



Financial Services Newsletter

Selecting a Fund Administrator

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In today's investor climate with in-depth investor and regulatory scrutiny, coupled with the complexity of alternative investments and co-invest vehicles, selecting the right fund administrator for your business is more important than ever.

If you are in that position, start with:

- Taking a critical look at your firm as it stands today, where you are heading and how you want to evolve over time;
- Identifying your goals and objectives and risks and concerns; and,
- Deciding which factors are most important to your business.

If you currently work with a fund administrator, evaluate their performance: what are their strengths and weaknesses? What would make the function better for you?

We've prepared this guide to help you when searching for a fund administrator or evaluating your current one.

Factor One: Quality

For the candidate firms, you should learn the following:

- Services provided: do those services meet your needs and also include CPA services?
- Years in business: how long have they provided fund administration?
- Size of company: do they have the capacity to handle your account with high quality and precision and timeliness?
- Reputation: do they provide quality client service?
- Are they a generalist or do they specialize in a particular asset class?
- What is the financial structure of the firm, including ownership structure, equity, debt, etc.?
- Is the firm profitable?
- Is the firm growing?
- How many clients has the fund administrator lost in the past three years? What were the reasons?
- What is the firm's credit rating/financial strength?
- Is the firm facing any material litigation?

Factor Two: Internal Controls

You need to ensure that the firm has effective controls in place to ensure efficiency and reliable financial reporting including compliance with laws and regulations:

- Has the fund administrator completed its SSAE 18 SOC 1 Type 1 and Type 2 Reports? Did they receive a "clean" opinion?
 - Who is the administrator's "service auditor"?
 - What is the caliber of the firm that conducted the internal control systems review?

- Does the fund administrator have a “Business Continuity Plan”?

Factor Three: Assets under Administration (AUA)

Learning about the size and type of assets administered by the firm is a key factor in evaluating the candidate firm:

- What was the AUA at year-end for the last three years?
- What is the composition of the AUA:
 - Strategy: hedge, private equity, venture capital, real estate, infrastructure, fixed income, special situations, cryptocurrency, high-frequency trading (HFT), etc.
 - What is the administrator’s primary client base: private funds, investment advisors, investors, family offices, special purpose vehicles (SPVs), separately managed accounts (SMAs), coinvest vehicles, private foundations and endowments?
 - Does the firm focus on start-ups or only established, large funds and fund complexes, US domestic, offshore, global, etc.?
 - How much experience does the administrator have with your particular investment strategy?

Factor Four: People

Human capital is an essential element to support the quality of services you can expect from the fund administration firm:

- Will the firm assign a dedicated team to handle your account?
- Are the staff fund accountants and/or CPAs?
- Do they also provide tax services?
- How many professionals are dedicated to fund administration?
- Will you have a direct point of contact with whom you will interface?
- If the firm has offshore personnel, are they employees of the fund administrator or subcontractors?
- Are you comfortable with the people’s communication skills?
- What are their skills regarding reconciling securities, balances and corporate actions and reconciling cash, custodian and prime broker records?
- Do you feel that you can develop a solid working relationship with your team?
- Is the team accessible to you on a timely basis? Are they responsive to your communications?
- What is the level of the fund administrator’s analytical skills and experience?
- What is the administrator’s annual employee turnover for the past three years?

Factor Five: Range of Services

It is important that you understand the services available regarding the services your firm requires:

- Does the administrator offer the range of services your firm needs? For example:
 - Middle and back office
 - Shadow accounting
 - Performance reporting and risk metrics
 - Tax planning and compliance
 - Carry administration
 - Corporate action monitoring
 - Subscriptions, redemptions, distributions, capital calls
 - Payment and escrow account system
 - AML/KYC
 - Investor relations
 - Financial statement assembly and audit support
 - Valuation

- Management company accounting and tax
- Regulatory compliance
- Fund start-up and liquidation
- Is the fund administrator able to handle?
 - Global operations
 - Alternative investments and other complex asset classes
 - Multiple investor classes
 - Complex waterfalls
 - Foreign exchange
 - Derivatives
- Does the fund administrator have the flexibility and customization you need:
 - Does the administrator have skills, experience and knowledge to customize their systems and operations to meet the needs of your business?
 - What is the quality of their reports and ability to customize?

Factor Six: Technology

The technology component is the essential underpinning of services delivered by the fund administrator.

- The human-technology interconnection should be assessed:
 - How do the people and the technology coexist, noting that some fund administrators are technology driven, some accounting driven and others balanced?
 - Do you understand the workflow between your firm and the administrator?
- Technology and software questions to be considered:
 - What accounting and reporting software does the administrator use?
 - Does the administrator control the software, e.g. own or lease it?
 - What is the quality of the accounting software?
 - Does the software have an “integrated general ledger and trial balance”?
 - What is the quality of the software customer support?
 - What is their ability to implement application program interfaces (APIs)?
 - What is their ability to download data seamlessly?
- You need to know about the fund administrator’s web portal, including:
 - Does the administrator offer a web portal — online document vault?
 - Will you have complete access?
 - Will you and your investors and investment advisors be able to access information?
- The onboarding process is required to ensure your data is properly uploaded and the following questions should be asked of the fund administrator:
 - Does the administrator have an organized onboarding process as illustrated by a “process program” or “onboarding punch list”?
 - How will the administrator onboard your data?
 - How will they handle data conversion if their accounting system is different from your current administrator’s system?

Factor Seven: Deliverables

You will need to substantiate that the fund administrator provides you with the reports and statements you require on a timely basis.

- Find out the processes and performance standards regarding:
 - Timeliness: when will the administrator deliver your net asset value (NAV) and investor statements?
 - How does the administrator handle errors and trade breaks?
- Regarding accounting and reporting, find out:
 - Do they run exception reports?
 - Do they excel in “full processing” or focus on “NAV lite”?

Factor Eight: The Future

It is important that you find out the fund administrator’s future vision and if it meshes with yours:

- What are the administrator’s plans for growth?
- Are you comfortable that the administrator will grow with you and meet your needs as you expand your business?

Your Business, Your Choice

You are in the position to decide what is the “best fit” for your firm. When you perform due diligence on fund administration firms, you’ll gain a sense of the type of firm and accounting, administration and reporting services that best meet your needs.

Contact Us

For more information about fund administration and shadow accounting; tax planning and compliance; valuation; management company and GP entity accounting and tax: contact Eric Gelb, CPA (egelb@pkfod.com); Jay Fastiggi, CPA (jfastiggi@pkfod.com); and Marc Rinaldi, CPA (mrinaldi@pkfod.com) at 212.286.2600 or 914.381.8900.

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O’Connor Davies Administration was ranked 25th largest global administrator by eVestment.net. We provide complete administration services including NAVs; shadow accounting; carry administration; investor services including subscriptions, capital calls, distributions and redemptions; performance reporting and audit support and automated financial statement assembly; management company and GP entity accounting and tax; valuation; due diligence including DDQ; fund start-up and liquidation; outsource CFO and controller services; and more.

Our clients include investment advisors; private equity, hedge, venture capital, infrastructure, real estate and crypto currency funds; fund of one; fund of funds; family offices; private foundations and endowments; special purpose and coinvest vehicles.

Our in-depth understanding of alternative investments; investment, partnership and investor accounting; fund accounting and reporting; regulatory environments; capital markets and operations enables value-added services. We have offices in New York City and Harrison, NY; Grand Cayman; London, Scotland, Dublin, Amsterdam, Geneva and Mumbai and Chennai, India.

We collaborate with our affiliate PKF O’Connor Davies, LLP, to provide tax advisory and compliance; valuation under ASC 820; due diligence; and transaction advisory services.

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