

PRIVATE EQUITY FUND ADMINISTRATION

– Considerations in selection of your administrator

Launching a new fund or investment structure can be an exciting but daunting experience. The right choice of partner to help set up and service the structure can make all the difference.

Two key early decisions for a fund manager are

1. Choice of adviser in the set up and structuring
2. Service providers.

In respect of adviser selection, depending on the skills and experience the manager brings, the range is wide and so is the difference in cost. A manager needs to be clear about what he or she is trying to achieve before one locks in an adviser.

For private equity and structured investment vehicles, no service provider has more impact on the operation of the fund than the administrator.

A good administrator will provide the manager and fund with a solid platform to run the vehicle, help attract and retain limited partners (LPs), and comply with an increasingly complex regulatory regime. Outsourcing the middle and back-office also gives managers the bandwidth to get out and make a success of the business.

Marbury specialises in knitting together the set-up and launch of new funds with its ongoing expertise in administration and compliance management. Here are a few things we focus on, because they make a huge difference to the manager and the LPs.

Build a relationship

Find an administrator which understands the commercial side of the business.

As a manager you will be speaking with your administrator often, whether on the onboarding of LPs, making capital calls, or re-valuations. Too often in the administration industry, even where there has been good pre-launch service, the relationship-end of administration is passed down, possibly crammed down to less qualified staff, or perhaps allocated to staff who aren't able to discuss more technical matters or don't have the authority to do so.

We strive to be an administrator that values the relationship by ensuring that your point of contact is someone who understands the fund, and the manager's needs, and most importantly is capable and has the authority to help. Anyone can check boxes, but with private equity or structured investments, having good lines of communication and understanding are essential.

Responsiveness

One can go on about skill and experience, which are clearly important (and dealt with below), but alongside the building of a relationship that works, responsiveness is right up there with the most important qualities that should be demanded by managers. A responsive administrator will help to defuse inevitable tensions that might arise over onboarding, LP KYC, an unresponsive bank, or an urgent capital call, for example.

Invariably managers will get clear indications in their early interactions with their prospective administrator whether the administrator has the bandwidth and the internal culture to deal with the inevitable urgency of service that is required at times. Many administrators demand strict adherence to their service level agreements in the face of unexpected fast moving and clearly urgent actions that require action. Inaction and delay is unprofessional and undermines the reputation and credibility of the fund and its manager.

Flexibility and Solutions: A dose of *Dynamism*

One has to bear in mind that the very thing that gives credibility to the fund in the form of third party administration – a rules-based structure that provides controls, oversight and regulation to the fund – often leads to friction even where the administrator is able to demonstrate an understanding of the business they are servicing. It is imperative that all parties respect the overriding benefit that the formalities contained in the offering documents and the administrators operating procedures bring, even if at times they can seem overbearing. They provide certainty, structure, security, and protect the fund's integrity.

There is no substitute for a solutions-based responsive relationship with a dynamic provider. *An administrator that is flexible when the situation clearly demands it is worth its weight in gold.*

Functions and fitness-for-purpose

Today's fund administration is very different to what was expected even five years ago. Expected functions often include:

- Advice on set up (often essential to effective administration)
- Document review
- Bank account management
- Onboarding (KYC and subscription)
- Compliance functions (Anti-Money Laundering officers) and compliance reviews
- FATCA & CRS expertise
- Fund Accounting and SPV accounting
- Corporate services
- Corporate Governance
- Registration and Transfer Services
- Paying Agency

Remember – as a manager, you are outsourcing functions that are immensely important to the proper functioning of the fund and reflect directly on the reputation and credibility of the manager. Meet the people you will be working with, get comfortable that they know their subject and are capable of doing the job.

Avoid Generalists

As a rule of thumb (and there are sure to be exceptions) an administrator which holds out that it caters for any kind of fund you can throw at them, are “jacks of all, masters of none”. Structured investments and PE are very different from hedge funds. They require professionals skilled in thinking out of the box and, honestly, show us a PE or structured fund that can run wholly on a system like Paxus or Advent.

Sure, the biggest of players are probably exceptions as they will have spent time and resources to build both functions. Using one of the big administrators, however, is bound to break the golden rule: “there is no substitute for a solutions-based responsive relationship with a dynamic provider”.

Bottom line: *Choose a provider that has a laser focus on its strengths and is clear about deliverables.*

The under-appreciated world of proper Governance: Compliance with the law and offering documents

It would shock most fund managers to know that many administrators do not cover or merely pay lip service to covering critical company or partnership law requirements when providing their services. The waiver of a time limit, the re-valuation of an asset, making distributions - the list is endless – more often than not these actions require approval or some form of formality to be complete, or they may be invalid. Money may flow, LPs may be notified but critical enabling resolutions, register adjustments, documentation of contractual formalities need handling. Too often these are deemed secondary and are either not followed up on, or simply ignored.

If you want to run a fund to a proper compliant standard, and avoid any potentially massive but easy to make mistakes that reflect badly on the manager, or in the worst case scenario are not reversible without significant effort and cost (such as issuing securities without authorisation or failing to follow investment committee rules), make sure the administrator has the capability and knowledge to cover the functions, or use your lawyers on an ongoing basis.

Onboarding

It would be remiss not to add here, the indispensable role played by the onboarding team at administrators. Running up to launch, these people are the face of the fund. Gathering KYC, making anti-money laundering assessments, and ensuring the integrity of the fund are critical to the long term success of any manager. This area is becoming more complex and more demanding each year and having a dedicated, experienced, knowledgeable and personable team that can manage everything that is thrown at a fund by regulators and multiple anti-money laundering bodies, is literally priceless.

Finally, in summary:

- There is no substitute for a solutions-based responsive relationship with a dynamic provider
- Choose a provider that has a laser focus on its strengths and is clear about deliverables
- Make sure your administrator is completing all formalities required by law or under the terms of the offering: keep the fund's governance on track
- Onboarding: make sure the administrator has a dedicated, experienced, knowledgeable and personable team to service the process – it is complex and very rules-based

At Marbury we believe that we can exceed your expectations as a third party administrator, or the administrator of a structured investment. We hold ourselves to the standards we expect you to demand from us.

If you have any queries, or would like to know more about private equity fund administration or Marbury's Funds Services in general, please contact info@marburys.com or your usual Marbury adviser.