



The Limited Partner's Guide to Fund Administration

How to benchmark and evaluate your general partner's fund administration and reporting services



Fund administration's evolving role

As the private capital market matures, limited partner (LP) priorities are shifting.

While private equity and real estate (PERE) investments continue to attract investment (and deliver attractive returns), investors are evaluating opportunities in the alternative space using a wider range of criteria.

In an era of data-driven financial decision-making, LPs want investments that enable them to take a more active role in monitoring their funds, analyzing performance, identifying potential conflicts of interest, and evaluating risk and exposure.

As a result, today's LPs are more likely to examine not only a general partner's (GP's) track record for generating alpha, but its ability to competently undertake the regulatory, legal, and administrative activities that support that ultimate goal. This proactive approach to the evaluation of investment opportunities is prompting LPs to evaluate front-, middle-, and back-office functions more closely. As a result, fund administration is receiving greater scrutiny than ever before.

More than any other function, a GP's approach to the administration of the fund supports the firm's ability to meet high standards of transparency, compliance, and investor communications.

This insight report looks at the growing impact fund administration has on the investor experience and then provides guidance for LPs who wish to take a more proactive role in evaluating the capabilities and setting the expectations for this critical back-office function.

Fund administration in the spotlight

Once a function that operated behind the scenes for alternative investment firms, fund administration has now stepped into the spotlight.

LPs are seeking investments that offer both competitive returns and a high degree of visibility and oversight. LPs may be passive investors, but they're becoming more active than ever in terms of the high levels of diligence they bring to the investment decision and the high levels of control they want to exert over their fund data.

As a result, investors are examining the back-office operations of their fund managers in greater depth, because those operations have a direct impact on the firm's ability to manage and add value to those funds.

In a recent survey, more than 70% of asset managers reported that LP interest in back-office functions had increased, with nearly 30% of respondents describing that increase as "large."¹

GPs were slow to recognize the importance of back-office operations as a critical part of the due diligence process and the overall investor experience, but the mentality has shifted in recent years. In 2019, a survey found that fund managers were half as likely as investors to regard back-office operations as a key aspect of due diligence.² Just one year later, 43% of fund managers indicated enhancing back-office processes and technology were top priorities.³

Ultimately, while returns are important, so is transparency. When a GP is unable to provide timely, accurate data to the LP throughout the investment period, it creates frustration and prevents investors from monitoring the investments and associated expenses, analyzing risks and returns, and communicating effectively with their boards.

¹ *Private Funds CFO, Private Funds CFO Insights Survey, 2022.*

² *Cobalt, Low LP Re-up Rates are Hurting GP Profitability, 2019.*

³ *EY 2020 Global Private Equity Survey*



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How fund administration impacts the LP experience

When a fund is administered poorly, it has a direct effect on the investor experience. At one end of the spectrum, it may result in minor inconveniences such as disorganization and frustratingly slow and unpredictable communications. At the other end, it may result in more serious consequences, such as investment returns being impacted by improper allocation of fees and expenses or even SEC fines.

Ultimately, the competent administration of a fund ensures that a number of requirements for positive investor experience are in place, including visibility, **compliance**, **responsiveness**, and **control**.

Visibility

Investors are demanding access to a wider range of investment data—preferably in a granular format that lends itself to further analysis. The number of investors requesting Institutional Limited Partner Association (ILPA) templates or customized reporting continues to increase as part of an industry push for deeper visibility into a fund's performance, the allocation of fees and expenses, and the level of risk and exposure the investor is taking on.

Compliance

As the SEC exerts greater regulatory pressure on the management of alternative assets, compliance has become both more complex and more critical to the successful management of a fund. In addition to mandatory compliance requirements, LPs are increasingly demanding adherence to voluntary standards such as the Global Investment Performance Standards (GIPS®). The vast majority of asset owners (67.3%) now require or ask about GIPS compliance when selecting external managers.⁴

Investors want to see that the GP has allocated adequate resources for both ongoing compliance management and regulatory testing and surveillance.

Responsiveness

A GP's ability to respond to questions, process distributions and capital calls, close the books, and issue financial statements swiftly ensures that LPs receive the information they need promptly and have enough time to coordinate the action required on their part without scrambling:

Capital calls: Processed within 48 hours

Distribution: Processed within 72 hours

Books: Closed within three to 10 days

Capital call statements: Issued within 45 days of end-of-quarter

Financial statements: Available within 45 days of end-of-quarter

Control

LPs are demanding more control over the types of fund data they receive and the format in which they receive such data.

A 2022 survey found that 64% of LPs are requesting data that follows standardized LP formats, either in due diligence or for ongoing reporting, and 70% ask about the ILPA fee reporting template during due diligence.⁵ LPs are also demanding data in flexible, digital formats. Nearly half of institutional investors (43%) consider investor reporting to be a top priority or in the top three priorities when it comes to innovation that delivers positive benefits.⁶

⁴ CFA Institute®, *Survey Report of US Asset Owners on the GIPS® Standards, 2021.*

⁵ Private Funds CFO, *Private Funds CFO Insights Survey, 2022.*

⁶ EY, *How to achieve agility in alternative investments, 2020.*

Evaluating a GP's fund administrator

A decade ago, private equity firms that outsourced fund administration were in the minority. Today, third-party fund administration has become the norm and, in many cases, a nonnegotiable due diligence requirement. However, the standard of service provided by a GP's service partner can vary widely, and these differences can have a significant impact on important factors such as compliance, transparency, and the overall investor experience.

As part of the due diligence process, LPs should confirm that the GP's fund administrator is prepared to meet standards in terms of their reliability, service quality, expertise, and—above all—supporting technology.

Reliability

The fund administrator's ability to deliver reliable, trustworthy service is paramount. Find out whether they have SSAE 18 System and Organization Controls (SOC) 1 Type 2 audit standards in place, which means an independent auditor has reviewed the company's procedures and controls. LPs should also ask if the firm has disaster recovery and business continuity plans in place and what type of review process fund data and documentation goes through before it reaches the investor.

Service quality

The quality of the service provided by a fund administrator can be defined as the responsiveness and flexibility the fund administrator supports. Ask them to provide average processing and turnaround times for key deliverables such as the issuance of quarterly and annual reports, capital calls, and distribution notices. Find out what level of customization the firm can offer in terms of fund data and reporting.

Expertise

Fund administration has evolved into a highly specialized discipline. As complex fund strategies and investment structures become more common, and as new reporting standards such as the GIPS and those set by the ILPA, fund administrators need to demonstrate more advanced expertise than ever before. Make it a point to find out the levels of experience and expertise required by the fund administrator (ideally five years or more for entry-level staff members), with direct experience in compliance and managing private capital fund structures. At a minimum, ask to see staff bios, check references, and review their LinkedIn pages to get a sense of their capabilities.

Technology

Over the past decade, technology has transformed fund administration, enabling greater transparency and granularity in the delivery of investor reporting. With the right technology, investors can access a wider range of fund data in formats that support advanced visualization and analysis. However, the overall quality, reliability, and specific capabilities of investor reporting technology varies widely across service providers. As part of the due diligence process, LPs should assess the provider's technology against these criteria.

Accuracy

As recently as 2019, an EY report found that 42% of fund managers still relied on spreadsheets to perform fund accounting,⁷ an approach that introduces a high risk of user error. Fund administration needs to be supported by a specialized, database-driven fund accounting platform that can provide a golden source of data for the fund's official books and records.

Security

Digital vulnerability is a very real threat for the alternative asset community, and many fund managers struggle to protect themselves and their investors. Before the pandemic, private equity firms were already under siege from online attacks, with 22% reporting that they had experienced a cybersecurity breach.⁸ As firms continue to support remote or hybrid workforces, those threats have only increased: 39% of asset managers experienced an increase in security or cyber incidents due to remote working.⁹ LPs need to ask pointed questions about the fund administrator's security track record and the security protocols in place to protect their personal and fund data. (See the checklist at the end of this insight report for further guidance.)

Flexibility

The appetite for data has grown among investors as they take a more active role in analyzing fund data holdings, valuations, and exposures. This has created a vital need for customizable data delivery systems and sophisticated analytics. However, some investor portals fail to deliver on the promise, providing little more than a document repository rather than a dynamic environment where flexible, granular data—including performance metrics, distribution details, fees and expenses, and carried interest and clawback—can be filtered, visualized, and exported in spreadsheet format for deeper analysis.

⁷ EY, *Global Private Equity Survey, 2019*.

⁸ EY, *Operational Excellence: One Path or Many? Key Findings from the 2018 Global Private Equity Survey*.

⁹ KPMG, *CIO Survey: Asset Management Industry Insights, 2020*.



Fund administration checklist for LPs

Use this checklist to evaluate the quality of fund administration services offered by your GP.

What are the backgrounds and specific areas of expertise of each member of the fund administration team?

Is the reporting you offer only standard and fixed, or can it be customized?

Do you support ILPA and GIPS reporting?

Is an online portal used for LP reporting and communications? If so, which of these features does the investor portal include?

Searchable document repository

Performance dashboards that capture distribution to paid-in capital (DPI), residual value to paid-in capital (RVPI), total value to paid-in capital (TVPI), fund multiples, and internal rate of return (IRR)

Access to underlying, official, real-time fund data

Individual investor commitments, contributions, distributions, and residuals

Two-factor identification and extended secure sockets layer (SSL) certification

What accounting platform is used?

Is the accounting platform integrated with all processes and systems? If not, what processes are manual? What information is maintained outside of the core system in spreadsheets and other formats?

How is platform performance ensured? Does the platform include a production site, multiple redundant sites, and automatic daily backups?

How is data security ensured?

What type of technical support is offered for investor-facing technologies?

What types of business continuity precautions do you have in place?

Do you have a documented disaster recovery process in place?

Does the fund administrator undergo a SSAE 18 System and Organization Controls (SOC) 1 Type 2 audit exam annually?

Does the fund administrator have a documented service level agreement (SLA) in place with you? What levels of service to LPs are specified in the SLA?

If the fund administrator responds to investor due diligence questionnaires, what is their average response time?

What is the fund administrator's Net Promoter Score or documented and verified customer satisfaction level?

Are multiple levels of review conducted before presenting the reporting to the GP?

Fund administration: Enhancing the investor experience

While a GP's front-office functions are the most visible, those that take place in the back office are equally important to LPs who want to know that their investment is being handled competently and transparently.

By ensuring that the fund is administered by a reputable third-party fund administrator, LPs can ensure that both the investment outcomes and the investor experience meet expectations.

This insight report examined some of the key considerations that investors need to address as they evaluate the administrative resources that their GPs have put in place. While no two LPs will have exactly the same needs and requirements, most will want to know that their GPs are capable of supporting best practices and meeting industry benchmarks for fund administration.

Use this resource to engage fund managers in a conversation about this important back-office function and determine whether it meets your expectations for reliability, responsiveness, flexibility, and security.





About CSC

For more than 20 years, CSC has delivered best-in-class fund administration and technology solutions to funds, general partnerships, limited partners, and management companies in the alternative asset space. CSC has helped some of the most complex fund types meet stringent regulatory and investor requirements. We're a nationally recognized boutique fund administrator and back-office specialist. As a fully integrated service provider, we partner with capital markets participants, alternative asset managers, corporations, and financial institutions requiring fiduciary, administration, and governance support—and we deliver world-class solutions to all types of closed-end funds and their investors. CSC is the world's leading provider of business, legal, tax, digital brand, and fund services. We're a global company with a local presence capable of conducting transactions and providing services wherever our clients are. We accomplish that by deploying experts in every business we serve. For more information about CSC's services, visit cscgfm.com.

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