



APEX E-BOOK

Four Reasons to Outsource Your Private Equity Fund Services



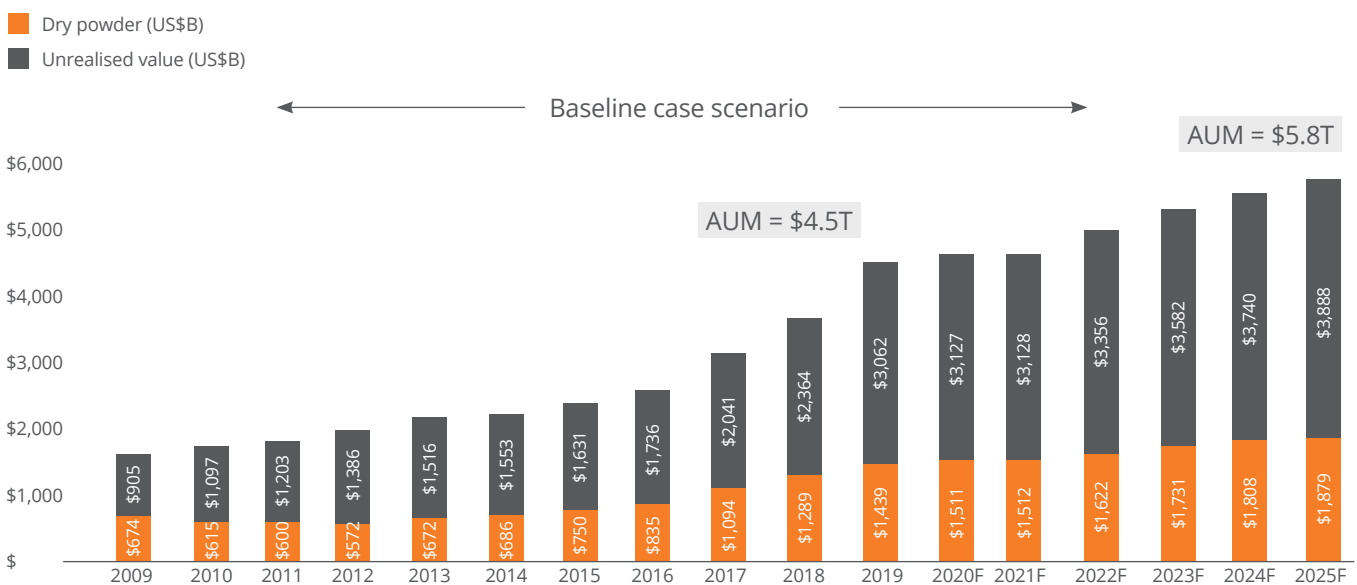


How private equity firms can remain competitive while also reducing costs.

From small beginnings, the private equity asset class has transformed itself over the last 50 years into one of the most dynamic parts of the financial services industry, often involved in some of the biggest and most innovative deals in recent decades. The industry has continued to expand, representing some \$4.7trn in assets under management as of June 2020, according to Deloitte¹. It is expected to continue its rapid growth to \$5.8trn by 2025².

Assets under management in private equity and dry powder ready to be deployed have built up as institutional investors of all types have been attracted by the compelling track record of strong, uncorrelated returns on offer in the low growth, low interest rate environment that has dominated since the Global Financial Crisis of 2008.

PE AUM expected to continue to grow after 2021



Source: Deloitte, "The growing private equity market", November 2020

¹<https://www2.deloitte.com/us/en/insights/industry/financial-services/private-equity-industry-forecast.html>

²<https://www2.deloitte.com/us/en/insights/industry/financial-services/private-equity-industry-forecast.html>



Against this backdrop, private equity strategies have generated median annualised net returns of 12.5% in the five years to June 2020³. With such returns on offer, it is easy to understand why more than 8,400 institutions globally now invest in private equity – up from 6,170 in 2015⁴. While the financial and economic disruption caused by the Covid-19 pandemic had an impact on the number of deals completed in 2020, the demand for private equity going forward remains strong. Indeed, some 89% of investors are willing to commit as much or more capital to the asset class in 2021 as they did in 2020, according to Preqin⁵.

This trend is also dovetailing with many companies opting to stay private for longer rather than listing, including some of the biggest names in growth industries, such as technology, opening up new opportunities for private equity financing.

Nevertheless, as the asset class develops and becomes a more established part of the investment industry, it is coming under greater scrutiny from its investors and regulators. Furthermore, greater competition in this growing market is putting pressure on fees and forcing private equity firms to look for more efficient ways to manage their funds and portfolios in a bid to cut costs.

Increasingly, C-suite executives at private equity firms are seeing the use of new technologies to support their business is at a cost few can individually support – however, outsourcing presents both a solution and an opportunity to reduce costs and to add value to their operations. As such, a growing number of third parties have emerged over the years to meet this demand, offering services to help improve operational efficiency and excellence. Third-party service providers allow private equity firms to offload some of the operational burden and concentrate on what they do best: generating healthy returns for their investments.

Scaling-up

As institutional investors look to increase their allocations to private equity strategies, many firms will see considerable inflows and mandate wins. In such circumstances, firms need the ability to scale-up with ease, while also managing costs. Outsourcing can be a compelling argument for firms to be instantly scalable and yet manage costs with the efficiencies gained by using a third-party administrator where systems and resources are always available.

Effective outsourcing of administration functions can be developed for the manager of a small team just as effectively as they can for a manager employing hundreds of staff. Outsourcing can also alleviate the burden placed on in-house systems and prevent private equity managers from becoming overwhelmed by new subscriptions, particularly so for smaller firms. While there has been a reluctance for firms to cede control of some of their operations to third-party service providers – given they are ultimately responsible for governance and performance – the freeing-up of time and resource can allow managers to focus on relationships with their clients and growing returns.

The increasing demands of a firm's Limited Partners is another area where a service provider can help. As reporting requirements have increased in recent years, so has the disclosure burden on alternative investment firms. For example, the rising demand for environmental, social and governance (ESG) investing has seen an increase in flow into new strategies in the space and has increased scrutiny of existing funds' credentials. As such, ESG reporting has become essential for private equity funds and an additional service that managers are expected to provide.

This is just one area where partnering with a company with dedicated rating, advisory and reporting services can help you adapt to the rapidly emerging trend of sustainable finance. Additionally, as the appeal of the asset class increases around the world, we have found that private equity firms are increasingly looking for service providers to help them open up new markets and offer a range of international structures that meet their investors' needs. As such, a service provider with experience of operating in multiple jurisdictions – and with people on the ground locally – can help you meet your regulatory and legal requirements wherever the investor is based.

³<https://www.preqin.com/insights/research/reports/alternatives-in-2021>

⁴<https://www.preqin.com/insights/global-reports/2020-preqin-global-private-equity-venture-capital-report>

⁵<https://www.preqin.com/insights/research/reports/alternatives-in-2021>

The four drivers of outsourcing

Outsourcing continues to be a big driver of growth, as asset managers increasingly experience greater complexity and heightened compliance requirements with outsourcing being the only solution to managing efficiently. Along with the need of end investors to have a third party sitting between themselves and the fund manager, to provide greater transparency, operational governance and ESG practices, outsourcing seems likely to continue to be the solution of choice.



Resource

Resource allows managers to focus on performance and strategy, while benefiting from third-party oversight and experienced industry experts. This enables managers to focus on their firm's core value-added strategies and communications with investors without being distracted by functional day-to-day operational requirements. Notably, building an experienced internal operations team can be costly, time-consuming and difficult in terms of staff turnover. A provider with staff placed locally can deploy specialists to work directly with and support the internal team.



Technology

Technology integration and expertise is an important part of fund administration today. Three technology capabilities have become acutely more important to GPs when working with external administrators. First, data conveyance – the ability to quickly and accurately move data between multiple platforms. Second, enhanced cybersecurity, to protect sensitive data from more sophisticated fraudulent attacks. Lastly, access to a seamless digital portal that can easily digitize paper-based processes and provide oversight control in a visually intuitive way. A third-party provider can also offer a greater variety and choice 'best in class' fund accounting software at affordable prices given the number of clients they represent.

From our experience having serviced the investment management industry and the private equity sector as an administrator for many years, we have found the appetite for outsourcing of fund administration to be influenced by four main drivers:

- Resource
- Regulation
- Technology
- Investor Scrutiny



Regulation

The second driver, 'regulation', means that firms can have a dedicated partner who spends time working directly with regulators and understands the supervisory environment across multiple jurisdictions. This can ensure that private equity firms remain competitive and aware of any changes to the regime in advance, allowing them to adapt more easily and remain in full compliance at all times. Furthermore, a global fund administrator will have a strong and experienced regulatory team providing a global view of regulation, in addition to understanding local requirements and local relationships.



Investor Scrutiny

Finally, investor scrutiny means there is the additional security and confidence for investors provided by a third party. An external administrator, for example, can add an extra layer of oversight and make sure appropriate valuation and reporting practices are applied. Furthermore, an outsourced administrator can put dedicated teams in place to specialise in a plethora of other value added services over and above pure fund administration, including asset management reporting and customised reporting while leveraging experience from working with other clients.



Choosing the right partner

An administrator should provide the support and knowledge you require and provide a flexible services model that can adapt to the needs of your firm. Indeed, an administrator should become a valued business partner and an extension of your team: strengthening the investment proposition, enhancing oversight and transparency and creating the right environment for operational excellence.

There are important questions you should be asking when you choose an administrator:

- Does your administrator have a high turnover of staff that could impact your ability to grow your business?
- Has your administrator been recognised for client service levels?
- Does your administrator have private equity experience and expertise in the areas that matter to you?
- Does your administrator have the global presence to work across multiple jurisdictions?
- Will your administrator work closely with you to meet your growing needs?

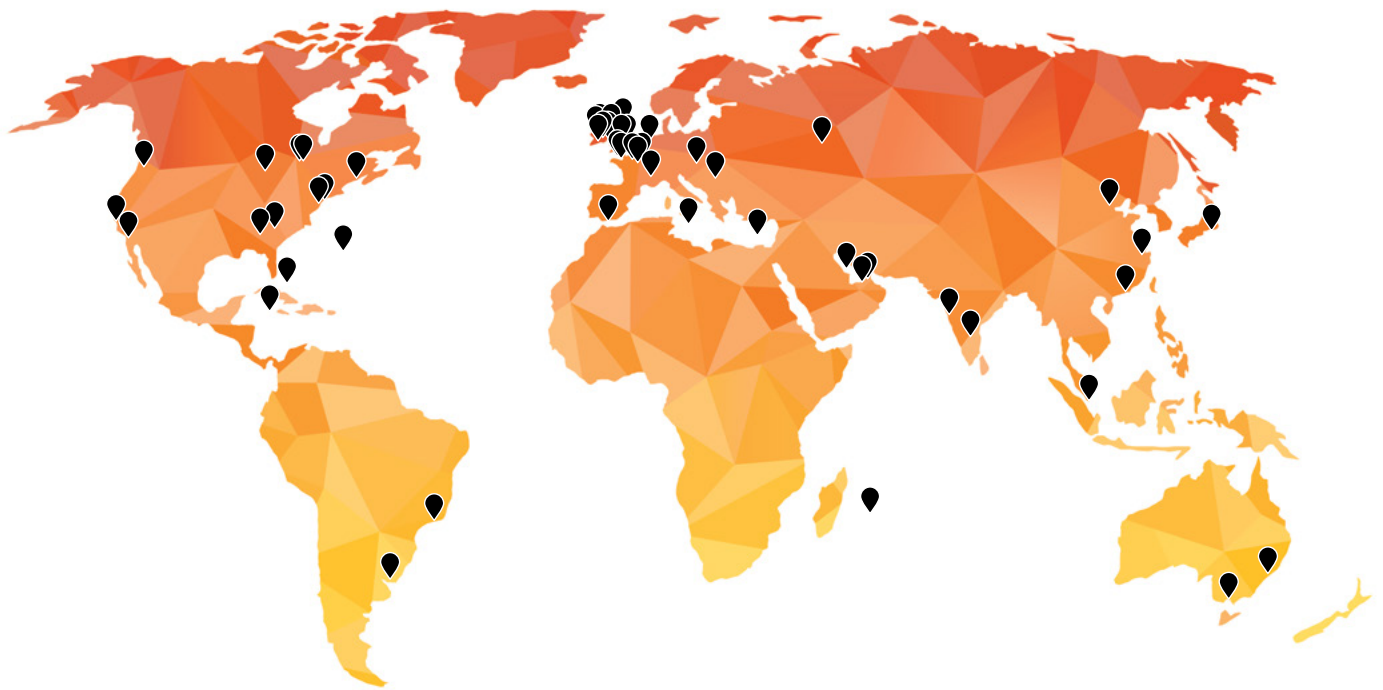
How we can help

We deliver a comprehensive range of services to asset managers, capital markets, private clients and family offices. We have continually improved and evolved our capabilities to offer a single-source solution through establishing the broadest range of products in the industry; including fund services, digital onboarding and bank accounts, depositary, custody and super ManCo services, business services including HR and Payroll and a pioneering ESG Ratings and Advisory service for private companies. Our outsourcing and co-sourcing solutions are tailored to operate effectively and efficiently, in harmony with your daily operations. With offices around the world, we stand ready to support any business need.

To learn more about what we can offer you, [talk to us](#).

Global Reach, Local Presence

Our Network of Offices



We have over **4,000** employees delivering tailored solutions to clients globally

Who we are

- Apex Group is a global financial services provider.
- Our solutions are trusted by clients to provide the operational and administrative foundations for their business.
- We are a pioneering new single-source operating model to resolve complexity and deliver efficiency.

What we do

- Our expert teams deliver clients with tailored solutions to meet their needs. We understand that no client is the same and therefore we treat each relationship individually to elevate our value as your partner.
- We deliver a broad range of financial solutions across the asset management, private clients and capital markets space.

Our purpose

- To be stewards of the financial services ecosystem and protect the assets of our clients at a time of increased regulation and complexity.
- To provide a unique single-source solution delivered by the best people in the industry - to streamline our clients' day-to-day activities and provide all the services they need under one roof.





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