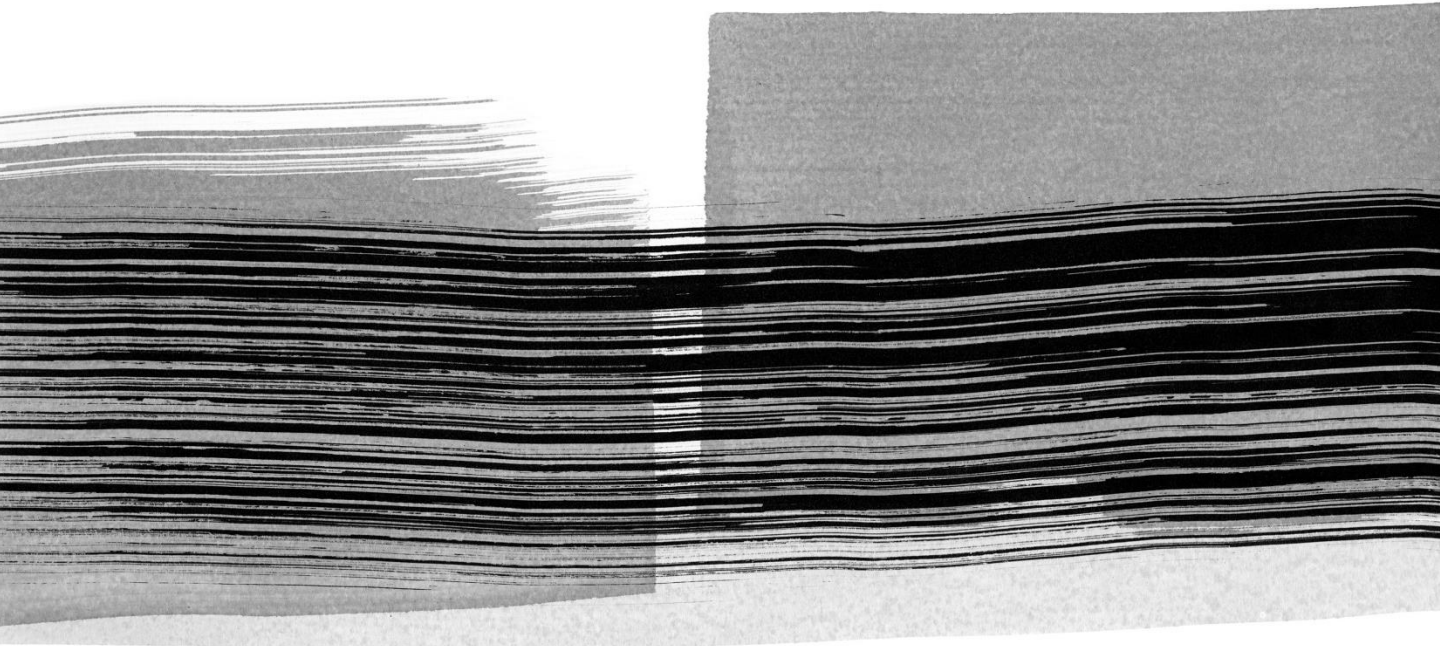


O C O R I A N



THE EVOLVING NATURE OF FUND ADMINISTRATION

A MARKET INSIGHT

April 2018

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FOREWORD

The fund administration market is changing.

Regulatory changes are driving a shift in focus from offshore to onshore, the need for greater data transparency and the specialist skills and technology to deliver on those requirements. This has not and will not be an easy journey but it is one that continues apace.

In conducting our survey, and preparing this short report, we wanted to understand what challenges and opportunities that you – as fund managers and advisors – currently face and how we, at Ocorian, could be best placed to provide support.

We hope that you find these insights engaging and useful and should you wish to explore any of the topics featured in more depth, my team and I would be delighted to hear from you.

SIMON BURGESS

Global Head of Alternative Investments, Ocorian



METHODOLOGY

In January 2018, Ocorian conducted an online survey of specialists working within fund advisory and/or management. Respondents were equally drawn from across the Real Estate and Private Equity profession, and primarily based within the UK (71%) or central and western Europe.

QUANTITATIVE

The survey comprised 20 questions and explored a range of subjects relating to:

- the choice of destination for fund structures
- the impact of legal, regulatory and political factors on operational decisions
- the role and use of technology
- the key considerations in appointing an external fund administration provider
- future trends in the sector
- Where respondents were asked to rank their selections, a weighted score was allocated to those selections with a higher preference to provide a percentage measure.

QUALITATIVE

To interrogate and test these quantitative results, qualitative interviews were then conducted (March 2018) with a select sample of UK-based experts as detailed below.

Our sincere thanks is extended to all those that participated.

		
Marc Schubert	Rob Williams	David Brown
Associate, Weil, Gotshal and Manges (London) LLP	Tax Director, Real Estate and Construction, BDO LLP	Partner, Deloitte

DESTINATION UNKNOWN:

Where next for fund or investment structures?

More than a quarter (26%) of respondents to our survey, across both real estate and private equity specialisms, see Luxembourg as the most likely market for their next fund or investment structure, followed by Jersey (19%) and the UK (16.7%).

#1	Luxembourg	26%
#2	Jersey	19%
#3	UK	16.7%
#4	Guernsey	11.7%
#5	Cayman Islands	8.6%

"Luxembourg has done a great job of promoting itself as a destination for investment funds and, in particular, as an EU-based alternative to other common private fund jurisdictions. By modelling the features of the SCSp on limited partnerships in other jurisdictions, Luxembourg has created a fund structure familiar to investors.

"Certain EU-based investors are increasingly showing a preference for EU-based fund structures and, along with the likely loss of the AIFMD marketing passport for UK funds post-Brexit, Luxembourg is set to benefit from the UK's departure from the EU."

**Marc Schubert, Associate
Weil, Gotshal and Manges
(London) LLP**

WHY LUXEMBOURG?



Efficient holding jurisdiction in a post BEPS world



Flexible continental law framework



Rating



Renowned toolbox for investment structures



The EU hub for international finance (post Brexit)



Highly skilled staff

What drives jurisdiction choice?

Nearly a third of respondents (28.6%) concede that the choice of destination is driven primarily by investor preference.

The next most significant driver is a flexible regulatory framework (18.5%) followed by tax planning opportunities (16.1%). Speed of set up was the least pressing concern (1.8%).

Top 3 drivers for jurisdiction choice:

#1	Investor preference	28.6%
#2	Flexible regulatory environment	18.5%
#3	Tax planning opportunities	16.1%
#4	Cost of set up	10.7%
#5	Marketing distribution flexibility	8.3%
#6	AIFMD	7.1%
#7	Service provider asset class experience	5.4%
#8	BEPS	3.6%
#9	Speed of set up	1.8%

"Investors want confidence and stability, first and foremost. It's the reason why they put their capital in London and also why they very often route their structures through Luxembourg.

"They want a safe pair of hands. Everybody knows and understands the Luxembourg market.

"The size of the industry, its reliability ... at present, Luxembourg remains the destination of choice."

Rob Williams.
Tax Director - Real Estate and Construction
BDO LLP

"While some firms continue to use English limited partnerships or similar, where they are looking to switch - and where funds have a pan-European strategy - there has definitely been an increase in the number of Luxembourg SCSps as fund vehicles, relative to others.

"Another factor is cost. Management fees continue to be under pressure - particularly in real estate and real assets where fees and the cost of doing business are higher than in other asset classes."

David Brown, Partner
Deloitte

ONSHORE VS. OFFSHORE:

The impact of political and regulatory measures

Over two-thirds of respondents to our survey agree that political pressure (66.7%) and AIFMD (67.9%) have led to an increased consideration of onshore structures. BEPS too has led to an increased focus in this regard.

However there are other impacts from this drive for greater transparency, not least the need for reorganisation of operational procedures and the increased compliance and operational costs.

Top 3 impacts of BEPS:

#1	Increased consideration of onshore structures	34.4%
#2	Increased compliance and operational costs	20.9%
#3	Reorganisation of operational procedures	18.4%
#4	Greater transparency of investment / fund activity	12.3%
#5	Increased consideration of offshore structures	6.1%

"Undoubtedly, for certain groups, there is a shift to onshoring.

"This is partly due to BEPS but also recent tax changes in the UK relating to commercial property, as well as cost.

"It's a combination of factors. If it was one in isolation people would, I think, be happy to keep an offshore presence but the combination have prompted some to review their activities."

**Rob Williams, Tax Director -
Real Estate and Construction
BDO LLP**

"Although many managers continue to utilise Channel Islands structures, we have seen a shift towards onshore (e.g. UK, Luxembourg) structures as a result of investor preference.

"Other factors, such as the availability of the AIFMD marketing passport and BEPS considerations, have also fed into this trend.

"However, offshore structures continue to provide a practical alternative for managers not heavily reliant on capital from EU-based investors – staying outside the full scope of AIFMD continues to be an option for managers who can rely on national private placement regimes to access European investors."

**Marc Schubert, Associate
Weil, Gotshal and Manges
(London) LLP**

And Brexit?

With a transition plan now in place, Brexit is forcing a pragmatic review of operations.

"For some managers, not currently regulated elsewhere in the EU, Brexit is making them think about their options.

"Some are choosing to relocate some operations now and set up regulated entities in the EU to have distribution within Europe – and they're largely looking to Luxembourg and, to a certain extent, Dublin.

"But many are making contingency plans and waiting."

**David Brown, Partner
Deloitte**

"Brexit is also likely to affect this area in a variety of ways, even in respect of structures which do not involve the UK.

"For example, ESMA recently issued guidance which raised concerns in respect of delegation arrangements – although set out in the context of Brexit, such moves could have a wider effect on structures which rely on delegation or advisory arrangements."

**Marc Schubert, Associate
Weil, Gotshal and Manges
(London) LLP**

"The regulatory landscape has changed forever. FATCA, CRS, BEPS ... they have all challenged us to think, act and report differently. Technology is also playing an increasingly important role with specialist software now required to report and file in many jurisdictions.

"At Ocorian we continue to invest in a dedicated in-house team to work alongside and support our clients with their regulatory obligations - be that in just one jurisdiction or across multiple international markets. Our focus is to provide solutions: to make processes more efficient and to reduce risk. It's that simple."

Bradley Vautier, Director of Regulatory Reporting, Ocorian

THE RISE OF THE MACHINES:

The increasing role of technology

An overwhelming 7 in 10 (70.4%) respondents to our survey believe that smart technology will play an increasingly significant role in all areas of fund management and administration.

As investor expectations and requirements increase, their technological needs will become more sophisticated and bespoke – but speedy automation of processes (at justifiable cost) will continue to drive their choice of smart technology solutions.

This is supported by the finding that 40% of respondents now prefer to interact with fund managers online via a dedicated client portal.

As a result, nearly 8 in 10 respondents (77.8%) say it will very likely make more sense in the future to outsource this requirement to a specialist provider than to try to manage this inhouse.

The increased use of technology however is not without its concerns, with a third (32.4%) worrying about the overall security of any given system.

Other concerns include cost (17.1%), complexity (14.1%), integration with an existing system (11.9%) and the need to rely on an administrator (8.2%).

Top 5 drivers in selecting and using smart technology:

#1	Speed	19.6%
#2	Automation (of processes)	17.8%
#3	Cost	14.9%
#4	On-demand access	12.1%
#5	Flexibility	9.4%
#6	Transparency	7.4%
#7	Centralised data source	6.7%
#8	Access via desktop or mobile	5%
#9	Level of customisation	4%
#10	Richer administration experience	3%

Top 5 concerns in using smart technology:

#1	Security	32.4%
#2	Cost	17.1%
#3	Complexity	14.1%
#4	Integration (with existing system)	11.9%
#5	Reliance on administrator	8.2%
#6	Loss of control	7.4%
#7	Training	5.7%
#8	Confidentiality	2%
#9	Other	1.2%

Embracing change

"Generally speaking real estate administration and investment management has been a laggard in terms of new technology – but that is changing.

"Part of it comes from a data security, data governance perspective, and part of it comes from a cost push – in order to get better efficiency in the reporting and administration eco-system.

"It's not just choosing the right set of service providers, it's actually about getting technology to be as efficient as possible. The information that starts off with the property manager flowing all the way through to the NAV calculation, with as little interference as possible.

"The consistent use of technology across the business of administering the funds, and managing the assets, is as important as it being a single provider."

**David Brown, Partner
Deloitte**

"Many large investors and managers across the real estate, private equity and other asset classes utilise multiple service providers, systems and applications without the flexibility of each entity being able to communicate with each other. They struggle to find a solution that can deliver information quickly, concisely and accurately. Often it becomes a manual task.

"At Ocorian, we have 'Ask Robert', a dedicated proprietary technology that is able to complete multiple tasks within a matter of seconds. The platform can be tailored for any requirement and is ideal where thousands of data points need processing, such as invoicing, data migration and data reconciliation. Essentially, it does whatever you want it to do. It can replicate any manual process and complete the task quickly and error free."

Richard Hansford, Director of Alternative Investments - Ocorian

WHAT'S IN A NAME?

Selecting and appointing a fund administrator

In selecting and appointing a fund administration provider, respondents to our survey told us that two clear factors outweigh all others: reputation (37.8%) and expertise in relevant asset classes (25.6%).

These were followed by some distance by: an existing relationship (10.3%), independence (7.7%) and the technological solutions offered (5.8%).

It is notable that respondents prioritised bespoke relevant services above a more global or generalised offering and for that reason cost was also a secondary concern.

"Expertise and track record in the relevant asset class are key factors in our clients' fund administrator selection process. As with all service providers, experience and market reputation are important criteria.

"We often see our clients favour providers with which they already have an existing relationship, even if that relationship is in a different part of their business or covers a different asset class."

**Marc Schubert, Associate
Weil, Gotshal and Manges
(London) LLP**

Top 3 factors in selecting a fund administrator:

#1	Reputation	37.8%
#2	Expertise in relevant asset classes	25.6%
#3	Existing relationship	10.3%
#4	Independence	7.7%
#5	Technological solutions	5.8%
#6	Range of services	4.5%
#7	Stated cost	4.5%
#8	Global reach	3.8%

"One thing I've always noticed, perhaps somewhat bizarrely, when clients are looking to find a new fund administrator – they never seem to be interested in price.

"They want reputation and reliability: someone they can trust. Undoubtedly, word of mouth plays a key part in what we do.

"Clients want to work with proven experts who can do their job, know what they're talking about and can take care of everything."

**Rob Williams, Tax Director –
Real Estate and Construction
BDO LLP**

Why change fund administrator?

When asked why a review of provider might occur, two reasons dominate: lack of expertise (35.5%) and change in key contact (29.7%).

The importance of relevant, tailored expertise and personal relationships should therefore not be underestimated.

Top 5 reasons to review fund administrator:

#1	Lack of expertise	35.5%
#2	Change in key contact	29.7%
#3	Complex request	15.5%
#4	Security issue	10.3%
#5	Technology issue	8.4%

"Reputation is really important. But that's not simply about brand; it's as much about the individuals who'll be servicing an account.

"Reputations can be won and lost quite rapidly. Often it boils down to individual relationships and trust in the people who are going to deliver for you."

David Brown, Partner
Deloitte

WHAT NEXT?

The challenges and the opportunities

Looking ahead, respondents to our survey were asked to consider what factors were most likely to impact and change the fund administration sector.

As the demands on in-house fund managers become ever heavier from a regulatory and compliance perspective, the role of independent fund administrators will become even more important with

- 1 in 4 (24%) of respondents saying that they will see an increased need for outsourcing to focus on core competences.

Other key developments include:

- greater use and application of technology in the administration of funds (21.4%) and
- a shift towards the establishment of more onshore structures due to regulatory change (13.3%).

Top 3 future trends in funds sector:

#1	OUTSOURCING: Managers to outsource fund administration to focus on core competences	24%
#2	TECHNOLOGY: There will be a growth in technology platforms to cope with better data integration between managers and administrators	21.4%
#3	ONSHORING: Regulatory development such as AIFMD will see more managers establish onshore fund structures	13.3%
#4	CONSOLIDATION: Fund administration sector will continue to consolidate	10.7%
#5	NETWORK OF PROVIDERS: Managers will increasingly have more than one outsourcing partner firm	9.3%

"Big fund managers are starting to look at their operations as a whole to see how they can get best value.

"That might be consideration of insourcing versus outsourcing. It might be reducing the number of suppliers that they have. It might be consolidating into a single jurisdiction to get operational efficiencies. A number of different things.

"They're driven by the cost of doing business, pressure on management fees and a desire to maintain margins."

David Brown, Partner
Deloitte

Why and what to outsource?

The decision to outsource is not a straightforward one and can be driven by many varied factors.

However a need for cost efficiency (16%) and a focus on core competence (21.3%), underpinned by lack of inhouse expertise (18%), makes outsourcing a priority for many respondents.

Top 5 drivers to outsource fund administration:

#1	Focus on core competences	21.3%
#2	Lack of inhouse expertise	18%
#3	More cost effective	16%
#4	Business strategy	12.7%
#5	Compliance support	9.3%
#6	Increased regulation	8.7%
#7	Investor demands	7.3%
#8	Risk management	6.7%

What to outsource?

The majority of respondents are looking to a third party to assist with the more technical elements of the financial management and reporting of funds, with investment fund accounting (16.3%), financial statements (12.2%) and NAV calculations (10.6%) the top three services to be outsourced.

Top 5 services to be outsourced:

#1	Investment fund accounting	16.3%
#2	Financial statements	12.2%
#3	NAV calculations	10.6%
#4	Compliance and regulatory oversight	9.8%
#5	Director and trustee services	9.8%
#6	Valuation and pricing	9.8%
#7	Investor services	8.9%
#8	Performance measurement	8.9%
#9	FATCA and CRS services	7.3%
#10	Cash management services	6.5%

"Investment managers don't really want to be engaged with every single level. They don't necessarily want to insource property management or NAV calculation, for example, and there are some aspects such as custodianship they can't do themselves.

They are trading off mixed insourcing and outsourcing against full outsourcing to single, or groups of, service providers who are using a common technology platform as far as possible."

David Brown, Partner Deloitte



Ocorian has provided a safe pair of hands for alternative investment managers and institutional investors for more than four decades.

Impartial expertise

As an independent provider of fund, corporate and fiduciary services, you can be sure that we will always operate in the best interests of the client.

Our core focus is to deliver best-in-class fiduciary, administration and accounting services; taking care of the complexity to leave you free to focus on underlying assets and investors.

International reach

Our global network of offices covers all key financial centres and time-zones – providing continuity of service while putting us where your clients need us to optimise their investments.

EUROPE AND THE AMERICAS	AFRICA, ASIA AND THE MIDDLE EAST
<ul style="list-style-type: none">• Cayman Islands• Channel Islands• Ireland• Luxembourg• UK• USA	<ul style="list-style-type: none">• Cote D'Ivoire• Mauritius• Singapore• South Africa• UAE

Scalable solutions

We tailor our approach to meet the needs of you and your clients. Our goal is to build a lasting, flexible relationship that can evolve as requirements change.

Asset classes supported include:

- Private Equity
- Real Estate
- Infrastructure
- Islamic Finance
- Fund of Funds
- Listed Funds
- Debt
- Venture Capital

Regulatory solutions

- Compliance services
- FCA Operator role
- Depositary and 'Depositary Lite' services
- FATCA and CRS services
- Office rental services

Administration services

- Establishment and launch of investment structures
- Limited partnership administration
- General partner administration
- Unit trust administration
- Transactional administration
- Investor services
- Provision of Directors to investment structures
- Provision of Trustees to investment structures
- Cash management services
- Carried Interest Vehicle administration and accounting services
- Company secretarial services

Technology

- eFront's FrontInvest, combined with integrated proprietary client and investor portals

Reporting

- Accounting and financial reporting
- Bespoke client and investor reporting

GET IN TOUCH

Interested in learning more about Ocorian's Alternative Investment Services?

enquiries@ocorian.com

Alternatively, individual contact details for Ocorian's Alternative Investment team can be found on our website:

ocorian.com/our-people

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