

CHOOSING THE RIGHT FUND ADMINISTRATOR FOR PRIVATE EQUITY

Why Experience Matters in
Outsourced Fund Administration

Artex

Capital
Solutions





Maybe it's time to consider outsourcing to a fund administrator?

These words are bound to send ripples through a private equity firm's middle and back office. Going from an in-house to a fully outsourced model is not a straightforward endeavor. It takes considerable planning and effort, straining internal resources.



IT DOESN'T NEED TO BE A DAUNTING PROPOSITION

In most cases, the need for outsourcing is a positive sign that the business has grown. Moving from in-house to a fully outsourced model can significantly streamline operations, enhance efficiency, and allow private equity firms to focus on front-of-house efforts. Because of this, outsourcing fund administration services has become a strategic imperative for General Partners (GPs) seeking to streamline operations, enhance efficiency, and optimize resource allocation.

In a time of increasing regulatory scrutiny and growing demand for more sophisticated financial products, the pressure on investment firms to maintain meticulous records and meet compliance standards is growing. By outsourcing, firms can avoid several obstacles to growth, such as capacity limitations, technology costs, and scalability concerns. To make the transition from in-house to fully outsourced as seamless as possible, it is important to choose the right partner from the start — one with a disciplined conversion process and who takes full ownership of deliverables and timelines.

THE GROWING DEMAND FOR EFFICIENCY IN PRIVATE EQUITY FUND MANAGEMENT

In this hyper-competitive market, every advantage counts. Seasoned GPs seek to identify new ways to improve operational effectiveness and their investors' experience. There are various drivers that start the conversation about changing to an outsourced model.

- 1. Growth:** The decision to explore a fully outsourced fund administration model often reflects a fund firm's evolving needs. As the GP outgrows its internal infrastructure, it increasingly relies on the expertise, systems, and processes a reputable fund administrator can provide.
- 2. LP Expectations:** Limited partners (LPs) play a significant role in the decision to outsource fund administration and, in many instances, expect to see a top-tier provider with institutional-grade capabilities, in particular, the ability to produce statements aligned with the Institutional Limited Partners Association (ILPA) requirements.
- 3. Technology Gaps:** As managing fund operations becomes more complex, the GP recognizes the need for enhanced automation and reporting.
- 4. Strategy and Fund Structure Complexity:** As the investment industry has matured, strategies have become more intricate, requiring technology, reporting, and personnel to adapt to meet nuanced demands. Fund administrators, with their exposure to a wide variety of investment strategies and fund structures, have become valuable resources for internal teams, helping them navigate these complexities.
- 5. Regulatory Development:** As the industry evolves, so does the regulatory landscape with an increasingly complex web of anti-money laundering regulations, securities rules, SEC private advisor regulations, and data privacy regulations.
- 6. Cost Savings:** Outsourcing fund administration allows fund managers to remain open to opportunities while reducing compliance risks and operational costs. Significant cost savings can be found in reduced internal staffing needs, decreased reliance on expensive internal technology, lower recruitment costs, and improved regulatory compliance.





WHY EXPERIENCE MATTERS

Transitioning to an outsourced model involves transferring vast amounts of sensitive and critical data. This transfer must be seamless to avoid operational disruptions, maintain investor confidence, and ensure regulatory compliance, placing increased focus on engaging a trusted, experienced fund administration partner to lead the migration.

No two private equity firms are alike. An experienced fund administrator understands this and offers customized solutions tailored to each client's specific needs. A fund administrator experienced in fund conversions brings essential expertise and established protocols to manage the intricate details of data transfers efficiently and accurately. Their proven processes include detailed project plans, timelines, and milestones that help monitor progress and address issues promptly. They leverage state-of-the-art technology, such as secure data transmission methods, advanced encryption, and robust data validation tools, to ensure the secure and reliable transfer of data.

Data mapping and reconciliation are critical components of a successful data transfer. Experienced teams conduct comprehensive mapping exercises to ensure all data elements are correctly aligned between the old and new systems. They also perform reconciliation procedures to verify that all data has been accurately transferred. And if an issue does arise, experienced fund administration teams have contingency plans to address potential issues such as data loss or file corruption.

Effective communication is essential during the transition process. The fund administrator should establish regular check-ins with the GP's team to provide updates, identify steps that are behind schedule and address concerns to support a smooth transition. Partnering with a fund administrator experienced in complex fund and data conversions is essential for a successful experience.

CASE STUDY

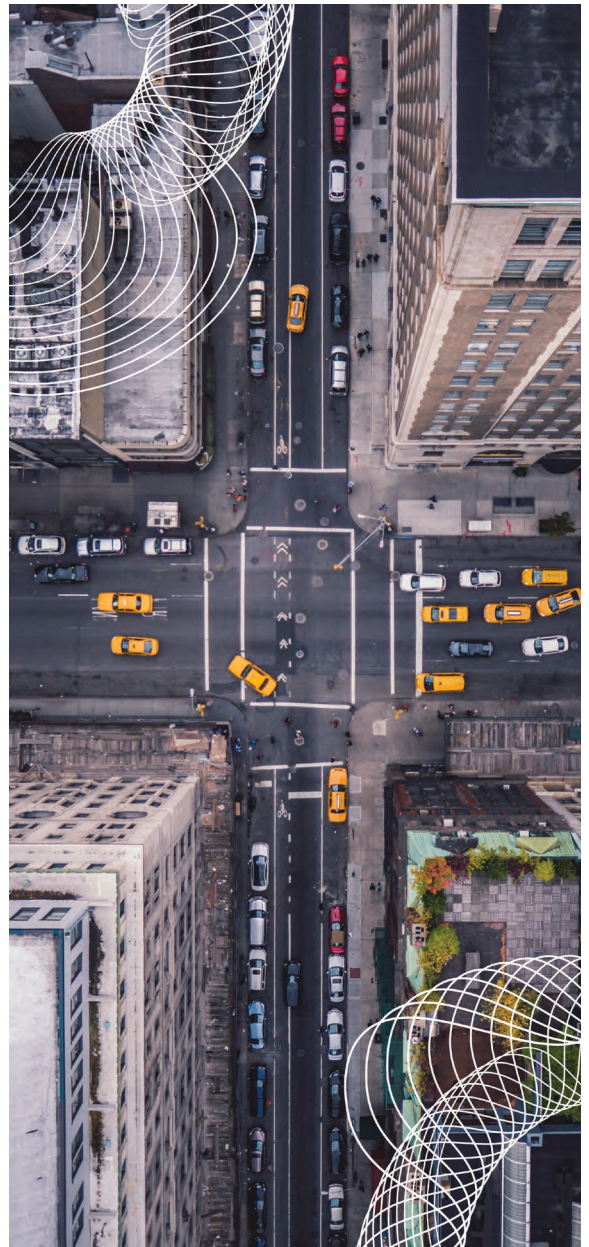
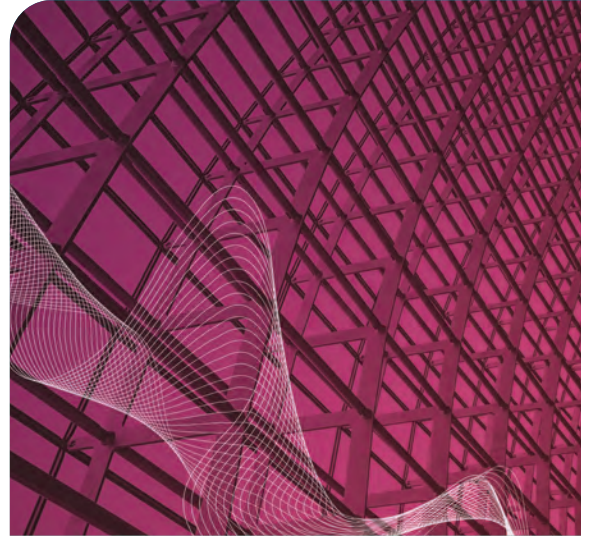
SUCCESSFUL ONBOARDING OF ESTABLISHED GP WITH OVER 50 FUNDS

A private equity firm that has been in operation for over a decade, has spent significant capital building a robust fund operations team to oversee nearly fifty funds and multiple billions in assets under management. The firm was recently acquired by another asset manager, and soon after, it was decided that the acquired firm's funds would be outsourced to a fund administrator for various reasons. Having an established and positive relationship with Artex, the asset manager suggested the acquired firm explore outsourcing its fund administration. After extensive due diligence with numerous conversations, a thorough systems review, and a detailed analysis of the requirements, the private equity firm chose to engage Artex.

Implementation:

The private equity firm and Artex teams immediately got to work, mapping out a project plan, identifying deliverables, and setting a timeline. This required collaboration across various jurisdictions and teams, including the private equity, compliance, investor services, and business operations teams. Given the volume of funds being transferred, the team adopted a phased onboarding approach, starting with a limited number of funds. Once these initial funds were onboarded to Artex's platform, two new funds were launched, and the remaining legacy funds were phased in over the next 9 months. Key milestones were identified, and efficiencies were achieved by replicating the process for the remaining funds, paving the way for an expedited conversion.

One of the most challenging aspects of the transfer was data migration. The data, which included financial and non-financial information, historical accounting records, and investor contact details, was received in various formats. This necessitated different file transfer methods to ensure meticulous integration into Artex's systems. Rigorous testing, validation, integrity checks, and reconciliations were performed at each stage of the process, which was crucial to ensuring accurate calculations of fund ratios and performance metrics moving forward.



Additionally, the private equity firm needed bespoke investor reporting for quarterly statements and distribution notifications. The Artex team responded by developing tailored solutions to meet their needs. They established delivery standards and reporting requirements, ensuring all information was presented in the desired formats. This customization included creating detailed, easy-to-understand reports that provided investors with clear insights into their investments, fostering transparency and trust.

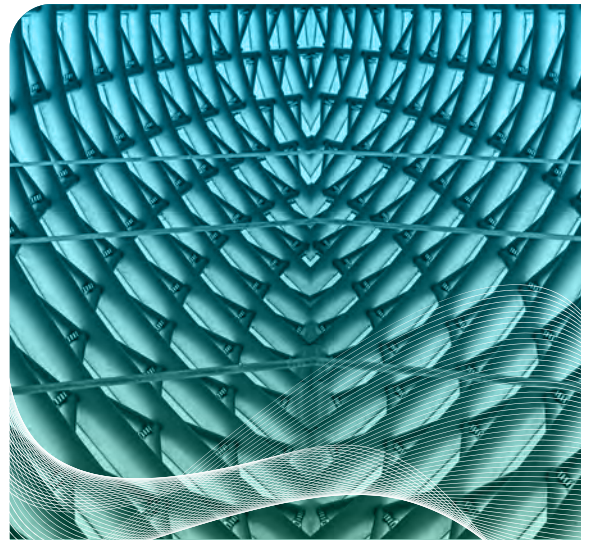
Clear communication was critical to the project's success. Artex took the lead by conducting weekly calls, tracking status reports, and ensuring clear expectations for both sides. They identified key point people responsible for agreeing on outputs, approval processes, and specifications for each deliverable. Full transparency in project management was prioritized, with regular updates and open channels for feedback, ensuring that everyone remained aligned and informed throughout the project's progression.

Outcome:

Artex successfully transferred over fifty funds within the 9-month target deadline. This achievement was significant given the volume of funds, investors, portfolio investments, and varied data file formats required for the transfer.

During onboarding, Artex identified opportunities to bring added value to fund operations, including advising on best practice industry standard accounting principles, adding efficiency with automation of fee calculations, and also assisting the client in completing all fund audits in a timely manner. Artex's financial statement and auditor communications expertise proved invaluable during the audit process.

Overall, the successful migration has enabled the client to allocate resources to their core areas of focus, which are investment management, capital raising, and investor relations.



DISPELLING COMMON MISCONCEPTIONS

Misconceptions about outsourcing fund administration have long deterred GPs from leveraging this powerful strategy. Addressing these myths can help minimize missed opportunities. Here are some of the most common misconceptions:

- 1. Increases Risk and Decreases Control:** Many general partners fear losing control when outsourcing. However, firms maintain substantial control by defining task parameters and access levels. Outsourcing partners operate in secure, monitored environments with independent audits to ensure safety and reliability.
- 2. Compromises Data Security:** Contrary to popular belief, third-party fund administrators often offer superior data and cybersecurity. They utilize the latest technology and stay current with emerging trends and regulatory changes. Their expertise and transparency enhance data protection and alleviate investors' concerns.
- 3. It Is Too Expensive:** While an in-house team might initially appear cost-effective, recruiting, training, and onboarding expenses can quickly accumulate. Outsourcing can be more cost-effective, providing a larger pool of experienced resources and reducing the risk of employee turnover. Additionally, firms gain access to advanced technology that would be expensive to implement and maintain internally. It is also commonplace for the majority of the fund administration expenses to be paid for by the funds and not the general partner. Investors are generally supportive of this practice because of the independence that the fund administrator offers.
- 4. Inherent Risks to Cultural Alignment:** A well-selected outsourcing partner will align with your company's culture. Fund administrators can support your diverse goals and objectives, helping you remain agile and better equipped to meet investors' complex needs.

IN SUMMARY

Outsourcing fund administration can bring substantial benefits to private equity firms but also presents challenges, especially with data transfers. Selecting the right fund administrator is crucial to overcoming these challenges, as an experienced administrator offers proven processes, advanced technology, and regulatory expertise for a seamless transition. The decision to outsource is significant, impacting efficiency and transparency for both fund managers and investors. By carefully evaluating potential administrators based on experience, technological capabilities, regulatory knowledge, security measures, customization options, communication strategies, and cost, firms can make an informed choice that supports their long-term success. Partnering with a fund administrator dedicated to people, process, and technology, like Artex, is more important than ever in meeting growing reporting demands and ensuring transparency.





ABOUT ARTEX FUND SERVICES

At Artex Fund Services, part of Artex Capital Solutions, we're dedicated to delivering bespoke client services and solutions for both onshore and offshore funds. Our experienced and award-winning team is responsive to your needs and innovative in our approach.

Backed by Arthur J. Gallagher & Co., a Fortune 500 company, we administer hedge, private equity (PE), and insurance-linked securities (ILS) funds, as well as provide independent ILS valuation services through our experienced actuarial team.

ABOUT ARTEX

At Artex, we believe there is more to alternative risk management. As a trusted leader and provider of diverse (re)insurance and ILS solutions, our global team operates at the intersection of art and science — where creative thinking meets expertise and superior outcomes are made. That's how we're able to fully understand our clients' needs and deliver the most comprehensive solutions available.

Established in more than 35 domiciles internationally, we're here to help you make empowered decisions with confidence, reduce your total cost of risk, and improve your return on capital. At Artex, we believe in finding you a better way.

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