

# The New Normal: Outsourced Private Equity Administration

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Private equity continues to gain popularity among investors. According to Preqin the number of private equity funds seeking capital hit a record 1,908 funds at the beginning of Q2 2017.<sup>1</sup> We anticipate that number will continue to grow as investors seek alternatives to more traditional equity and fixed income investments. At UMB Fund Services (UMB), we see that demand reflected in our own business. At the end of 2016, UMB provided administration services for more than 323 private equity funds – an increase of more than 25 percent from 2015. Today we administer more than \$12.6 billion in private equity assets.<sup>2</sup>

## A Case for Outsourcing

As more institutional and retail investors take interest in private equity funds, the need for transparency and accountability increases as do the corresponding reporting requirements. Investors require detailed portfolio reporting and look through to underlying deals, and specific information included on quarterly capital statements, some may require ILPA standards. This level of reporting requires a great deal of administrative support and experience.

We are seeing an increase in the number of private equity managers who are outsourcing their back office administration to gain efficiencies, reduce risk and meet regulatory and compliance requirements. Given the various demands and complexities that managers face, many find that outsourcing allows them to spend more time focusing on the fund instead of administrative functions.

There are several benefits of outsourcing that managers should consider, including:

- **Gain efficiencies** as providing back-office services to complex fund structures and complex investment types are a strength of fund administrators;
- **Reduce risk** by benefitting from proven controls, processes and technologies that can be costly and time consuming to implement in their own shops;
- **Meet regulatory requirements** by staying ahead of the curve and responding quickly to evolving regulatory pressures;
- **Meet investor demand** by satisfying requests for independent fund and investor valuation.

Overall, the greatest benefits of allowing a third-party administrator to manage the administrative functions for a private equity fund are increased efficiency and reduced operational burden. In addition, experienced and highly trained personnel from the administrator can add tremendous value.

## Partnering for Success

There are still managers that are leery of outsourcing due to the perceived loss of control, lack of understanding about their product by the administrator or the need for transparency. Trust is the biggest hurdle for a manager to overcome. Each private equity fund is unique and each manager has built custom processes to support the complexity of their product. Those concerns are best addressed by partnering with an

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administrator who is willing to take the time to understand your fund and embrace your unique needs.

In making this decision, managers should conduct extensive due diligence to ensure that the administrator is reputable and has proven policies, procedures and controls in place to ensure all aspects of fund administration will be conducted

in accordance with the manager's expectations. Look for best-in-class infrastructure and technology, reputation and dependability.

Evaluate a service provider's commitment to service and the investor experience. In outsourcing administrative functions, a manager is entrusting an administrator with its most valuable resource – its investors. Managers should feel comfortable and confident in the investor experience at every touch point, be it on the phone, online or in written communications.

Some managers may be interested in the benefits of outsourcing, but given the unique nature of private equity information, they remain concerned about the conversion of

data dating back to the inception of the fund. At UMB, we have a team of expert professionals who understand the conversion process, coupled with technology that can seamlessly capture, map and import fund information, allowing for a smooth conversion.

**Key Administrative Services**

An experienced administrator can provide a wealth of services to private equity managers, including:

- Full back office administration
- Accounting
- Tax preparation, compliance and reporting
- Investor servicing
- Custody services<sup>3</sup>
- Product launches/conversions via turnkey solutions

Critical to all of this is the technology platform supporting each function – a key differentiator in the administrator space. Private equity funds are each unique and the technology supporting these funds needs to reflect their specific needs. Quality administrators in this space have technology that is customizable and tailored to manager needs while also evolving with the industry demand for electronic data.

Administrators should provide robust reporting and online access to fund information including portfolio-company and deal information, investor information and financial statements. Clients need real-time access to their deal and portfolio company information including detailed schedule of investments, performance information including IRR, TVPI, DPI, and RVPI, and since-inception transactional information and reporting. UMB’s proprietary system gives clients online access to view and generate reports as well as export information. Our system gives managers the quick access and efficient reporting they need.

At UMB, our focus remains on providing the highest quality client service. Our culture, service model and technology are all designed to support the unique needs of each client. We want our clients to feel prepared for the future and that requires managing through an often complex and challenging market environment. We are focused on leveraging our experience with complex structures and the evolving regulatory environment to assist and educate our clients in navigating through the complexities and finding real opportunities to help our clients grow today and into the future.



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*Jill oversees operations for the Alternative Investments division of UMB Fund Services. In this role, she provides leadership and oversight to all of the Company’s alternative investment client-servicing teams. Jill’s fund industry experience dates back to 1997. She joined UMB in 1999. Jill holds bachelor’s and master’s degrees in accounting, plus a minor in mathematics, from Weber State University in Ogden, Utah.*

<sup>1</sup>Prequin Quarterly Update Private Equity & Venture Capital Q1 2017

<sup>2</sup>As of December 31, 2016.

<sup>3</sup>Typically provided by an affiliated bank or broker-dealer.