

The ART

Outsourcing fund administration is never accomplished at the press of a button. The process of onboarding the administrator requires genuine rigor to ensure nothing's lost in the handoff. Melanie Cohen and Christopher Trumbla of J.P. Morgan Private Equity Fund Services share their best practices for a smooth transition.

Even though debt markets continue to tighten, the amount of money being allocated to private equity continues to soar. In the first quarter of 2008, U.S. private equity firms raised \$58.5 billion, up nearly 32% from the first quarter of 2007, and European firms raised \$17 billion, up 24%¹. Coupled with the increasing complexity of investments, the burdens of managing and reporting on private equity portfolios can interfere with a fund manager's ability to maximize their earning potential.

Because of these issues, the prospect of outsourcing the role of private equity fund administration has proven to be an attractive alternative to going it alone to many in the private equity space. The willingness of general partners to outsource, along with the number of providers willing to accommodate them, has risen steadily over the past few years.

Many general partners are evaluating whether outsourcing their administration and operations makes sense. Some of the most common questions being asked to help identify this need are:

- Does the fund require further expertise and bench strength to accommodate current activity plus future plans?
- Does internal administration take attention away from the primary focus on investing funds wisely?
- Is the regulatory and tax environment changing so quickly that it's become extremely important to have processing partners that actively follow the market?

When the answer is 'yes' to any of the above, then typically it's time for a private equity fund to consider outsourcing its administration functions. This means thinking about the first and most important step in an outsourcing event: the onboarding process.

When looking for a partner to handle your private equity administration, it is important to understand their processes and experience, and that begins with their philosophy of onboarding.

The first key to achieving onboarding success is having a dedicated onboarding team. Acting within a private equity administration service provider, this team's sole focus is setting up every client so that they can service their needs efficiently for the life of the relationship.

Juggling Formats

Whenever a new fund is onboarded, the data itself can present many challenges. Oftentimes funds will store data in many different formats such as spreadsheets,

of Onboarding

databases and/or commercial general ledger (G/L) systems. Some funds are even keeping records in hardcopy format. As a result, bringing both financial and non-financial data from disparate sources into a new system can be a Herculean task. The obvious solution is to look for ways to remove the manual effort in order to develop best practices and create efficiencies. The direct result of implementing a proprietary technical solution from an established provider allows funds to enjoy increased accuracy, lower costs and shortened time to market. The most experienced providers can now successfully transfer data from the majority of their clients' funds to their in-house platforms in just a few weeks.

Mind the Template

From a technical perspective, a successful onboarding process begins with an onboarding template. Funds use it as a bridge to transport their data into their administrator's system. An effective template allows a client to organize their data into categories such as fund, contact, legal entity, vehicle and investor. It also allows the administrator's onboarding team to configure the set of rules that will be used to validate the data. Once the rules have been configured and the organization of data has been completed, the onboarding team will use a validation tool solution to confirm the data in the template. The validation tool will also analyze the rules, apply them to the organized data and present the user with a detailed report that itemizes any errors encountered. This error report will be grouped by the same groupings used by the onboarding team when organizing their data. Because this is an iterative process, the error reports will be archived, making any future queries against error logs quite easy.

Once the onboarding team has validated that the organized client data meets the rules requirements, the next step in the process is to onboard the data into a G/L system. To complete this step, the onboarding team simply identifies the validated template, and the system then imports the data into the designated

G/L system. Depending on how the onboarding data is organized, there may be more than one template as well as more than one import. This complexity is not a challenge, however, since the template-based validation process has proven to be a successful approach to onboard clients time and again.

Administrators that employ a dedicated onboarding team are able to be flexible in accommodating varying fund needs. Some funds use all products, only certain products or create their own services, and the flexible administrator is able to identify ways to efficiently meet all of those unique needs.

Trust Your Partner

At J.P. Morgan, we know what it is like to have a complicated structure, investment portfolio and specific investor needs, and we are able to strategize during the onboarding phase to make sure those needs are addressed. Through automation, efficiency and a dedicated onboarding team, Private Equity Fund Services is able to provide bench strength and the ability to keep up with the changing environment, enabling you to focus on investing.

Debt markets will continue to tighten, capital allocation to private equity will continue to soar and investments will become more complex. J.P. Morgan has found a way to remove some of the complexity, lower the costs and shorten the time to market, allowing private equity funds to focus less on their onboarding and more on what they're good at—making smart investment choices.

Through automation, efficiency and a dedicated onboarding team, Private Equity Fund Services is able to provide bench strength and the ability to keep up with the changing environment.