for a more transparent and granular information necessitates Fund Managers to upgrade their technology stack. Such technology ranges from specialized and sophisticated fund administration software and investors' screening engines that can support automations and enhanced reporting capabilities on both accounting/NAV computations and transfer agency processes respectively. Such solutions can further accommodate complex investment structures and minimize errors by substantially reducing manual processes. The cost to individual Fund Managers for implementing and maintaining such systems can be expensive

and overwhelming. Partnering with a Fund Administrator who invests in such platforms allows Fund Managers access to such advanced solutions while avoiding most of the cost and time-commitment needed for an in-house implementation instead.

Processes

The popularity of third-party administrators has been largely driven by investors growing in sophistication and requiring more from Fund Managers in terms of tighter processes and controls. The chosen Fund Administrator should have amongst others documented and tested Business Continuity Plans, Disaster Recovery and GDPR policies which lays out the processes for safe access to clients' data and continuity of service in instances of disruptive events.

People

Having the right people for handling communications, maintaining relationships, and processing the Fund's main back-office and middle-office activities is essential for undertaking the process of fund administration successfully. Having highly specialized teams of qualified staff such as qualified accountants, lawyers and Regulator's certified practitioners with extensive knowledge and a wealth of experience around the main fund administration functions is paramount. Armed with the power of industry knowledge, Fund Administrators should be viewed as an extension of the Fund Manager's team and a strategic partner. Concluding, the merits for outsourcing the fund administration function are clear. Prior to making however this decision, Fund Managers must carefully consider all angles against their individual needs since certain functions of fund administration can be retained in-house while others can be outsourced to the Fund Administrator of choice. Whether due to cost, increased regulation or transparency needs, the norm of outsourcing the fund administration function is here to stay.

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