



CUMMINGS PEPPERDINE ON ON WHAT TO LOOK FOR IN A FUND ADMINISTRATOR

INTRODUCTION

We are always being asked which fund administrators should be considered for a new fund and who to switch to if there is to be a parting of the ways with the existing fund administrator, and following a request from a member of our Cummings Pepperdine Fund Forum LinkedIn Group, this week's topic is what to look for when selecting your fund administrator.

Given we have lots of friends in the fund administration industry, I am sure they will be keen to see what we have to say – it's all good!

Your administrator is going to be a key relationship for you and you need to select who is best for you. Here are a few tips to help you in your selection process:

EXPERTISE

You should ensure the administrator has experience with your asset class and with the jurisdiction of your fund.

Some fund administrators are known for having strengths with particular asset classes and jurisdictions. So just make sure you align your asset class and jurisdiction of the fund with the strengths of your administrator. Many administrators

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are global and cover pretty much all asset classes and jurisdictions. Some are boutique and are focused on particular asset classes and jurisdictions. It's horses for courses.

SKILL SET

Work out what you really need from your administrator. You want the administrator to be aligned with what you do from a skills perspective and for them to add value to your business. Fund managers with existing back-office teams are faced with time-consuming, non-revenue earning responsibilities that require specific office space, IT support, human capital and continuous training. Administration services can be perceived as expensive, but the overall costs are likely to be materially lower as the administrator is able to leverage the economies of scale that arise from servicing other funds. In addition, fund managers can utilise the expertise of the administrator and their experience in the administration of multiple funds for different clients to gain access to the latest fund analysis and reporting technology at a lower cost compared to implementing it themselves.

A larger fund manager with a substantial back-office may well need fewer services from a fund administrator than a smaller fund manager, who's looking to outsource as much as they can. So, just work out exactly what you need from your administrator, often they will also have lots of interesting shiny toys, which brings us to the below...

TECHNOLOGY

The quintessential service an administrator should provide is the accurate and timely delivery of the NAV. Technology is a critical component of a successful administrator. Investors are increasingly requiring customized portfolio statements and direct access to data. Whilst in the past, fund accounting may have been managed in Excel, today, it's all based around complex data management, run on specialist fund administration software. Administrator platforms allow data of fund structures to be tracked at each level, from the original fund through all the underlying

portfolio companies. Fund managers can enjoy the benefit of using these systems through the administrator, saving themselves from the costly investment and time-consuming implementation, training and maintenance of in-house technology. The key is straight through, efficient, secure processing. Information should flow into the administrator, be processed, and flow out to the fund manager and their investors. There is so much more to your fund administrator these days than cracking the NAV and dealing with investors's subscriptions/redemptions. They have incredible tech. You should always kick the tires and get demos of the technology, which they will be delighted to showcase to you.

STAFF TURNOVER AND OWNERSHIP STRUCTURES

Typically, an administrator will utilise an account team approach to handle each client relationship. This creates not only a 'one-stop shop' but the ability to form a relationship with the members of the team. This team can grow with your business and develop a true understanding of your products. A high turnover on the service delivery team of an administrator can be hugely disruptive to a fund manager. Where there is a concentration of expertise of an asset class within a few key people at a fund administrator can also be a red flag. We see some clients being focused on who owns the fund administrator. Is it independently/family-owned or is it "private equity backed" or "listed"? For me, one does not trump the other. And what is independent, and family-owned today doesn't mean it will be tomorrow. It comes down to culture. So, ask the question is this administrator the right cultural fit for me?

RELATIONSHIP-DRIVEN

One of the keys to a successful relationship with your administrator is communication. You immediately need to get a good feel, especially at the outset of the relationship. Going back to the service team and relationship manager at the administrator, you have to trust them to deliver upon their promises and contractual

services and it will really help the relationship if you like them. You are going to be spending plenty of time with them and you want your investors to get “the right impression” of you and your fund.

DUE DILIGENCE

Embark upon your selection process as you would any investment. Ensure the fee proposal is clear and together with the administration agreement accurately reflects the specifics of your fund and details the services that you are expecting and need the administrator to provide. Ask for a responsibility matrix with your administrator. This is a document that outlines who is responsible for each function on a daily/ weekly/monthly/annual basis. Agreeing a service level agreement (SLA) is also something that we see and is a very good idea. While similar to a responsibility matrix, an SLA will also lay out the responsibilities as well as agreed upon deliverables. Make sure, you know exactly who is responsible for what. We like to stress test subscriptions and redemptions – give scenarios to the administrator and see the workflows.

While appointing all service providers, it is important that fund managers take such decisions carefully.

There needs to be a clear separation of duties and functions as to what the fund manager wishes to retain internally and what exactly they prefer to outsource. You should examine the administrator’s policies, procedures and technology in great detail and involve your legal counsel.

Fund management and fund administration go hand in hand, so it is of vital importance that there is a like-minded business behaviour, beliefs and values between the fund manager and the administrator – everything needs to dovetail together perfectly. Spend the time and effort when selecting your fund administrator and speak to several. It’s all about finding the right fit for you. Yes, it’s very Goldilocks and the Three Bears, because it has to be “just right!”. Then, ongoing, arrange to have regular operations meetings, where you sit down with the administrator, review the business relationship and discuss what is going well and what needs improvement. It is also a good time for both parties to share any new initiatives. Spend the time to do the fine-tuning, which will reduce stresses and strains and you will get the best out of your administrator.

To give you the help you need, just email us:

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THE TEAM

Cummings Pepperdine is a leading advisor in crypto. We are one of a select few that advises a large and diverse global client base in the crypto space and the only to provide a complete crypto solution building on the three key areas of law, tax and FCA with legal underpinning at every point.

In law, we have a team of qualified and regulated solicitors and a barrister who retains right of audience.

In tax, we have one of the only crypto tax advisors who is both a qualified solicitor and qualified chartered accountant.

In regulation, our team comprises specialists in crypto compliance monitoring structures and governance oversight who are known to the FCA for the quality of their work.

The team is led by Claire Cummings, a leading solicitor specialising in crypto law and the current and evolving regulation. Claire is on the advisory boards of a crypto exchange and strategic advisor and is also the founder of The Centre for Digital Assets and Democracy. Claire



Claire Cummings

has also acted as compliance officer, MLRO and director of an FCA regulated fund manager and qualified under SIB to trade derivatives. As a leading expert in crypto, Claire is a sought after speaker and has published multiple articles on the legal and regulatory issues surrounding cryptocurrencies and the crypto eco-system. Claire is named at the Top 10 influencer in London for hedge funds (2&20, 2022) and is included in the CityWealth Crypto Top 100

The Cummings Pepperdine Online Training Programme, includes sections focusing on what to look for in a fund administrator, has been designed by a specialist board of compliance consultants, solicitors, chartered accountants, tax advisors and regulatory consultants. We believe that we are the only firm which offers training created by this range of qualified advisors.

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Cummings Pepperdine LLP - October 2023

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