

## THE BIG THREE: PROCUREMENT, CONVERSIONS, AND RELATIONSHIP MANAGEMENT

### QUESTIONS TO ASK AND AREAS TO CONSIDER WHEN SELECTING A SERVICE PROVIDER

Our economic environment encourages increased regulations, leaner business practices, and more sophisticated technology. This means that now, more than ever before, investment managers must take into account the entirety of their alternative investment administration to either develop an infrastructure that can anticipate and prepare for investor due diligence, or select a third party administrator who can be their servicing partner.

*"Alternative asset investors increasingly perform due diligence on the fund administrator as part of their selection. A financially strong, high quality administrator provides investors with great comfort in their final decision."*

*Steven Graff, Business Operations Vice President, Wintergreen Advisers, LLC*

### DUE DILIGENCE PROCESS TIPS

A full-service, third party provider can demonstrate transparency to regulators and build investor confidence in your products by eliminating all red flags, including perceived conflict of internal administration services, valuation conflicts of interest, and affiliated prime brokerage arrangements. Releasing a Request for Proposal (RFP) is one way to framework your service requirements and objectively select a qualified administrator with a compliance program that addresses investor-driven and regulatory requirements for heightened transparency, risk management, and due diligence.

The most successful RFPs contain a general overview section outlining the manager's background, mission statement, investment strategy, current or anticipated product details, and expectations for the proposal. Providing every respondent this information shows that you performed objective due diligence and dramatically increases the efficiency of the process by reducing the amount of time you have to take explaining your requirements to each individual respondent. Framing out your requirements and asking questions is just the beginning. You must also take into consideration your organization's strategic direction, cultural, and more qualitative service needs by asking yourself the following questions as you analyze responses:

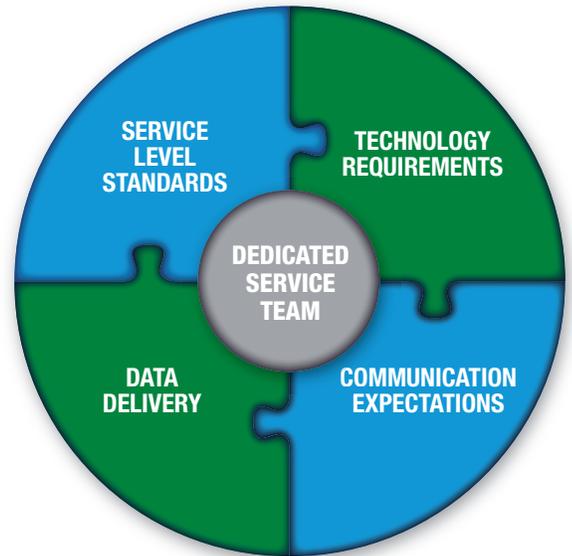
- » Do you walk away from reading the proposal with a clear understanding of the proposed services, technology, and pricing?
- » Is the solution specific to your business and complete with relevant case studies, forms, examples, reports, or other deliverables that further illustrate the provider's ability to support your business?
- » Is the solution realistic and a good fit between your organization and investors?
- » Will your investors identify with the strategic, technical, and operational aspects of the proposed solution?
- » Is the provider's solution feasible with a defined service team, implementation plan, and budget?

*"Ensure a seamless conversion by selecting a provider with a comprehensive process and experience in launching funds and converting them from leading industry platforms."*

*Timothy Shan, Global Head of Operations  
Aladdin Capital Management LLC*

In addition to verifying that administrators can meet your specific service, cultural, and conversion/implementation requirements, your RFP or due diligence process should also ensure potential administrators are in compliance with all applicable laws and regulations by analyzing the following areas closely:

- » Financial position, strength, longevity, and stability.
- » Operational processes and issues.
- » Reputation and business practices.
- » Financial and quality controls.
- » Data security and privacy.



By completing an in-depth review of potential vendors' internal procedures, you can effectively evaluate potential risk including counterparty exposure. The following considerations are key to assessing vendors' processes and controls:

- » Are exposure limits set for the combined exposure of securities borrowed and repurchase agreements?
- » Is counterparty credit quality reviewed on an annual, rolling basis?
- » Does the provider employ an "early warning system" to monitor and communicate event risk? Can they then act out-of-cycle to respond immediately, if needed?
- » What frequency is your provider's exposure to a counterparty measured and using what guidelines?
- » Does software allow principal lenders to limit or eliminate borrowers as counterparties?

### **CRITICAL CONVERSION AND FUND LAUNCH COMPONENTS AND CONSIDERATIONS**

A successful conversion or fund launch depends upon the thoughtful planning and expertise of your service team. In addition to having significant experience converting similar products from your current providers, it should be clear in respondents' proposals that they are willing to work with you and take the appropriate steps to understand what is necessary to establish services with your specific products. This includes:

- » Understanding your data delivery and technology needs, including any specialized reports, files, and delivery methodologies.
- » Outlining communication expectations.
- » Documenting a detailed implementation plan addressing all tasks, milestones, and dependencies.
- » Providing a contact list of all parties involved.
- » Identifying how service issues will be handled.

A well-established conversion program will use a project management methodology to automate a majority of the data transfer. In the case of a conversion, an experienced administrator should recommend a live date based on the fund’s fiscal year end to minimize audit impact and expenditures. The succeeding administrator should plan at least one parallel valuation in order to capture processes and fully reconcile to the prior administrator. In the case of daily-valued products, a parallel valuation period of one to two weeks is customary. They should also provide assistance for audit and tax preparation to ease the transition from the current provider.

Ensure your service provider is well-versed in the system architecture and conversion support model by considering the following:

- » Do they provide a dedicated conversion team led by a primary contact?
- » Do they include project leads from each business line or process?
- » Will they develop service level standards and benchmarks for the conversion?
- » Will they audit records from you current providers to ensure accuracy?
- » What are their data mapping processes? Do they run mock conversions or parallel processing?

*“A provider with significant experience can take complete ownership of the implementation or launch to provide complete oversight of the process and minimize clients’ direct involvement.”*

*Christine Waldron, Senior Vice President  
Alternative Investment Administration  
U.S. Bancorp Fund Services, LLC*

Having a clear understanding of your expectations and communicating them to your provider is also key to a successful conversion. The following chart depicts a sample implementation calendar illustrating key milestones and time frames integral to the conversion process:

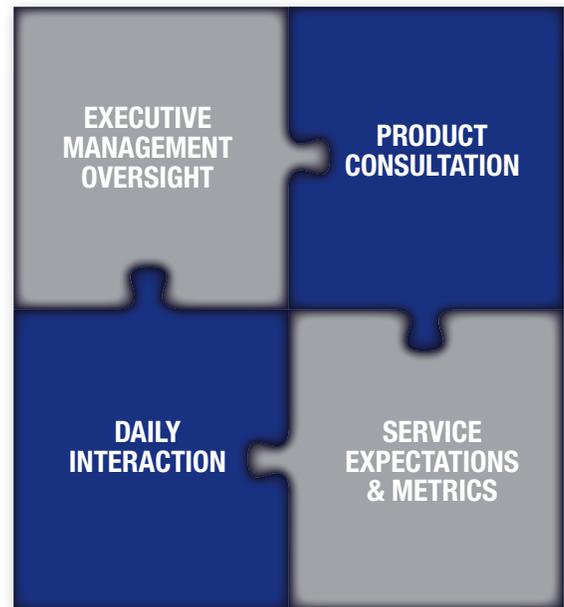
CRITICAL CONVERSION MILESTONES	
MILESTONES	TIMEFRAME
Implementation update weekly calls.	Day 1 - Day 60
Receive all appropriate legal documents and agreements.	Day 16 - Day 21
Establish custody account for shareholder proceeds.	Day 16 - Day 21
Receive and review initial tax filings for the Fund.	Day 16 - Day 21
Prepare financial statement and footnote template.	Day 16 - Day 21
Define service requirements and system requirements.	Day 15
Obtain copies of all subscription agreements and correspondence.	Day 16
Obtain copies of investor tax reporting (Schedule K-1, foreign withholding, etc).	Day 16
Perform anti-money laundering review of investor base.	Day 17
Draft each Fund’s expense budget and expense authorization template.	Day 21
Establish communication process and system access with Prime Broker/Custodian.	Day 23
Obtain income and expense information for the Fund.	Day 23
Convert investor data (allocations and performance) and reconcile investor account position.	Day 23 - Day 24
Perform compliance tests (ERISA, hot issue, etc.).	Day 24
Parallel process (if applicable).	Day 29 - Day 60
Live date.	Day 60

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## REINFORCE A RESILIENT RELATIONSHIP

Our experience has shown that the most successful client-relationships utilize a primary contact who has full, bottom-line accountability for the success of the relationship. As you evaluate providers, consider the following questions:

- » Will your primary contact work with executive management to design, update, and communicate your service plan to key areas?
- » Will your primary contact provide consultation on your operational and distribution strategies?
- » Does your contact and service team have the tenure and expertise to stay current on industry and compliance issues? Can they provide best practices?
- » What level of coordination will your primary contact and service team provide to keep all parties informed of important developments and issues?
- » What level of assistance will you receive in the event you require assistance in resolving complex, time-consuming, or non-routine operational issues?



## CONCLUSION - MAKE INVESTORS THE NUMBER ONE PRIORITY

It is essential that you select a provider who can provide the most up-to-date information on regulatory requirements and deliver your service plan with high quality customer service. The following tools are instrumental in selecting, monitoring, and managing 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.

Together with your provider, you can develop a strong partnership and receive highly customized services that allow you to capitalize on the strength of your investment philosophy.



### ABOUT THE AUTHOR

**Bob Kern** - Mr. Kern serves as Executive Vice President and Director of Business Development for U.S. Bancorp Fund Services. With 29 years of industry experience, Mr. Kern works with investment management firms to customize mutual fund and alternative product service solutions based on their unique products.

Headquartered in Milwaukee since 1969, U.S. Bancorp Fund Services, LLC currently provides services to more than 290 mutual fund and alternative investment clients with 1,658 portfolios and aggregate assets of \$625 billion. U.S. Bancorp Fund Services' clients include mutual funds, investment partnerships, hedge funds, separately managed accounts, fund-of-funds, and offshore funds. It is a subsidiary of U.S. Bancorp, the fifth largest bank in the United States with assets of \$283 billion, NOTED IN THE SECOND QUARTER 2010 CORPORATE PROFILE.

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