ALLIED FUND SERVICES LLC

info@alliedfundservices.com

(866) 706-1914

1225 North Loop West, Suite 725
Houston, TX 77008

Mid-Tier Private Equity (PE) funds are a popular alternative investment class and the number of PE firms continues to grow rapidly. With increased competition for investors, some funds seek to differentiate themselves and are often driven towards innovative (although more complex) investment structures, placing greater responsibility on back-office operations. Many funds implementing these unique structures are engaging third-party administrators (TPA) as an enhancement to the investors' overall experience.

While administrators perform a multitude of middle- and back-office functions, their basic high-level activities include:

- Accurate recording of the fund's books and records
- Independent valuation of the fund's assets, and
- Automated reporting to the fund investors

A TPA serves as an independent third-party protecting the interests of investors by providing customized services including pre-launch assistance, administration, accounting, audit support, investor reporting, compliance, fund governance and regulatory reporting. The TPA's independence also addresses one of the more fundamental needs of the fund's manager: the elimination of inherent conflicts of interest around asset valuation and fee/waterfall calculations.

Today's PE investors expect more from their fund managers than in the past. In the aftermath of the financial crisis, the mandate is for greater investor transparency and third-party support of investment funds. Now, more than ever, investors need more visibility into risk, operations, performance and valuation. Along with the ever-changing regulatory landscape, there is also demand for institutional-quality infrastructure and operational efficiency and accuracy.

Additionally, fund administrators have technology infrastructure for automating the capital call and distribution process, encrypting sensitive investor information, creating system driven audit trails, reducing the risk of human error and saving time on the functions typically performed using spreadsheets. Investor reporting should be compliant with industry best practices and administrators stay current with these trends.

Rather than increase the cost of internal staff to meet these new expectations, fund managers can utilize the resources and expertise of TPAs, reducing their costs and eliminating the conflicts of interest that can arise particularly in an instance where management company resources are limited. Generally, a fund administrator's fees are classified as a fund expense and, therefore, can be passed to the partnership vehicle. The fund manager avoids the cost of building back office capabilities and instead focuses on investment processes, fiduciary responsibilities and core competencies.

The engagement of a TPA at the initial stages of a fund ensures investors the investment strategies of the fund are properly disclosed, the fund is in regulatory compliance and an independent back-office provides accuracy and timeliness of investor reporting. This is a valuable marketing tool to fund managers and sponsors during the capital raise phase and leads to a better investor experience throughout the life of the fund.

Overall, investors are demanding operational excellence from their funds and using a TPA adds valuable credibility to today's private funds. Engaging a third-party administrator is a win-win for all parties involved. Through objective and independent review of fund processes and procedures, investor comfort-level increases and TPAs raise fund returns by streamlining cost of middle– and back-office functions. Fund managers can enhance investor experience by providing a meaningful value proposition, while driving up their own brand value. By outsourcing administrative roles and expanding internal investment resources, fund managers can focus on achieving the fund's strategic objectives and work to maximize profitability. This results in a more attractive investment to both private and institutional investors.