

The New Fundamentals of Fund Administration

Paul Everitt, Managing Director of Fund Corporation, a leading Guernsey-based Fund Administration service provider, explains why, in 2010 and beyond, administration must not remain a secondary consideration for ambitious investment managers.

Until the credit crunch and global recession, alternative funds had a largely unchecked wave of success and growth. As we all know the last two years has seen a rather dramatic change to that trend. While there are strong reasons to be fearful of a secondary, perhaps post-election, dip, it's not a bad time to be analysing some of the consequences and their impact on the choices facing fund managers and the industry at large.

One of the positive things to emerge from any recession is the process of re-assessment. When success comes after success it is easy to plough on regardless without any real need to consider the absolute appropriateness of how things are working. When we hit a wall as we did 18 months ago, we not only have the opportunity to reflect, we have to, so that we can stabilise what we have and then plan for the future.

The X Factors

In the alternative funds industry, this reassessment is impacted by three further factors: increased regulation, increased HMRC focus and the difficulty of raising capital. All these factors coming together mean that many fund managers are looking at their fund administration relationships and

looking for service providers who do more than "sell a product".

They are looking for offshore advisers who will ensure the robustness of their solution (e.g. for corporate governance and tax purposes); who will challenge the investment and administrative processes to ensure they are appropriate; who will advise on appropriate local advisers; who will help make introductions to possible sources of capital. This concept of an efficient, involved and durable fund administration relationship is not bound by specific fund structures, investment asset classes or investor make-up. The historical 'back-office' has now itself become an integral element within a fund's overarching strategy.

Risk management is a core element within the new administration model. Now high on the agenda, appropriate corporate governance must, and will, drive strategic thought processes.

Outsourcing solutions

For many fund managers who wish to reap the benefits of a durable administration function in an environment of increasing regulatory pressure and investor demands, it is necessary to review existing administrative frameworks. For the majority, organisational restructuring

or retraining can be costly and time consuming and therefore not an option. The decision to outsource therefore is usually based on simple practicality, however outsourcing provides more far reaching rewards.

Appointing a specialist third-party provider, who is able to provide personable, strategic and bespoke solutions that place investor needs firmly at the core, not only frees up valuable internal resource, but also provides real benefits for investors. Enhanced reporting, industry insight and intelligence and regulatory expertise all are selling points for fund managers. Given this, managers, particularly on the back of the downturn, have started to look at the services provided by administration firms with more sincerity. Using a dedicated and independent third-party can rapidly and efficiently facilitate the application of best and compliant practice across simple and intricate fund structures. This is achieved, only by a specialist provider, through drawing on relevant experience and dedicated industry knowledge to meet the specific arrangements of each unique investment opportunity. There is also value in considering opting for a third-party provider that is situated and governed within a tax efficient, well-regulated offshore centre.

Choosing your partner

To cope with a faltering global market and fluctuating investor confidence, first and foremost, an administrator needs to have the industry knowledge and technical capability to deliver services that are both sophisticated and flexible, and which provide security to stakeholders involved. Nevertheless, much also rests on the administrator drawing together a bespoke solution, rather than relying on a generic, one-size-fits-all approach.

To this end, the initial meetings are an essential exercise in understanding the approach an administrator will take, and the manager must satisfy themselves that their chosen service provider has listened and will act according to the manager's unique needs.

Building on this, there needs to exist a strong relationship, or partnership between fund manager and administrator. A clear and frank dialogue must become a constant feature of the relationship between the entities, requiring a personable approach from the administrator and a premium placed on their own levels of responsiveness.

Additionally, owing to the intensive, and not always flattering, attention paid to offshore territories over the last few years, the location of your service provider is, today, an essential part of the decision making process. As international pressure placed on offshore finance centres is stepped up, so too are the international standards that jurisdictions, and by definition, their financial institutions, must meet. The bar has been raised, and failure to achieve the standards will reflect just as badly on the manager as on the service provider. To this end, it is difficult to underestimate the importance of choosing a



provider located in a stable and secure jurisdiction with a strong reputation for good governance and international cooperation.

Fund Corporation has recently provided administrative support to a newly launched residential property fund, the client's first fund. Given the pressure of it being the first fund to launch in an unstable environment, Fund Corporation was chosen because of its heritage in Guernsey and strong relationships held with

key stakeholders in the regulatory community i.e. the GFSC. FC successfully navigated the application through new guidelines and was the first to achieve declared fast track within ten days. For many, it should be critical to maintain a long-term, durable partnership an administrator partner. That is why we at Fund Corporation place a considerable premium on our ability to treat each client as a priority, and our emphasis on personal, tailored offshore service.