

# What to Expect from a Fund Administrator

Bob Donahoe, Managing Director – Citi's hedge fund services

**Historically people have equated administrators with offshore funds; however, this has been changing over the last several years.** The primary drivers behind this trend tend to be fund structures, investors requiring independence and investment managers realizing the benefits gained by working with a qualified administrator. This article addresses the factors that should be considered when selecting an administrator.

## Services offered by the administrator

### Pre-launch phase

A full-service administrator will play a key role in the pre-launch process. A full-service administrator will employ a team of in-house legal counsel that can offer advice on the fund structure, equalization methodology and incentive fee calculations. The administrator's in-house counsel will also review all of the fund's legal documents and liaise with the fund's counsel to ensure the fund is ready for launch. In the launch phase, the investment manager will provide the administrator with a list of potential investors and will send out Offering Documents and Subscription Agreements/Partnership Agreements to these potential investors. The administrator will also coordinate the receipt of all completed subscription documents. At the same time, the administrator will also be checking the fund's escrow account. As the subscription amounts are received, they will match them up with the subscription agreements and ensure that everything is in good order. The administrator will work closely with the investment manager to ensure they are aware of how much money will be available for investment on launch date. On launch date, they will move the funds to the prime brokerage account. Once the fund is running, the administrator carries out a number of vital functions:

### Shareholder services

The administrator will maintain the shareholder register, reviewing all subscription, redemption and transfer requests, performing the required anti-money laundering (AML) checks, respond to shareholder inquiries and distribute shareholder statements. As completed subscription/partnership agreements are received, the administrator will review them to ensure they are completed accurately. As the subscription funds are received, the AML controls are completed.

### NAV calculation

One of the primary responsibilities of the administrator is to independently calculate the net asset value of the fund, which is something that investors increasingly require. To further ensure an accurate and independent NAV, the administrator must be able to accept daily trade files from both the investment manager and the prime broker. These trades must be reconciled on a daily basis. At valuation date, the portfolio must be independently valued using third-party sources. If the fund holds unlisted or complex securities, it is up to the administrator to get a fair value for the securities. The investment manager will typically rate their administrator on the timely and accurate delivery of the NAV.

In order for the administrator to deliver a quality product, they must have strong technology and superior personnel.

### Partnership allocations

As mentioned at the beginning of this article, more and more investment managers are outsourcing the administration services for their onshore funds and this especially makes sense if the structure is a master feeder or mini-master feeder. The administrator that is selected must have the capability to handle partnership allocations ideally on both a book and tax basis.

### Corporate Secretarial

The Corporate Secretarial Department can provide the following services for an offshore fund: provision of registered office and handle all local filings, safekeeping of the fund's minute books and corporate records, prepare directors resolutions and attend and minute all board meetings.

### Tax services

Those funds treated as partnerships in the U.S. will have a tax-reporting requirement. A full-service



administrator will have an in-house staff of U.S. tax personnel who will provide this service. The administrator must be able to maintain the data required to complete the K-1s. In order to do this, the administrator's systems must be able to handle the different allocation methodologies. The administrator will also be able to calculate the tax adjustments and make the allocations to the partners. The administrator should also provide PFIC reporting for the offshore fund.

### Making the right selection

In selecting an independent administrator, the following factors should be considered:

**Reputation in the industry** – It is important to remember that the administrator will be representing your fund and interacting with your investors. You want to make sure the administrator has a strong reputation and offers a credible service.

**Technology** – It is important that the administrator uses the latest cutting-edge technology. This is one area that the investment manager and the investors will benefit, as it is crucial to ensuring that the NAV is calculated accurately and quickly sent to investors.

**Quality of personnel** – Make sure that the administrator has an experienced and qualified staff. Managers should spend time meeting the team and ensuring that the chemistry is right.

### What to expect from your administrator

The quintessential service that an administrator should provide is the accurate and timely delivery of the

NAV. How well this is done is driven by two factors; the service delivery team and technology.

### Service delivery approach

Typically, a fund administrator will utilize an account team approach to handle each client relationship. This creates not only "one stop shopping" 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.

### Technology

Technology is a critical component of a successful administrator. The key is straight through, efficient, secure processing. Information should flow in to the administrator, be processed, and flow out to the investment manager and their investors.

### Effectively managing your relationship with your administrator

One of the keys to a successful relationship with your administrator is communication, especially at the outset of the relationship. Before the fund even launches, it is imperative to ensure the fee proposal and administration agreement accurately reflect the specifics of your fund and detail the services that you are expecting the administrator to provide.

A good next step is to develop a responsibility matrix with your administrator. This is a document that outlines who is responsible for each function on daily/weekly/monthly/annual basis. The implementation of a service level agreement (SLA) is also a very good idea. While similar to a responsibility matrix, an SLA will also

lay out the responsibilities as well as agreed upon deliverables.

Lastly, an Operations Meeting is a good way for both sides to sit down and review the SLA, discuss what is going well and what needs improvement. It is also a good time for both parties to share any new initiatives.

### Benefits of superior administration

There are several benefits to hiring an independent administrator. The obvious benefit is independence, a major concern of many investors. More and more investors are looking for the administration to be outsourced to a qualified administrator that will act independently of the manager. Also, by outsourcing the back office the Investment Manager is able to focus on their core competency, managing the money and generating positive returns. By outsourcing the administration work, the Investment Manager is able to reduce the fixed expenses of the management company by minimizing the infrastructure costs. All administration fees are run through the fund and not paid for by the management company versus if the manager does the work in-house then the management company bears the costs.

### Conclusion

The selection of an administrator is often the last decision that is made by the hedge fund manager; however, this article demonstrates the importance of this decision and the fact that it will have a direct impact on the services that both the investment manager and investor receive.