



# A GUIDE TO OUTSOURCING HEDGE FUND ADMINISTRATION

The trend to outsource is quickly becoming a standard business practice due to increased regulatory demands and investors' desire for improved transparency, independent oversight, and the segregation of investment management and administration. With due diligence heightened around investment processes and administration services, some institutional investors will not invest unless the administration is performed by an independent third-party.

This article provides valuable insight into the process of selecting an outsourcing partner:

## DECISION TO OUTSOURCE

Before making a decision on whether or not to outsource services, consider the following:

- **Investor Market:** Does your target market require an independent administrator?
- **Corporate Vision:** What is your core business and how does having an internal servicing operation support your fundamental competencies?
- **Expertise:** Do you, and can you continue to, employ the highest quality operations professionals to stay current on servicing trends and regulatory changes?
- **Service Commitment:** Are you in a position to continually reinvest in your internal operations to address regulatory and tax changes and improve the quality and offerings of your services?
- **Service Risks:** What operational and regulatory risks are you assuming by keeping services in-house?
- **Disaster Recovery:** Do you have a plan and facility to continue operations in the event of an outage?
- **Profitability:** Carefully weight the opportunity costs of an internal service operation against the actual service costs in terms of staffing, technology, and compliance.

## SELECTION PROCESS

A business partner who identifies with your corporate vision, products, and investment strategy is crucial to the successful administration of your program. Releasing a Request for Proposal (RFP) is one way to framework your service requirements and objectively select a qualified vendor. RFPs typically include the following elements:

- Background information on your firm and products including mission statement, investment strategy, and scope of services.
- Guidelines and service expectations, including contact information, submission deadlines, and contract award date.
- General and specific requirements, usually in a question and answer format.

## CONVERSION

A successful conversion depends upon thoughtful transition planning and the expertise of your service team. As an expert in your unique products, and with a dedicated, highly-tenured team, your service provider can convert your funds with seamless transitions and zero loss of productivity. Together, you should understand what is necessary to establish services:

- Specific product information.
- Data delivery and technology needs.
- Service communication expectations.
- Documentation, including frequency and timing, required to administer your products for the initial set up and ongoing services.

## VENDOR RELATIONSHIP MANAGEMENT

It is essential that your service plan is delivered with high-quality customer service and you receive the most up-to-date information on regulatory requirements. The following tools are instrumental in monitoring your relationship:

- Senior management oversight of your service plan.
- Monthly, quarterly, or annual client meetings.
- Personal interaction with your primary firm contact daily.
- Service standards defined by your expectations and requirements.
- Monthly service performance reporting and benchmarking in regards to your service standards.

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