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Six questions to ask your private debt fund administrator

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Appointing a fund administrator is a long-term move so managers need to be sure they find the right partner. Here are some key questions they may ask.

The extra layer of protection given by the oversight of a professional fund administration team is a reason the growth of the fund administration industry has largely been an investor-driven phenomenon. Nevertheless, outsourcing fund administration to a third party can be a daunting prospect. While fund administrators can go a long way to alleviate the burdens fund managers face, the reassurance required by managers before they farm off important fund functions to outsiders can be immense. Following is a list of six questions that should be at the forefront of a manager's mind when looking to find the service provider offering the right fit.

1.Do you have a specialised team for private debt structured funds?

According to Eastern Fong, the regional head of Asia with Maples Fund Services in Hong Kong, the background of individuals in the team is critical. This includes the number of years of loan servicing experience they possess, their depth of knowledge of loan agreements, covenants, PIK accounting and other particulars of the business.

"If you have someone who is specialised in hedge funds, it can take longer for them to learn the nuances of private debt and vice versa," he says. "These are two different kinds of funds and the skills are not easily interchangeable."

For example, an open-ended structured hedge fund is more technology-driven and has a heavy reliance on data management. Closed-ended private debt funds, on the other hand, are more transaction driven. It is important for fund administrators to look at the transaction documents to determine their cost of purchase and any embedded options to evaluate the investment correctly. It is more of a record-keeping, accounting-heavy exercise than hedge funds. But private debt differs even further from other forms of closed-ended fund, such as traditional private equity. Despite their similarities, knowledge of the latter might not necessarily be enough to handle private debt instruments adequately.

2.How much do you charge and what services do you provide?

“The cost is an important factor,” says Marc de Kloe, managing director of Adamas Asset Management. “For example, investors require additional reporting – so it is not just a matter of what the basic cost is, it is also what the additional services cost and whether they can deliver them.”

In other words, companies that are more flexible and offer stage-to-stage outsourcing are preferred by most GPs. Different managers have different needs, and they always prefer to have their services customised. The demand from first-time fund managers compared with the more established firms, for example, can be very different. The former will be more sensitive to the cost than the latter. Then, once smaller managers have grown to a certain size, it is natural for them to boost their administrative infrastructure to attract institutional investors. Fund administrators will also need to be able to respond to this change.

3.Is your firm independent, or is it affiliated with a particular bank, prime broker or another service provider?

“We prefer complete independence, so there will be no possible conflicts, for example with an affiliated broker providing pricing of an asset,” says de Kloe.

Working with an independent fund administrator can guard against any potential conflicts of interests when the custodians – ie, banks or prime brokerages who handle the valuation of fund assets – are linked with the fund administrator.

“Unlike the affiliates of banks or other larger service providers, independent firms are nimbler and flexible because fund administration, typically across multiple asset classes, is their bread and butter,” adds Fong.

The logic goes that independent firms can potentially move things more quickly and are more cost-effective as they do not have the long decision-making process facing bigger financial services groups. However, he also notes that the affiliates could be a good alternative for managers who are looking for a one-stop-shop together with the custodian services.

4.Where do you operate and what does your global footprint look like?

“We will be looking at the company’s practice in different regions globally, and it should have a good database of investors – for know-your-customer and anti-money laundering purposes,” says one source at a China-focused asset management firm who declined to be named.

One of the key reasons for using a fund administrator is to provide comfort for investors by having good controls on valuation and the overall administration process. De Kloe adds that a global firm will have the dedicated resources needed to maintain up-to-date knowledge of regulatory changes across various jurisdictions that are critical for meeting compliance requirements.

5.Who at your firm will communicate with me on a regular basis, and how?

A regular dialogue between fund administrator and the manager is the key for fund administrators to understand and anticipate developments with its clients and any forthcoming changes. For example, if a manager has made some changes to its strategy or has added a few brokers without informing the administrator, that could result in a delay in reporting.

“We talk to our fund administrator almost every day, either on fund payment or transactions,” adds the China-focused asset manager. “Even if we are not issuing the financial statement, we still provide them with our data on a regular basis.”

Many managers prefer direct communication with the senior management professionals, not only because they are more experienced, but also because they tend to be more stable than the juniors who have a higher turnover rate. Stability is important for a close-ended fund. It is important for managers to know they can maintain a long-term relationship with their administrators. If the direct contact or the administrative team switches, all the data will transfer into a new pair of hands and this can be a complicated process.

“It’s important to take a high touch, proactive approach to client service. You want to keep clients in the loop of any new development in the industry or even something as simple as what’s happening in the organisation,” says Fong. “If you are providing a value-add service for clients, whether by telling them about forthcoming regulations or sharing your experience with past successful clients, you can maintain very positive relationships with them.”

6.What references from other clients are you able to provide?

Lastly, an administrator that could fulfill all the checkboxes on paper, including the qualification of the team and its technological capability, does not guarantee that it is a good candidate in reality.

It is typical today for fund managers to want to speak to the administrator’s existing clients and even to engage a third-party firm to conduct operational due diligence before signing up with a particular firm.

At a glance: A view from the CFOs

A recent survey by EY of chief financial officers and investors in the wider private equity industry confirmed that outsourced fund administration is increasingly becoming the norm. Investors and GPs alike thought the following factors are essential for fund administrators:

• Experienced team with longstanding private equity fund administration expertise
• Institutional grade infrastructure including:
• SSAE 16 certification
• SEC cybersecurity compliance
• Independent quality control

• Robust, flexible and transparent technology
• Evidence of firm performance at the highest levels
• Ability to customise service approach for each fund
• A long-term dedication to the private equity fund administration industry