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Benchmarking Insights

PwC's asset management perspectives and analysis

Asset Management Benchmarking – Fund Administration

July 2015



Contents

Section		Page #
1	Introduction and Survey Demographics	3
2	Fund Administration	7

Introduction and Survey Demographics

Section 01

Introduction

Alternative asset managers continue to face a challenging environment amidst pressure from competitors, regulators, and investors. To help respond effectively to these demands, PwC's Asset Management practice is delighted to publish results from our Alternative Asset Management Benchmarking Series designed to gather, analyze, and share information about key industry trends and metrics. In this report, we present the results from our fund administration survey addressing selected practices around the use of third party administrators. Other topics covered in our Benchmarking Series include practices and selected metrics related to Valuation and Governance.

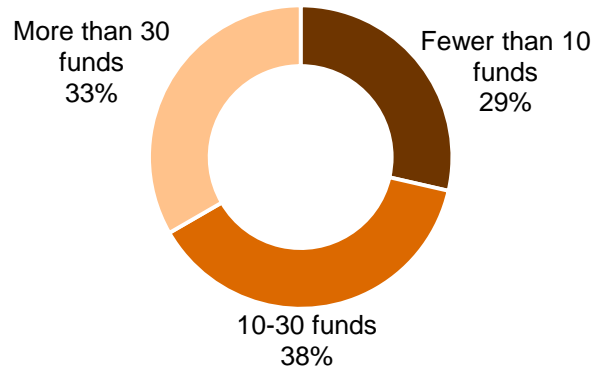
In total, 42 alternative firms participated in our benchmarking study. Because of the number of participants and the diverse nature of alternative asset managers, these results should not be considered representative of all alternative asset management firms. Where possible, managers were segmented into three different organization types based on their dominant strategy:

- Hedge Funds – Organizations that have more than 50% of their AUM in hedge fund strategies such as long/short equity, multi-strategy, credit, etc.
- Private Equity – Organizations that have more than 50% of their AUM in private equity strategies such as buy-out, venture capital, growth, distressed PE, etc.
- Other – Organizations that have more than 50% of their AUM in fund-of-fund strategies, or indicate they are a business development company

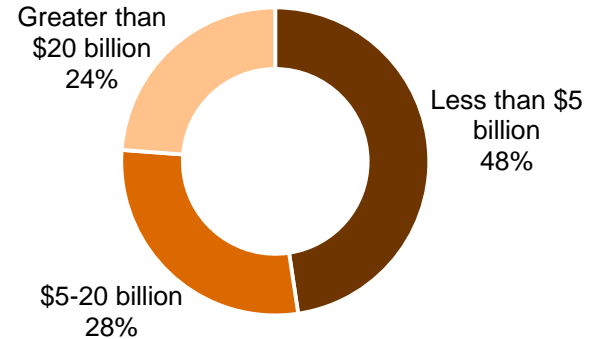
We hope that you find these results interesting.

Survey Demographics

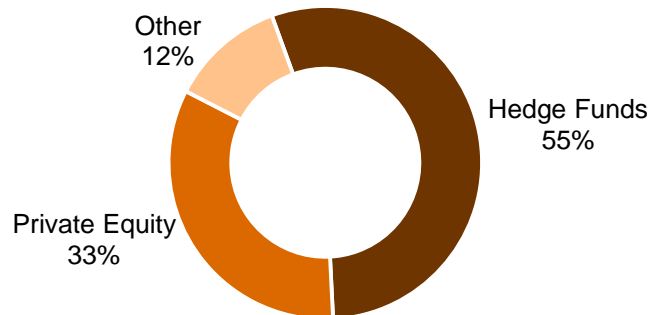
Number of Funds Managed



Assets Under Management

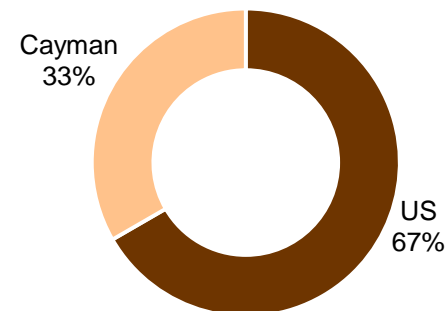


Type of Organization

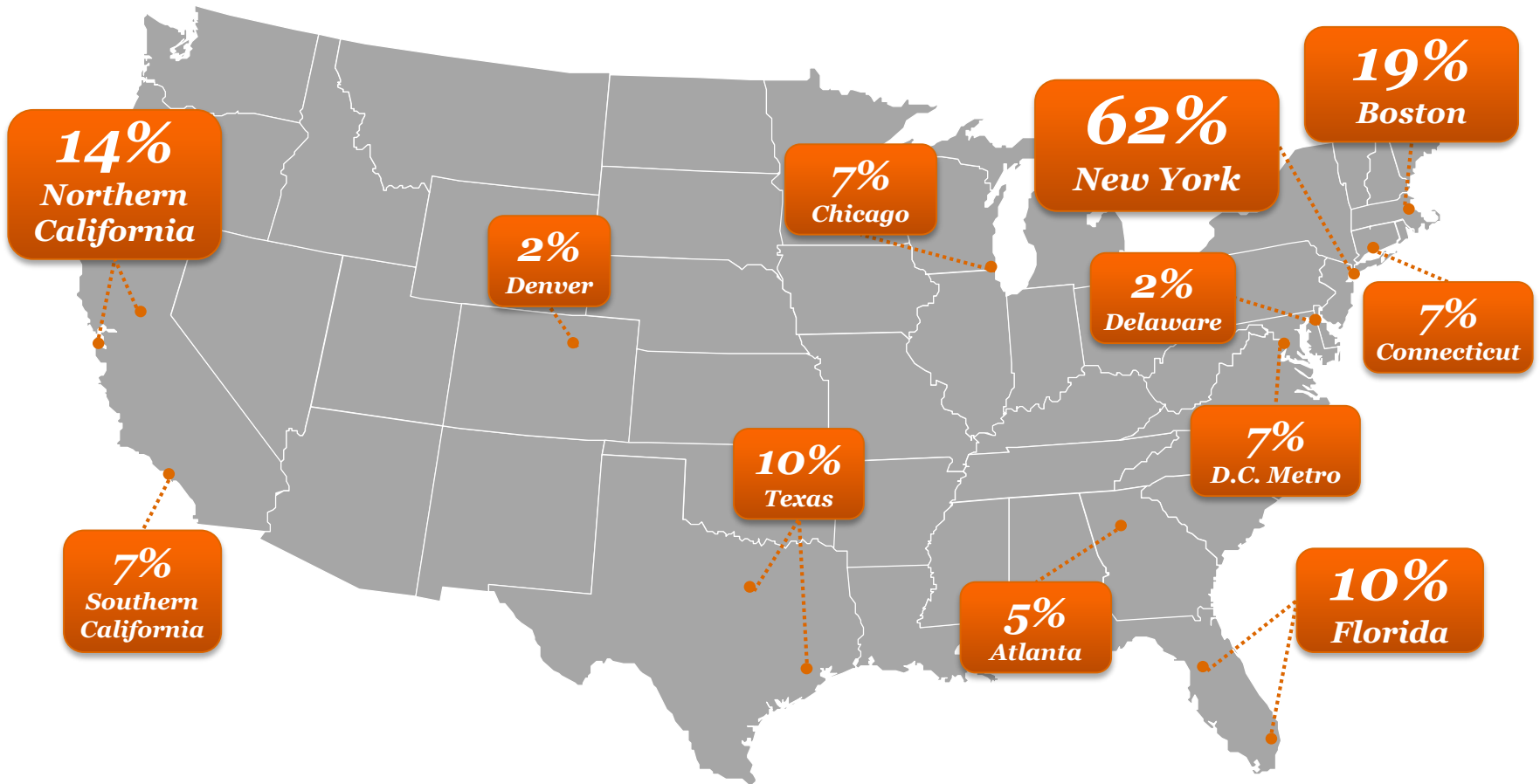


Other include BDCs and Fund of Funds

Primary Domicile of Funds



Advisor's Office Locations



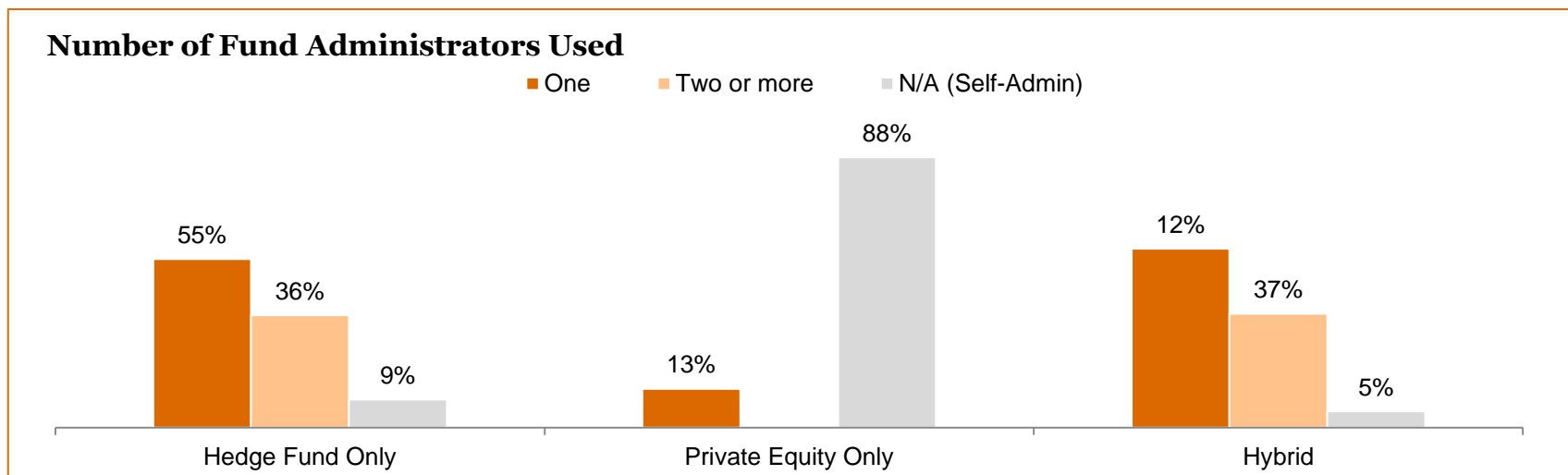
NOTE: Advisors were given the option to select multiple locations, therefore percentages will not sum to 100%

Fund Administration

Section

02

Number of Fund Administrators In Use



NOTE: Organizations were segmented based on their entire AUM strategy (eg. 'Hedge Fund Only' are organizations that have 100% of their AUM in hedge fund strategies). Refer to page 3 for full segmentation explanation.

PwC Observation:

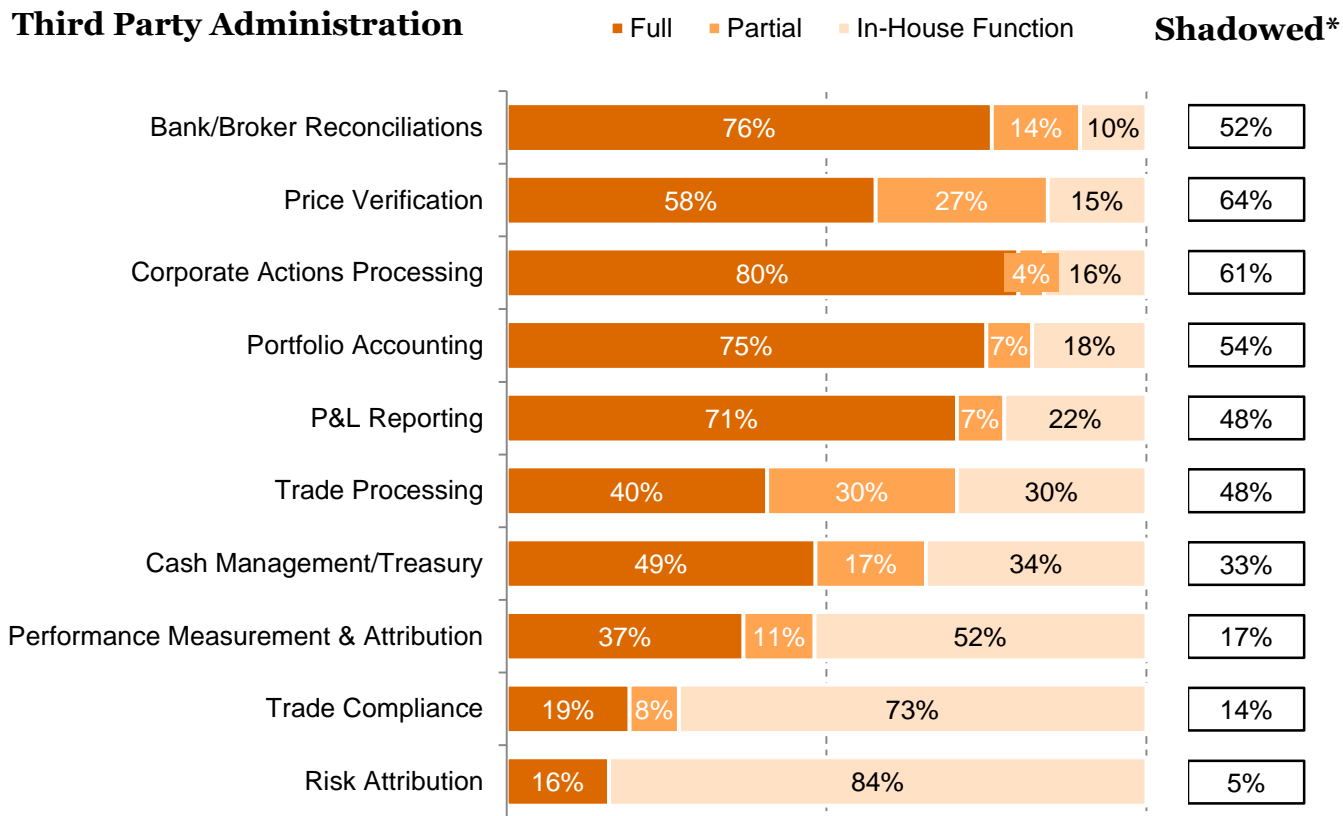
More than half of hedge funds and hybrid managers indicate they use at least one fund administrator, and nearly 40% of hedge funds are using two or more. Moreover, in a recent PwC study on Hedge Fund Administration, from 2006 to 2013, the percentage of hedge fund AUM outsourced to administrators increased dramatically from 50% to 81%.¹

Meanwhile, private equity firms tend to be self-administered (88%), however this is expected to change. Increasing pressure for private equity organizations to deliver greater transparency, better reporting and manage costs may drive many of them to outsource some back office functions.²

¹2014 PwC Hedge Fund Administration: The Quest for Profitable Growth

²<http://www.pwc.com/gx/en/asset-management/asset-management-insights/pressure-builds-for-private-equity-outsourcing.jhtml>

Scope of Third Party Administration: Middle Office



PwC Observation:

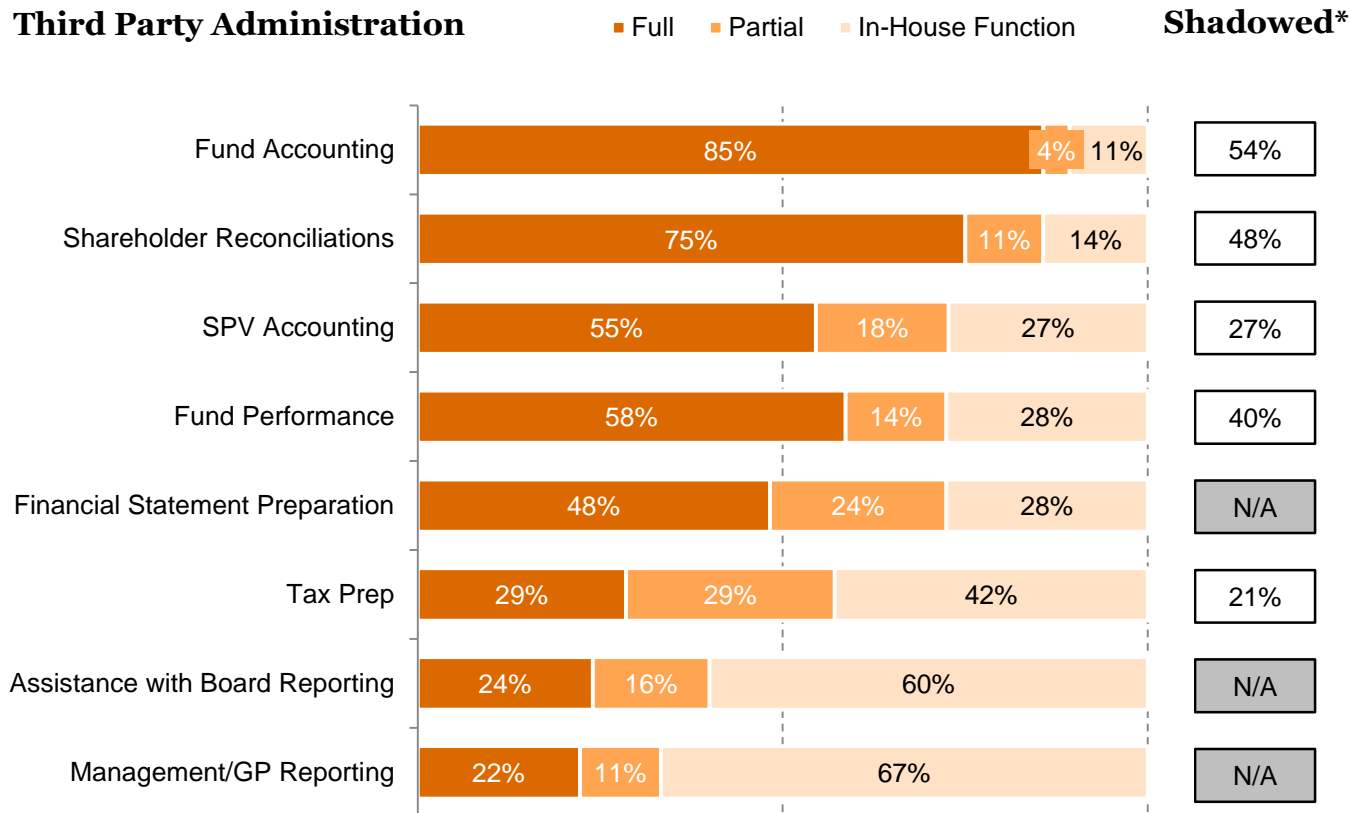
About half of participants are shadowing their administrator in the majority of business functions listed. This is no surprise given that 83% of managers reported maintaining an in-house shadow accounting function in 2014.¹

Organizations perform functions that are also done by their third party administrator as a way to monitor the administrator's operations. Shadowing mitigates risk but also increases internal costs.

* Percentages shown represent organizations that indicated they *fully* shadow these functions

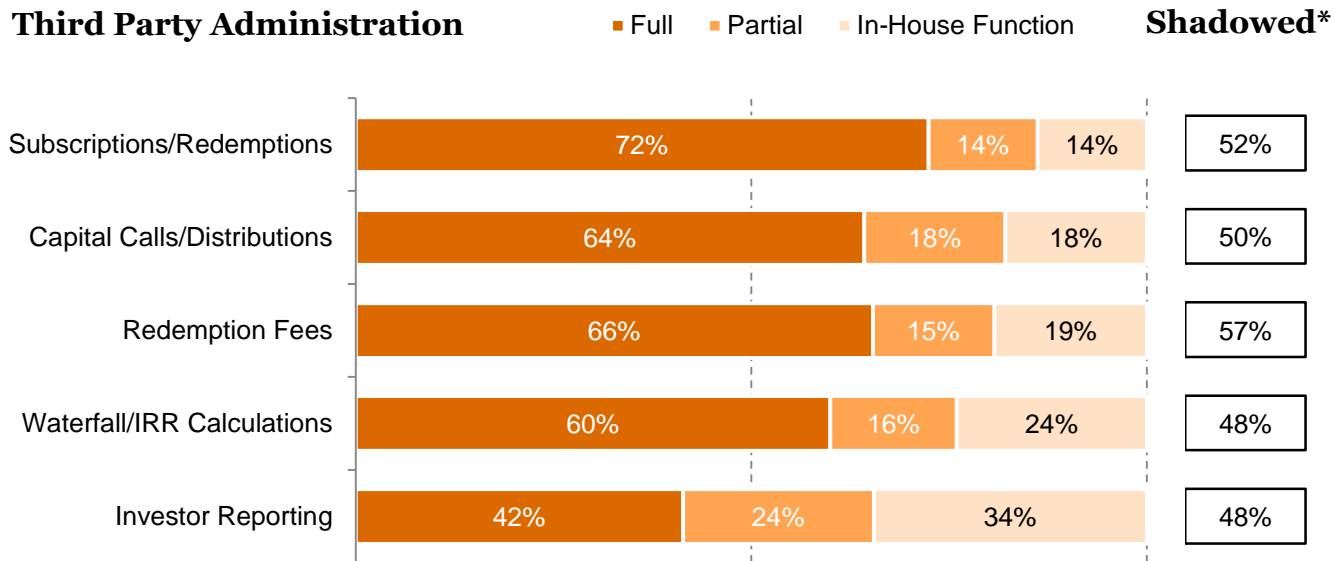
¹ 2014 PwC Hedge Fund Administration: The Quest for Profitable Growth

Scope of Third Party Administration: Fund Accounting and Reporting



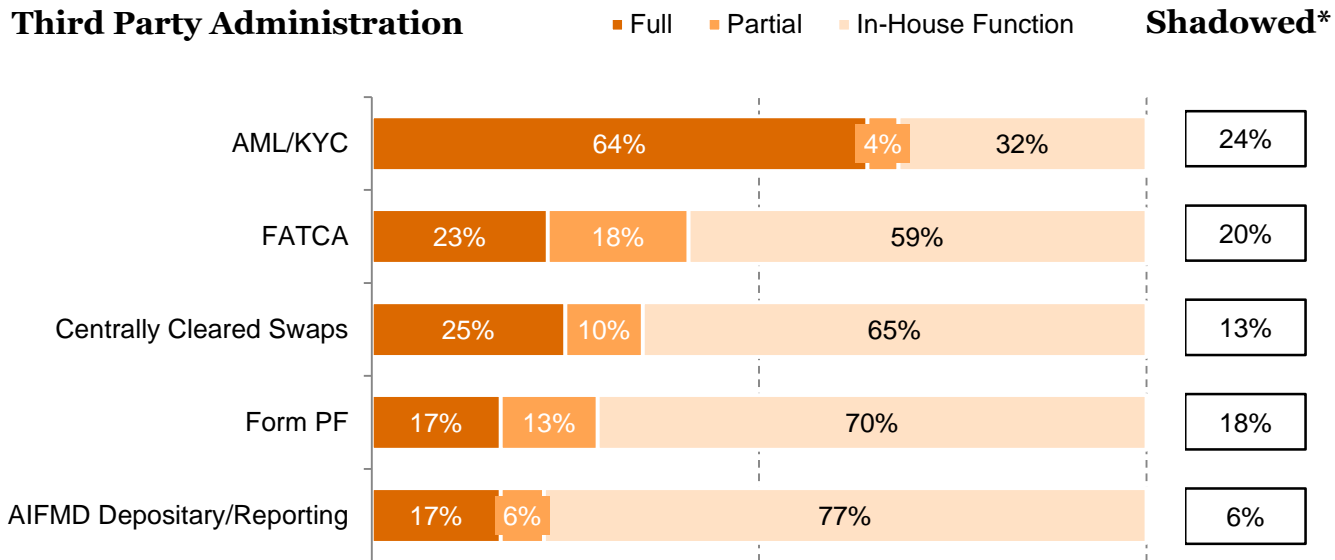
* Percentages shown represent organizations that indicated they *fully* shadow these functions

Scope of Third Party Administration: Investor Services



* Percentages shown represent organizations that indicated they *fully* shadow these functions

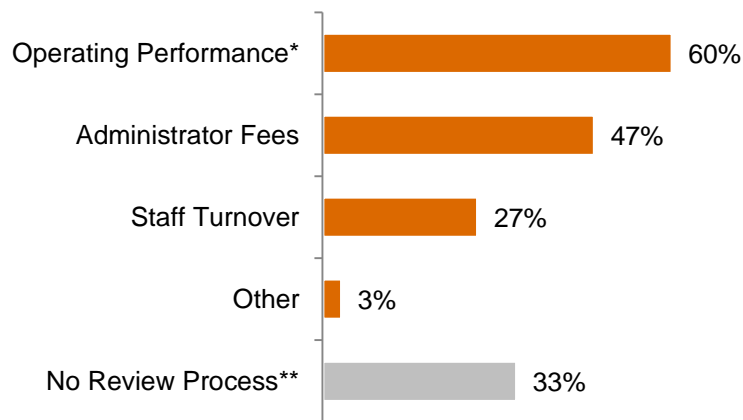
Scope of Third Party Administration: Regulatory Matters



* Percentages shown represent organizations that indicated they *fully* shadow these functions

Review of Administrator Services (All Respondents)

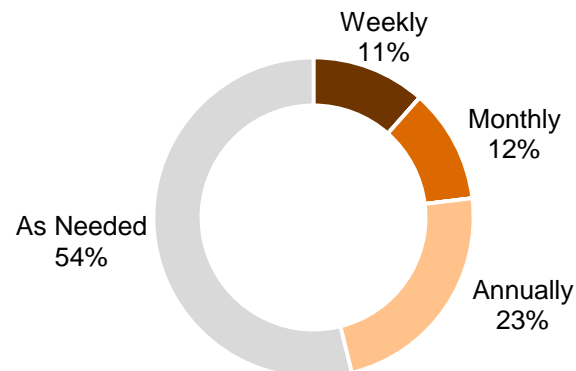
Which of the following metrics does the advisor routinely review during a standard governance or fund administrator selection process? (Select all applicable)



* Includes service level agreements (SLAs), timeliness and accuracy of reports, data quality, NAV errors

** There is no standard governance or vendor review process

How frequently does the advisor meet with the administrator as part of the standard governance or vendor review process?

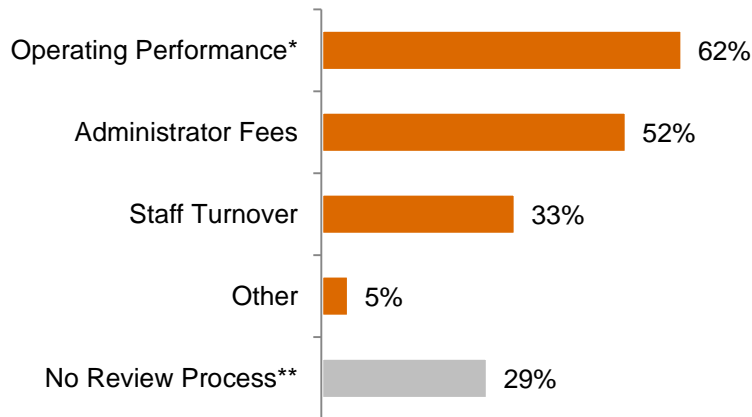


PwC Observation:

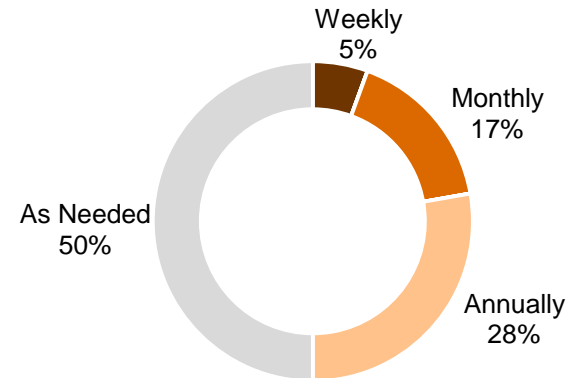
Participating firms indicate that operating performance (60%) outweighed costs (47%) when selecting a fund administrator. Service level agreements (SLAs), timeliness of reports, and data quality are considered part of the standard review process for determining operating performance. Surprisingly, nearly half of firms who said they consider SLAs as a part of selecting a fund administrator do not track key performance indicators (KPIs) to evaluate the fund administrator's performance.

Review of Administrator Services (Hedge Funds)

Which of the following does the advisor routinely review during a standard governance or fund administrator selection process? (Select all applicable)



How frequently does the advisor meet with the administrator as part of the standard governance or vendor review process?



* Includes SLAs, timeliness and accuracy of reports, data quality, NAV errors

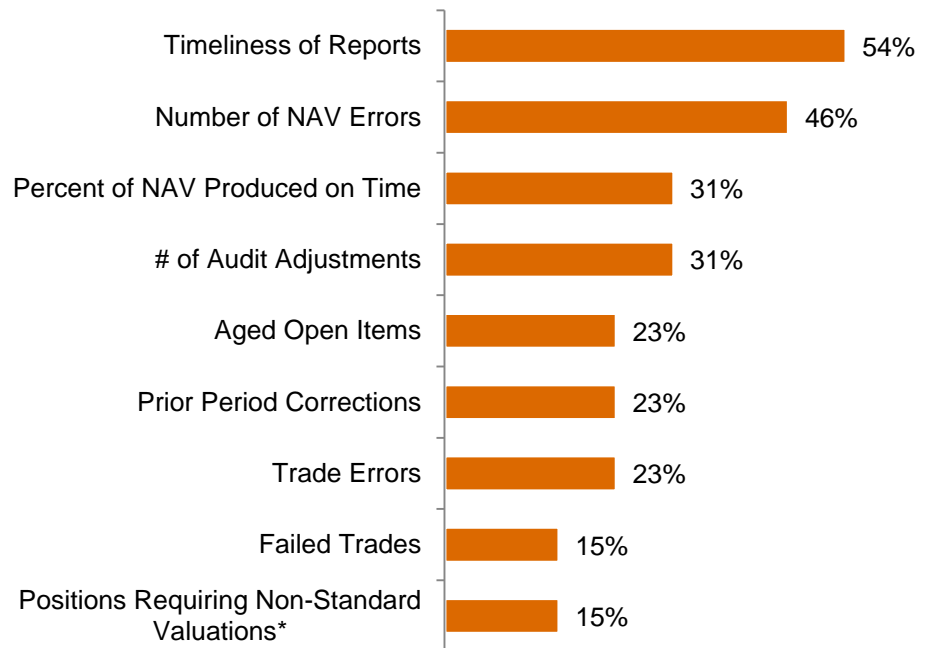
** There is no standard governance or vendor review process

Key Performance Indicators (KPIs)

For those who employ a third party administrator, are KPIs used to evaluate the administrator's performance?



**If applicable, which KPIs are used?
(Select all applicable)**



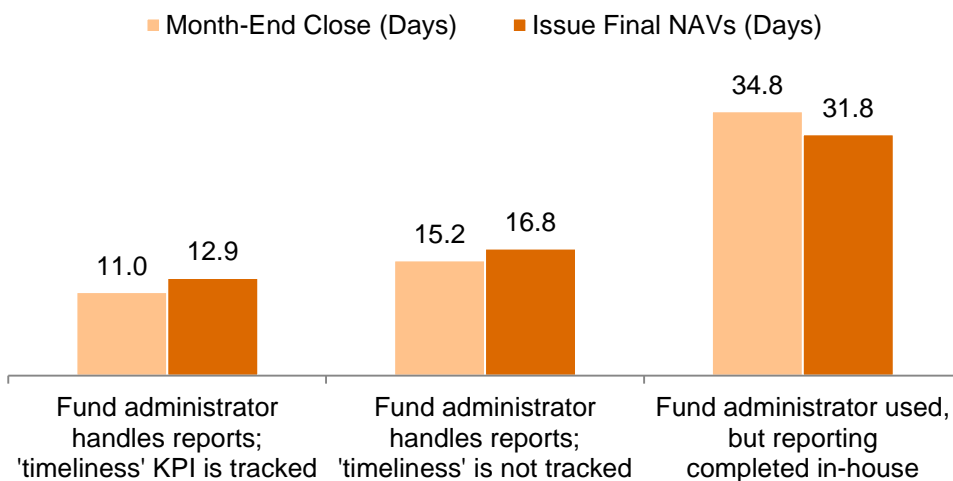
PwC Observation:

A service level agreement that is measured, tracked and enforced is an effective tool that organizations can leverage when reviewing operating performance as a part of their administrator selection process. Only 38% of participating firms use KPIs to evaluate their administrator's performance – with timeliness of reports cited as the KPI used the most at 54%.

* Includes % change and time to value

Impact of Fund Administrator on Reporting Cycle Times

Use of Fund Administrator and Tracking 'Timeliness' as a KPI



When reporting is performed by a fund administrator, organizations are able to complete reporting sooner than when done in-house

PwC Observation:

Reporting cycle times appear to be affected by use of a fund administrator and tracking key performance indicators:

- Organizations who use a fund administrator and track 'timeliness of reports' as a KPI are providing reports 11.0 days after month-end close, on average.
- Those who use a fund administrator but don't track KPIs complete month-end close in 15.2 days.
- Organizations who use a fund administrator but do reporting in-house completed month-end close in 34.8 days.

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