

# Relieve the pressure

Outsourcing has changed considerably over the last 10 years and continues to evolve as managers face more external pressures. Alter Domus' **Anita Lyse** and **Alan Dundon** discuss current trends

A decade ago the fund administration industry was fragmented and without specialized systems, providing little incentive for managers to outsource. The period since has seen significant change in systems development, vertical layers of services and geographical integration. Many administrators can now offer a level of service that managers simply are unable to deliver in-house. Investor demands for greater transparency have also increased with ever more pre-investment due diligence checks. This is leading to significant additional investment spending by managers to demonstrate high-end institutional quality administration as part of their fundraising process. Anita Lyse, head of real estate, and Alan Dundon, global relationship leader, of fund services firm Alter Domus discuss the global outsourcing market.

**PERE:** *What are the demand drivers leading managers to outsource ever more work to third-party service providers?*

**Alan Dundon:** Regulation, especially in Europe, although we're also seeing it in the US and Asia. As the regulatory environment grows more complex, it becomes an administrative burden. This is driving more managers to outsource.

**Anita Lyse:** Managers have access to a better pool of third-party partners today, service providers are more specialized and as a result managers have greater confidence in outsourcing. For real estate managers, specialism is important because it is such a local business and support is required in multiple locations.

**AD:** The requirement for better technology and data management services is a factor too. Managers require vast amounts of data to explain investment performance. This is a complex task and outsourcing to a third party with the people, systems and processes to do that can relieve some of the pressures. Clients are investing a lot on front-end technology to analyze performance and make sensible investment decisions, but they are looking to third parties to help manage the data and do the number crunching.



**Dundon:** marked shift toward outsourcing middle office functions

## To outsource, or not to outsource?

Key questions managers need to consider

1. What is unique to your business and generates a competitive advantage, and can you maintain this in an outsource model?
2. Which tasks generate the most volume of work? Of these tasks, which are considered strategic versus outsourceable?
3. Would you benefit from the process, operating model and system capability of a third party?
4. Do you have business, and the need for local operations, in multiple locations?
5. Do you have the capacity and support to continue to invest in in-house administrative resources, and in-house and third-party software and systems infrastructure?

Source: Alter Domus

Managers are using data to differentiate themselves in the market and investors demand it to understand managers' performance when making decisions on reinvesting. This need is greater than in the past.

**AL:** First-time and smaller managers need to consider if making heavy investments in technology is cost efficient or if they're better off relying on the systems and infrastructure of a service provider. For the majority, it's the latter. Even larger managers that have invested heavily in in-house technology are relying to some extent on service providers too. Many are finding existing systems are becoming obsolete and they want advice on next steps in their tech journey. Do they invest again with a long implementation phase or do they go back to leveraging off the technology of a service provider?

**PERE:** *Has outsourcing moved on from simply supporting managers' 'back office' functions?*

**AD:** The core functions outsourced remain accounting, reporting, tax and regulation compliance, but there's been a marked shift in the last three or four years to outsourcing middle-office and value-add type functions that require a level of specialism from a third-party partner. Treasury management,



**Lyse:** service providers today are more specialized

transaction support, performance calculations and carry scheme administration are good examples of this. For now, it's primarily back office with growth in middle office support.

**AL:** A key reason for the shift to more outsourcing up the value chain is the greater availability of more specialist providers in the market offering managers knowledge and support in particular areas. The new external

pressures we've highlighted on finance and operations teams means these parts of the investment and fund management business are getting larger in scale to the point where they're often bigger than deal teams. That generates discussions at board level about where time is being spent and what the business should be focusing on. Many spend too much time on finance functions at the expense of asset selection. Those discussions often culminate in deciding to outsource not only back office, but middle office functions.

**PERE:** *Is the evolution in outsourcing geographically uniform?*

**AD:** There are three very different stories. Outsourcing in Europe is more developed. There's logic to that. In the EU there are 27 countries, each with their own national regulations, practices and cultures. That's challenging for managers investing across the region. There is almost no choice but to outsource. In the US, there are slight differences between states, but language and laws are basically the same, so it's no surprise there's less outsourcing, but it's accelerating because of increased regulation, investor demands and the need to understand performance. Many managers in the US are at a size where they need to start looking to third-party partners. Asia is smaller scale; historically managers have had access to cheaper resources and could do a lot in-house. Outsourcing was the expensive option. But some bigger players in the

region are looking for the knowledge and the expertise of the outsourcer. Asia will continue to evolve.

**AL:** Outsourcing levels among real estate managers in Europe are around 70 percent compared to 30 percent in the US, but that is expected to increase to 45-50 percent in the next couple of years. A challenge we might see in the US is many large managers looking to outsource at the same time in a market with a limited number of good providers. There's going to be capacity issues at some point.

**PERE:** *What does a good partnership between manager and provider look like?*

**AD:** There's no one-size-fits-all approach. It's about identifying each client's needs and building a partnership model around that. CFOs and COOs are now very proactive at mapping out what they need to deliver to their investment teams, investors and regulators, and what can be provided through outsourced relationships or handled internally. Ideally, the service provider will have a single point of contact at the manager.

**AL:** Clients want to ensure their provider understands their specific asset class at all levels. They want a vertically integrated model where a single provider has the expertise, knowledge and specialisms to provide a service throughout the value chain and across multiple locations. Breadth and depth of service is required. Smaller managers and startups with ambitions to grow will want a partner that has the capacity to grow and build their business with them.

**AD:** It's also important for manager and provider to agree what their relationship will look like in the future. Service providers spend a lot of time with CFOs understanding the direction they're going in. The partnership is about forming a strategic alignment for the future, not just the present.

**AL:** Cultural alignment and chemistry are the key words. It's about whether the parties see themselves working together long term as true and equal partners and not simply as client and service provider. □

## Opportunities and challenges

Managers should first weigh up the value-add of outsourcing

Opportunities	Challenges
<ul style="list-style-type: none"> <li>▪ Focus on core and strategic activity</li> <li>▪ Leverage the know-how, operational and technology model of the provider</li> <li>▪ Facilitate rapid expansion in new markets where the provider is present</li> <li>▪ Demonstrate independence of calculations to investors</li> </ul>	<ul style="list-style-type: none"> <li>▪ Finding the right partner that fits best with the current and future requirements of the business</li> <li>▪ Aligning all relevant parties in-house on the need for, and benefits of outsourcing</li> </ul>

Source: Alter Domus