

# Why Outsource Now?

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Against a backdrop of extensive regulatory and market change, many private equity firms are experiencing heightened pressure to deliver greater transparency, better reporting and tighter accounting controls. A host of regulation – the Dodd-Frank Act, the Alternative Investment Fund Manager's Directive (AIFMD) and the Foreign Account Tax Compliance Act (FATCA) – coupled with greater demands from more sophisticated investors in the post financial crisis environment, are focusing attention on the transparency, quality and timeliness of information provided by fund managers.

Furthermore under AIFMD, many private equity firms in Europe will for the first time be required to appoint a depositary. The depositary may incur onerous legal and fiduciary obligations to oversee the management and administration of the fund. In order to fulfil these obligations the depositary will place significant information and control requirements on the fund. Given this new environment, many private equity firms are beginning to evaluate whether these requirements are best met by outsourcing fund administration to a specialist provider.

In assessing the viability of their in-house fund administration models versus outsourced solutions, CFOs generally consider execution risk and the control environment. Key questions and concerns also revolve around the people, technology and processes required to set up and maintain the in-house administration function.

To establish an in-house administration function, private equity firms first need to hire scarce expertise. Administrators such as J.P. Morgan are often well placed to attract, train and retain high quality people because they already have a training and career structure in place to attract and develop specialists.

At the same time private equity firms must also establish administrative processes and invest in the new technological infrastructure to support them. This diverts attention and resources from the main business of running a private equity fund – sourcing and executing great investments.

Maintaining and scaling up in-house administration is even more challenging, expensive and time consuming. Private equity firms are now committed to the future expenses of keeping the technological infrastructure up-to-date. This can result in a step change in fixed costs.

As such, in-house administration systems are not very agile in responding to evolving regulatory, market and business needs.

However, perhaps the most powerful argument against in-house administration is that private equity firms are distracted from their *raison d'être* – their value-added investment focus. While some administrative related tasks and costs are straightforward and transparent, such as hiring a recruiter or providing the necessary technology, connectivity and/or physical workspace, others by their very nature, are voracious consumers of managerial time.

## Outsourcing: The value proposition

Given the challenges and limitations of establishing, maintaining and adapting their in-house administration systems, many leading private equity firms are reaching the conclusion that now is the right time to outsource. This represents a paradigm shift for major funds' CFOs who acknowledge that it takes a significant leap of faith to partner with an outside fund administrator.

By partnering with an external advisor that has an established track record, proven technology and honed processes, private equity firms can take advantage of more flexible, scalable administration solutions.

The key benefits of outsourcing administration are:

- **An increased focus on their core capabilities:** In a more competitive market, outsourcing enhances managerial focus, allowing C-level executives and their employees to focus on what they do best – investing money.
- **Flexibility and speed:** The ability to quickly adjust their investment strategy and add new private equity funds based on rapidly changing market conditions.
- **Enhanced control:** A level of continuity in operations while mitigating risk in an ever-changing business environment.
- **Reduced costs:** Access to a scalable, variable cost-based administration system. This eliminates private equity firms' commitment to the present and future costs associated with back office administrative functions.

In selecting the right outside fund administrator for their specific needs, private equity firms should also consider whether their partner can provide the following range of tailored services:

- A one stop shop for all their back office needs to facilitate expanding business and strategies.
- The ability to service complex fund structures.
- Aggregated reporting across all their fund products.
- Confidence that their outsourced partner is constantly looking to the future, valuating the best options for sourcing and implementing new technologies.

- Focus on innovation and advice on products that meet private equity fund's growing fund portfolio, organizational and market needs.

At J.P. Morgan, we are uniquely positioned to provide innovative, outsourced fund administration and infrastructure solutions which enable global private equity funds to improve their control environment and increase transparency for their investors.

Contact us to learn how we can help your private equity firm thrive in today's challenging markets by delivering the tailored, scalable solutions you need as your business grows.

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