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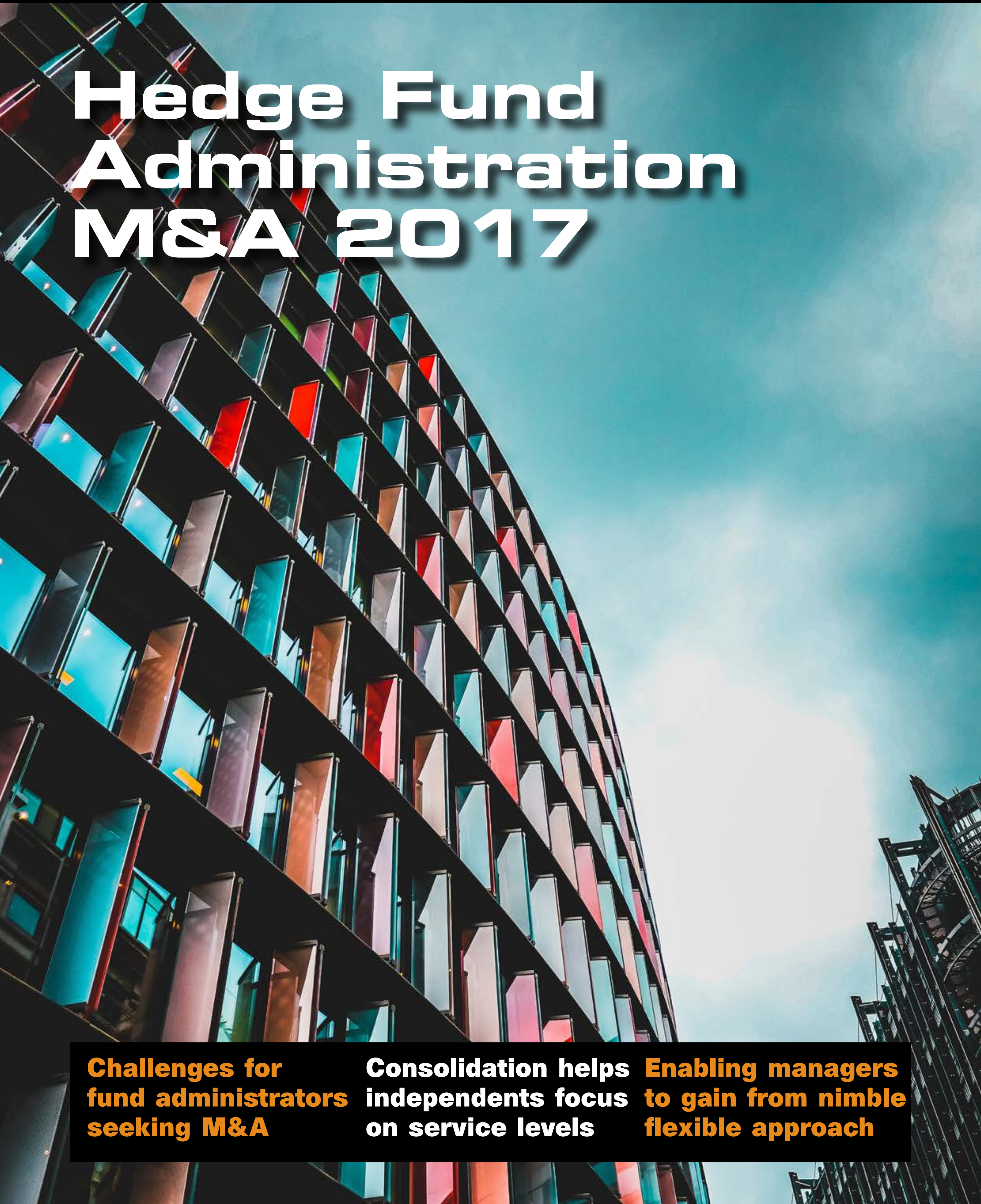

# Hedge Fund Administration M&A 2017

**Challenges for fund administrators seeking M&A**

**Consolidation helps independents focus on service levels**

**Enabling managers to gain from nimble flexible approach**

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# Taking a disciplined approach to M&A strategy

## Interview with Christine Waldron

One of the dangers of analysing consolidation trends in the fund administration space is that all firms are treated on a similar footing. However, rather than tarring them all with the same brush, the industry needs to separate the actions of investment bank-owned administrators from those owned by the large, traditional custodial banks and those operated by non-banking independent organisations.

**Christine Waldron, global head of the Alternative Investment Solutions team at U.S. Bancorp Fund Services**

"Custodial banks continue to invest in this space," says Christine Waldron, global head of the Alternative Investment Solutions team at U.S. Bancorp Fund Services. "I do think investment banks, which have historically driven their revenues off of transaction-based services, have used a different service model compared to more traditional bank service organisations."

"The custodial banks have said that they need to increase their fee-based revenues, and M&A is a great way to do that. Investment banks, on the other hand, want to continue to grow their transaction-based revenues; fee-based models don't nest very well within those organisations.

"Consequently, fund administrators shouldn't all be treated the same. We are not constantly looking for the next client transaction. We build a partnership and a service model that fits better inside a custodial bank," explains Waldron.

When it comes to consolidation, U.S. Bancorp Fund Services runs a disciplined M&A strategy, in the sense that any potential target must be a good strategic and cultural fit. Both elements are equally important, says Waldron.

"Strategically we consider increasing our scale in a particular product suite – be that private equity, middle-office, or other types of services that we'd like grow – by finding the best target acquisitions providing those services. Culturally, they have to align with our belief systems around customer service and employee focus.

"In addition to strategy and culture, and equally important, is the financial position of the company. Mergers and acquisitions rarely work when one partner has to rehabilitate the other. If you're walking into a situation that is already challenging, it can lead to issues around client as well as staff retention. That's not what you want when making an acquisition," warns Waldron.

This focused approach is necessary to reassure U.S. Bancorp clients and maximise retentions. Both the acquisition of AIS Fund Administration in 2012 and Dublin-based Quintillion in 2013 proved hugely successful in this context.

"Both acquisitions involved a lot of commitment on our part to help reassure clients that our goal and strategy was to keep the existing service team in place while becoming a stronger unit, as opposed to replacing what they already had," confirms Waldron.

This ability to service clients, which U.S. Bancorp Fund Services does by using a dedicated multi-disciplinary team for each manager, is crucial when one considers the depth and breadth of fund products managers typically run today: both in the registered and private fund space, across multiple fund jurisdictions.

"We bridge the gap for some very large managers who might have a unique product – for example, a direct lending product – that requires a lot of in-depth knowledge. There are some standardised processes that you would get at a large administrator; however, the client also gets a degree of nimbleness and flexibility that one would associate with an independent administrator," concludes Waldron. ■