

Nimble fish thrive in fund administration pond.

‘Outsourcing’ and ‘consolidation’ are two words that are used fairly regularly whenever one reads about the fund administration business. However, this is nothing new...

As far back as four or five years ago, commentators were discussing the need for and relative merits of outsourcing if not all, then certainly at least the ‘back office’ services associated with fund administration. It was also argued that the smaller service providers in particular would need to outsource the valuation and accounting aspects of their work because of the increasing complexity of the funds under their administration, necessitating (too costly) investment in technology and expertise in order to be able to provide such services going forward. More recently, fund administrators, including the global players, are changing their service model by outsourcing to other locations within their own organisations, often to Asia, where it is believed that the technology and skilled personnel are more economical, thus improving profitability without negatively impacting on service levels.

Back in 2006, it was predicted that this scenario would result in the smaller firms within the industry being acquired by their larger competitors, and that even the larger organisations would be considering very seriously the benefits of combining with each other. Since then, the increase in consolidation within the fund administration space may lead one to conclude that there is a continual reduction in the number of firms providing fund administration services, ultimately leading to the likely demise of the smaller service providers. However, it should be noted that this perception does not necessarily represent reality, as such conditions actually present a number of opportunities for the more bespoke and niche fund administrators. It has been stated by observers from within the industry that the larger administrators no longer appear interested in the newer and smaller funds (that is those that are initially under US\$100m). Further, fund managers and investors are expecting a more customised and personal service from their administrator; something that, it is argued, the larger players are not able to provide. It is felt that the smaller providers are more nimble at being able to offer solutions of this nature to their clients. The larger providers would counter that this perceived higher level of service is actually simply due to the necessity to make up for a lack of technological capability within the smaller organisations. However, in practice the successful smaller fund administrators have made the necessary investment in market-leading technology.

The extensive use of outsourcing certain elements of the administrator’s service offering may well represent cost efficiencies for the organisation providing the fund administration services. However, often it is not so well received by the clients who chose that particular administrator, as at least some of the rationale for their original choice of administrator is seen to be eroded by such a change in the servicing model. Clients may see a loss of the personal service previously provided to them, a lack of cohesiveness and a disjointed delivery of overall service, resulting in a lowering

of the standards of service that they have grown accustomed to and expect.

Fund managers should be able to focus on their area of expertise, being the day-to-day management of the assets within their portfolios, and should not have to worry about non-core aspects of their funds’ operation; in particular the administration function. Many of these fund managers demand specific, and very differing, services from their service providers, and are not looking for a servicing model that itself dictates the way in which they are looked after. Some may see this as unnecessary and time consuming ‘hand-holding’, but the truth is it is often essential. Indeed, with recent events in the credit markets and the Madoff scandal, hedge fund managers are looking increasingly to independent fund administrators, particularly for newer, initially smaller funds, following requests from their investors, fund boards of directors and other service providers. Fund administration service providers need to establish strong, longstanding relationships with their clients, built on mutual trust in order ultimately to be successful. For example, the technology platforms are indeed important aspects of the service, but should be seen as only part of that service; it is the quality and dedication of the fund administrator’s team that remains the most important element – an excellent team, combined with a market leading system, proves a winning combination!

Legis Fund Services, which is part of the Legis Group, prides itself on the quality of the services provided to clients. We aim to be a service provider of choice, where proactive and dedicated client service is standard, ensuring that both client and regulatory needs are met and exceeded, whilst maintaining the highest standards, reputation and performance. We have over thirty years’ experience in servicing complex offshore structures, with a professionally qualified senior team, backed by a ‘what more can we do?’ philosophy. We also recognise the fundamental role of technology in the servicing of such structures, and to that end we commit approximately 15% of our operating expense budget to systems. Legis Group is not against the idea of merger and acquisition activity, as we are acquisitive ourselves, and we continue to seek strategic opportunities to expand our business, whether that be to enhance and increase our existing offshore presence, or to extend our jurisdictional reach.

We believe that what distinguishes fund administrators from each other are those that can provide consistently first class services to clients and those that remain flexible and nimble in meeting individual clients’ needs. Within the fund administration ocean, some of the bigger fish continue to eat up the smaller ones as well as taking on each other, but there is still plenty of room for those hungry faster-swimming nimble fish.

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