
FUND OUTSOURCING AND ADMINISTRATOR OPERATIONS, EUROPE 2015

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Addressing the challenges and opportunities to outsourcing, the evolving regulations and the ongoing transformation of the fund administration industry

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FOREWORD

Introduction to Fund Outsourcing and Administrator Operations, Europe 2015



Nathan Travell
*Product Manager – EMEA,
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Welcome to the fifth annual Clear Path Analysis report focusing on fund outsourcing and administrator operations in Europe. This report is where European asset management groups, custodian banks and administration communities come together to discuss the challenges and opportunities presented by:

- Outsourcing
- An ever changing regulatory environment
- Evolving strategies for fund managers and their third party administration partners

The last five years have seen significant change across the regulatory landscape of the European funds business. This has placed huge demands on asset managers and their outsourced partners to meet all of the new process, reporting and transparency requirements introduced. From UCITS (“Undertakings for Collective Investments in Transferable Securities”), to AIFMD (“Alternative Investment Fund Managers Directive”) and MiFID (“Markets in Financial Investments Directive”) II, there are too many acronyms! But maybe, and thankfully, the tsunami of regulation is starting to retreat and more attention and focus can now be given to the topic of operational excellence and, ultimately, delivering improved results for investors.

We’ve seen this sentiment starting to bubble up across European fund centres. It’s also reflected in this year’s 2015 report in the sense that only one section is now dedicated to the topic of regulation with the other two focused on strategies for operational improvement. The title of the report has also moved from being solely about Fund Outsourcing to also including Administrator Operations this year.

The change in sentiment is welcome because we all know that as tsunamis retreat, a certain degree of rebuilding is required. Take fund operations where the proverbial sticking plaster has been applied to operational processes to enable them to meet the regulatory demands – introduced in short timeframes. Processes that are now not as efficient as they ought to be and with higher risk profiles than the industry is prepared to tolerate.

Although not strictly regulation, the last five years have also seen regulators across Europe issuing more guidance to asset managers relating to their outsourced partner relationships. In addition, advice has also been provided around the

fiduciary responsibility to have in place appropriate levels of oversight of outsourced agreements, as well as suitable continuity planning. The FCA (“Financial Conduct Authority”) led the way with the Dear CEO letter and subsequent thematic review around outsourced operations in 2013/14, and the Commission de Surveillance du Secteur Financier (“CSSF”) has also issued some circulars in this area. But they’re not the only ones. The Bank of Ireland recently issued further guidance on fund manager board responsibilities. The Federal Financial Supervisory Authority (“BaFIN”), the Swiss Financial Market Supervisory Authority (“FINMA”) and other European regulators have also commented on the topic. This has led to the asset management community taking a closer look at their own operational activities in relation to third party oversight and partner relationship management.

A renewed attention and focus on operational excellence is therefore welcome for the third party administration community. The previous sticking plaster approach was not strategic enough for the asset managers they serve. It also presents an opportunity for both parties to work more closely together to ensure that the end-to-end processes within the industry are considered holistically from supplier to ultimate consumer; which is not the asset manager but the end investor. In this way, optimal outcomes can be achieved and hand-offs over corporate and other boundaries can be improved. The Net Asset Value (“NAV”) production process is one area we see this type of partnership approach already being applied, as administrators are now starting to actively work with their clients to ensure that appropriate data is provided to the asset manager quickly to support their relevant oversight requirements.

Over and above the subject of regulation, the topics in this report reinforce the themes of pursuing operational excellence and quality of partnership. Consideration is given to outsourcing models and how to determine which functions should be in-house. Panels also discuss the levels of off-shoring and chain outsourcing now taking place within the third party administration businesses, and how best to organise and structure this. There is also a discussion on how to manage and oversee outsourced relationships effectively.

We hope you find this report of particular interest and that topics on the pursuit of operational excellence and partnership are relevant to you and your business.

ROUNDTABLE

In-housing vs. outsourcing: should companies look to reclaim some of their outsourced activities?

Moderator



Noel Hillmann
Managing Director,
Clear Path Analysis

Panellists



Ulrik Modigh,
Head of Asset
Management
Operation, Nordea



Peter Clarke
Head of Adviser
Delivery, Verbatim Asset
Management

Noel Hillmann: Welcome to the panellists.

To start, given the massive regulatory obligation asset and fund managers face, is it even a possibility to in-source operations that have previously been outsourced.

Peter Clarke: Yes it is but it is a very costly exercise. When you initially outsource you are trying to become more effective in your own management and operational areas and it will tend to mean that you lose key staff and skills as you outsource and that process is completed. To bring anything back in, you then have to identify whether you still have those resources and skills or whether you have to go and find people first to start the in-sourcing process.

Noel: Are there particular instances where in-sourcing previously outsourced work is the best route to take?

Peter: There are a number of reasons why I would in-source something - not necessarily because I would want to but because I had no choice. For example, say my outsourcer wasn't able to deliver what was agreed or they actually fail to do their duty as has been set up - in other words, you still have the responsibility for all of the outsourced work anyway, so if they aren't able to deliver you have to find a way of doing it, and that may mean bringing things back in-house if you've got the capabilities. You may also decide to design and change your own service parameters, in which case your outsourcer can no longer provide the services you are looking for; in

which case, you have to find a new outsourcer or find a way to bring those facilities back and adapt to new ways of working.

A firm might also look at bringing things back in-house in order to establish its own capability to provide outsource services to others; for example, through working with other firms that want to focus their outsourcing and realising it can centralise more quickly than other firms - this offers the prospect of turning what was a cost stream into a revenue stream.

Another opportunity to bring things back in-house might come from a takeover or merger, if one of the parties has retained its in-house services and shown a good capability in that area. The new merged entity might then be able to benefit from costs of scale, thereby increasing efficiency by bringing everything back in-house. There are both positive and negative reasons as to why you might choose to do this.

Noel: You mention in your first examples the idea that an outsourcer might no longer be able to provide the services required. The first step would surely be to look for another outsource provider to continue the method of working that you have already established? Is the preference always to maintain an outsource relationship even if one outfitter doesn't work, or do you go back to the default position of whether to in-source or outsource?

Peter: You should always be asking the fundamental question of whether to

outsource or not, regardless. It tends to be easier and more efficient to retain an outsource provider than to rebuild an in-source service. So in the normal flow of events, yes, I would say that you would try and find another outsource provider before you go down the route of bringing things back in-house. Firstly, you would need to understand why the outsource services failed, however.

Noel: Ulrich, is it even a possibility to in-source previously outsourced operations?

Ulrich Modigh: It is possible, but it is very complex and costly. Looking into our outsource services we haven't yet in-sourced anything which was previously outsourced. The cost in focusing on new products and regulatory requirements means that firms often don't have the time or resources to in-source work which has previously been outsourced. I agree that you have to ask yourself, in a strategic context, whether you outsource something or not before you actually move in that direction, because reversing this decision is extremely cumbersome.

Noel: Are there any instances that you can recall where in-sourcing would be a preferable option?

Ulrich: It depends whether you believe it is possible to build up critical mass in the area under question and whether the area is a core service that you deliver to your clients. If it is part of, or linked to a core service, then the ability to have a fast switchover is possibly greater. It might be an example like this, particularly in this environment

with the extreme focus from regulators in terms of risk evaluation etc.

I prefer having these core competencies in-house so that I am 100% sure that we know what we are dealing with. Even when outsourcing, you do need to have the competencies in-house anyway; so, when you make the outsourcing decision it is about whether you can build up the size and critical mass within this area and can justify establishing a structure which can support whatever services we are talking about.

Noel: The style of your funds is obviously very different, with Verbatim being a fund-to-fund, offering out some funds from third party fund managers, as opposed to your own self-managed funds, is that correct?

Peter: We are a very heavy outsourcer. Our funds are ours in that we generate and sponsor them and the ideology behind them is ours, but we have outsourced specialities and this is where you have to ask whether it is a core service or something for someone with specialised skills. If it is a core service, I would say that you should retain it in-house because everything can be done faster and quicker. Move to specialists if you require better capabilities for flexibility, delivery and oversight. You have to keep oversight of them, but because they are specialist in their fields, they will have capabilities that you don't have and that is the primary reason that you outsource; we go to different investment managers to use their skills and knowledge to enhance and improve the products that we are offering to our clients.

Noel: Ulrich, with Nordea being a large self-managed asset management house, as opposed to Verbatim, which has many outsourced areas, do you have the ability to in-source certain tasks which might be more difficult for some of the smaller managers? Does size matter when it comes to in-house versus outsourced?

Ulrich: We have been very focused on our efficiencies and we operate on a wall-to-wall platform where we have basically angled most of our core processes, giving us the ability to have in-house specialists which can compete with an outsourcing provider. The second that the outsourcing provider is more efficient, cheaper or has a larger level of competency, then you should rely on them rather than try to keep it in-house. There are services that we will never be in a situation of having the necessary size to make in-sourcing viable. The handling of our OTC ("Over-The-Counter") derivatives has been outsourced to an external provider that has a hub in India - we basically benefit from an external provider having a low cost-base in India, without having to interface directly with a company in India and all of the obstacles that would bring.

Noel: Is there a critical mass point at which the balance of that decision turns from outsourcing to in-sourcing?

Ulrich: Yes, when we reach this point and we believe that we can build capability up within a certain area, then we will continue to keep the service in-house in order to have the efficiency, controls and monitoring etc. that in-house resources provide. All of our private equity handling is outsourced because we don't believe that we will get an asset on the management side that would justify doing it internally - it is a different ball game to the bulk of our work at present

Noel: Peter, what are your thoughts on the issue of size for in-house versus outsourced?

Peter: Size matters in terms of scalability. There are basic costs for everything you can do and you can calculate those quite easily. The tipping point comes when you can cost and deliver a service for the same price, and as efficiently, as an outsource provider; but whether you can then scale it from there is a different question.

The larger fund houses do have that scalability and their resources can be used not just once within a process but tend to be able to run two to three different processes, increasing their ability to manage costs and produce greater levels of scale - this is how they grow. This is why, for them, an in-house service is more efficient than for a firm like ours that starts from a very small base with a lot of costs to cover; by outsourcing, we effectively manage to reduce those costs and deliver the products that we want, at quality we want, to our clients.

As we grow and increase our abilities, we will always assess whether, as an ongoing process, outsourcing is still the most effective way of doing it. At some point we may reach a time when outsourcing isn't as efficient for us as it should be; perhaps then we will use the scalability in our own processes and, within what we are trying to achieve, to look at an in-house solution.

Noel: Given that many managers are responding to changing investment appetites by launching new funds, is operational strategic thinking best achieved in-house, before an established operational framework is outsourced?

Peter: Only to a certain degree, because your question begs the point of view that you can't define the full strategic thinking when you start this process because you are responding to change. You take your views for strategic thinking at any given point in time, based on where you are and what you are trying to achieve; to then take this forward, you have to consider what future requirements may be - at this point you decide whether you are going to outsource or in-source. The outsourcing capability has to be designed for the present, based on what you know, but also has to be prepared to deliver what you are trying to achieve in the future. You need to look at an outsource solution that has far more flexibility and capability than what you are trying to deliver now.

You must be preparing for what you are trying to achieve in the future - if you are not then there is no point in outsourcing as you are asking the wrong questions.

You have to build into your outsourcing a degree of flexibility so that you can work with your outsource partners to grow and develop the services and opportunities you are trying to utilise. They must recognise that what a customer starts out with as an outsourcer service may not be what they expect to be delivered in 1 or 2 years time; requirements have to be adapted to new situations - especially when meeting requirements that are imposed externally, like MiFID II ("Markets in Financial Instruments Directive") in a couple of years' time. Effectively, you have to have a solution that is flexible at the outset, not just in your own head.

Ulrich: It is such a dynamic world and it is difficult to see what the future requirements will be; on occasion, we have 'over-future-proofed' our systems. There were a lot of costs occurred for internal solutions because this was something that we believed would be very scalable, but afterwards the level of volumes turned out to be much lower than expected. It can be driven by the product or the different services that the clients are asking for. You do need, from the start, something very flexible and I tend to feel that starting off with a small outsourced solution is as good as an internal solution as you can take whatever strategic decisions necessary, even if you have started outsourcing it.

The big question is when you should bring something back in-house if you see that the world is changing fast. The cost of reversing a decision can be very costly and the complexity of moving from outsourcing back to in-sourcing is high - it takes a lot of resources which could be better utilised on new products or whatever else is on the agenda.

Noel: Outsourcers state that they save costs for their clients. Do you believe that this is always true and should costs necessarily be a significant factor at all?

Ulrich: In the past, outsourcing was driven by costs and that was the key driver in the industry. Today it is much more a matter of competencies. I do not see huge cost savings in the solutions that we have outsourced, but I see that we have passed on some tasks to a provider that is far more competent than we in delivering these services. You should not underestimate, particularly in the Nordics, how much legislation surrounds the management of outsource services. The framework that I have to look into every time I am outsourcing is tremendous in terms of reporting, governance etc., so I don't really see big cost savings in outsourcing - not given the environment in which we operate.

Noel: Nordea has multiple offices across the world. I know that you are active in Asia, Latin America, Europe and the US. In terms of looking at the local regulations and demands that are placed on you as a global firm, do you need to change your outlook on outsourcing depending on where you are? What factors, alongside cost, really come into play depending on where you are operating?

Ulrich: It is clear to me that when we talk about outsourcing which requires some kind of reporting to regulators, we need an outsourcing partner that can cover multiple jurisdictions. Even though we have UCITS ("Undertakings for Collective Investments in Transferable Securities") regulations funds we also have the local legislations on top of that and there are so many interpretations of the UCITS regulations locally. If I, for example, decide to outsource Solvency II reporting on behalf of institutional clients, I need to find a provider who can cover the Solvency II regulations across Europe. Otherwise I would need to have local providers throughout Europe - running multiple providers for

the same service would be a nightmare from my perspective and so I would rather do it in-house.

Noel: Nordea isn't in Africa. How much of this decision is driven by operational issues or by strategy?

Ulrich: From a client angle it is a matter of focus. Nordea operates throughout Europe and we also have offices in Asia. We try to design our products so that they are as standardised as possible, and saleable in many jurisdictions. When we go into a new market it is about where we see a sales potential in the markets and is not driven by operational limitations or obstacles.

"If an outsourcer isn't able to offer you a more cost-effective solution they shouldn't get their foot in the door"

Noel: Peter, outsourcers state that they save costs for their clients. Do you believe that this is always true and should costs necessarily be a significant factor at all?

Peter: If an outsourcer isn't able to offer you a more cost-effective solution they shouldn't get their foot in the door to even talk to you, as this is at the baseline of what that they have to be able to offer. However, it is not what makes a firm the right choice in terms of who you will ultimately choose to outsource. There are many factors beyond one's control, such as regulatory oversight requirements that have to be taken into account. It is vital that you closely oversee whichever firm you choose to ensure that they are efficient and reliable; but you have to manage the costs yourself to ensure they make sense for your business, particularly in terms of how you run and manage the outsource service, which is something that sits on top of their facilities but has nothing to do with them.

You also have to be aware of what the outsourcer can deliver and what you are trying to achieve; they have to deliver scalability in their service as well as development capabilities. We have started from a zero base and have found specialised outsourcers to deliver the services that we couldn't at a cost-effective level - this has enabled us to grow our funds so that they are profitable, ongoing and serviceable, delivering exactly what we said to our clients. We have had to make sure that we use outsourcers that do what we want them to do in the way that we want them to do it, at cost levels that we can afford. We now have a fully profitable fund range and are able to move forward with more diverse ideas. We now look at outsourcers in terms of what they can achieve for us in the long-run just, as much as what they can do immediately. The issue of cost might get their foot in the door, but that isn't the reason we would choose one firm over another. We choose them because they are able to achieve what we are looking for, in the way that we are trying to deliver it to our clients and customers, following the standards we are trying to set.

Noel: Should you, then be open to all ranges of costs if the service stands up to it, or is there a danger that you can go too far and pay for things that are minimal to the business case?

Peter: You can definitely go too far as these outsource providers will have a menu of what they offer and it is up to you to choose what is appropriate for you. There is no point in paying for what is not relevant and does not appeal, but at the end of the day that menu could be part of your future growth expectation, so you are not just planning for now but for ongoing services. You do have to manage the costs that you are paying and if someone is going to come in and provide the exact same service to the same standard for 25% less, then that is the person I would talk to; but they would have to deliver to that standard since our customers judge us on what they get, the service that they receive,

"We now look at outsourcers in terms of what they can achieve for us in the long-run just, as much as what they can do immediately."

and the results we provide - they do not judge us on the costs we are paying to an outsourcer. We have to set the standard that we are expected to deliver and we all have to make sure that this is what is being achieved. If you don't do this your customer will walk away and that is what will kill your business.

Noel: Thank you both for sharing your thoughts on this topic.

ROUNDTABLE

Deploying an offshore outsourcing strategy for global expansion

Moderator



Margie Lindsay
Editor, Alpha Journal

Panellists



Denise Thomas
Head of Investment Operations, Standard Life Investments



Stephen Lowe
Head of Middle Office and Investment Operations, Royal London Asset Management



Cora Kielblock
Head of Operations, Operational Oversight, Investec Asset Management

Margie Lindsay: Hello and thank-you for joining me.

I'll start with Denise: how do you approach offshore outsourcing?

Denise Thomas: We have a strategic partnership approach so we tend to align ourselves with our strategic partners and we have a small number of organisations that we do offshore outsourcing with. This allows us to have very strong relationships with them. One of our offshore outsourcers has relationship managers sitting in our Edinburgh office, although the team who provide our services is located in India. We spend a lot of time doing due diligence with them and looking at staff training and qualifications to make sure that we are really comfortable with the services that they provide. This is all the way down to their disaster recovery processes and the day-to-day training skills of the staff. We have found that this really benefits us when working with other strategic partners who are based in Edinburgh although, again, the staff who provide the services are located around the globe.

Stephen Lowe: We have a partnership approach to outsourcing so the elements noted by Denise apply to us also. We also carry out annual visits to all of the offshore outsourcers and look through their risk and control framework; there is an in-depth understanding that these are our

risks as much as theirs. Issues like staff retention rates are really key; the off-shores in India and the Far East have a somewhat different retention rate than those onshore. Understanding the management approach and training those people allied to those other points is key to our perspective.

The ongoing due diligence is key to the oversight.

Cora Kielblock: We also follow a strategic partnership approach and we take a lot of care in selecting the partner and ensuring that we both remain on the same track; so we have quarterly strategic business meetings where we make sure that the outsourcer that we've picked is aware of what our business aspirations are, and we can discuss what direction they are heading in to ensure that we remain on the same strategic path. The governance structure needs to be well developed and understood. Part of the reason this is so important is the struggle with higher staff turnover rates – any resulting lower employee engagement affects work quality. This is a stat that we observe very keenly to ensure that we have experienced people working on our accounts so that we can retain those people through engagement. It's about building a personal relationship with the person on the other side rather than just working through a relationship manager - not all

outsourced providers will allow you to do this.

Margie: How does governance change when moving to an offshore provider? What questions should you be asking an offshore provider?

Denise: We make annual visits to our outsourcers as part of our governance process. When working with people offshore, governance becomes even more important, so it is crucial to have a structured series of controlled assessments. We ask our offshore partners to provide details of all their controls, whether there has been any control breaches, and information on any continuous improvements they want to put in there.

We have also trained the staff up in our Edinburgh office, both those resident in Edinburgh and also bringing over the staff based at our outsource partner's office in India; we bring them back over on an annual basis for extra training. We do control visits as well as relying on the outsourced partners control teams to make sure that we are comfortable with anything that they have observed on our behalf. We also do a lot of work on local labour laws, staff turnaround and retention, and training qualifications in the local market to make sure that the governance structure they are following locally is to the level that we would expect in the U.K. Both we and our clients very much see the

outsourced team as an extension of our business so we want to make sure that nothing is being breached across the water.

Stephen: These are strategic partnerships and it is our understanding of the due diligence and governance structure which is key to how we oversee the service and monitor risk and continuous improvements in the service. They are seen as an extension of us so, from a KYC perspective, it is imperative that these guys know and understand us. To this end, we bring our offshore and outsourced partners into our processes at a very early stage; as we are in a multi-client world, we need to understand and ensure that we can leverage off that relationship when we need to. For us, they are central to everything we do; no matter what we do here, at some point, we will need that relationship and those teams, so the more we understand each other the better. This all gets wrapped up into a robust governance structure which evolves over time.

Cora: We do on-site visits which are designed to complement the governance structure. We evaluate the outsourced providers' governance structure in a lot of detail and try to understand exactly what they are doing, when and how they are doing it. The programme that we roll out involves control visits and internal audits. All of these visits are designed to complement the governance structure that is already in place. For us, this is non-negotiable as they need to have strong governance and oversight already in place. One of the key things that we value greatly is that everyone has an aligned understanding of how things escalate up the line; this means how an understanding of things make their way to the right people so that a problem or weakness can be dealt with as soon as it arises.

Margie: What do you see as the three biggest challenges when you are dealing with offshore outsourcing partners? What are the three main

questions you think are crucial to ask offshore providers?

Denise: The remoteness is always going to be a challenge, particularly with the different time zones and locations, though I don't feel it is a challenge that can't be overcome. One challenge is that turnover can be quite high in some of the offshore locations so maintaining the continuity of staff can be difficult. That is why it is so important to ensure that you review the recruitment and training practices at the offshore sites.

It is important for us to ensure that our key stakeholders are comfortable with the oversight and governance procedures we have in place with the offshore outsourcers - people can become uncomfortable when they can't see what is happening.

One question to ask would be regarding their internal governance structure and how it would support our governance oversight in the U.K. We always ask for references from other clients to give us a feel for the scale of the offshore partner. There is also a question to be asked about the experience of the staff as a lot of the time the work tends to be manual in nature and less automated, so it is important for us to know the qualifications of the staff. We have found that a lot of the people who are doing the tasks offshore for us are very highly qualified and that reassures us that tasks are being done appropriately.

Stephen: It is about understanding the risk and control framework and how they oversee the processes. A lot of the providers that we use have an oversight team in London, or indeed in Edinburgh, and a local oversight team, so it is important to understand how those teams work together, what their approach is to risk and control and how they are managed internally and regionally. These reporting lines are important to us, so we need (and get) a lot of access. The other challenge is Know Your Customer ("KYC") and

our partners' ability to understand it. As clients, it is also important that we understand the provider's environment, particularly the fact that we are in a multi-client environment, so we have to engage them at a very early stage.

A key question would be regarding internal governance and their ability to align that to our own model. This can be challenging as these are global entities and often they have different approaches to risk and control. Reference site visits and the ability for us to understand the volume and client base are also very important. We want to know who their client base is as, if we are in the same sector as the majority of their other clients, we are likely to face the same challenges as those other clients. The same challenges that we face in the U.K are going to be those that are faced by those clients. These are alongside the questions and points already made by Denise.

Cora: An important issue that we have identified from years of trial and error is whether we fit their standard model or whether there is any deviation between our processes and theirs; this is where we have tended to find problems when we aren't on their standard operating model.

Another question is when and whether a process is fully automated and when is there manual intervention; manual intervention is generally where errors tend to happen - unless you have system failure, which is another story in itself. Depending on how large that manual component is, you should be interested in the quality and experience of the staff that they employ to manage those processes. On the other hand, if they invest everything in their systems, and everything works perfectly, you still need those who have the skills to handle problems when they fall outside of the system.

Stephen: I agree with that comment on the standard operating model. We, as a client, are very keen to get onto their strategic model. We work within a strategic operating environment. For any bespoke processes we look to understand the rationale for them and any risks and also whether there is a better or preferred approach by the provider.

Denise: You do have to know, if you are not on the standard model, how you can get onto it. If it is a case of wanting things upgraded, you want to ensure that you are not paying for different upgrades because the models might all be slightly different. You can share costs in some cases so it is important to find out whether you are indeed on the standard model or not.

Cora: Another issue is how they handle new requests and how these are processed and prioritised. You want to be on the standard model so that all five of you are contributing to the same thing, but if you are on five different models than how does the outsourcer prioritise what gets done and in what order.

Margie: Does offshoring really offer cost reductions, considering set-up costs and time lost on dealing with new supplier challenges?

Denise: Cost is one driver as to why you might look offshore but there are many others like scalability of processes; but also, by using different outsourcers locations around the globe you can almost process 24/7 so you aren't operating strictly to U.K opening hours -you can follow the sun which allows you to deal with global clients. So cost is one issue but there are many other pluses to that process as well. We also do cost-benefit analysis and continue to review where we have offshored and, likewise, our third party administrators do this as well in order to ensure that we are getting the best service at a good price.

Stephen: Cost is one element but it isn't the main driver; from our

perspective it is about scalability and leveraging of a proven operating model. We have grown a lot in the last 6-7 years and that has been supported by our chosen outsourcer. It would have been difficult to do it in-house and, for us, it is about controlling and understanding the risk, client service and continuous improvements in service.

Cora: Cost is not the main driver but outsourcing does make the associated costs completely variable so that costs increase only as your business grows, but also scales down if your business goes the other way. There is also an opportunity cost involved in doing your own admin when we could be focusing on what we do best. We don't have to build back office systems and maintain infrastructure. It gives us the ability to focus on what we consider to be our core skill and strength. It's about investment management and not administration...

Margie: The FCA has been expressing concern about outsourcing and the ability of companies to oversee the contracts properly. Has this had any impact on how you have been overseeing your outsourcing?

Cora: It has changed the amount of paperwork that we do in order to demonstrate the level of governance that we have. I wouldn't say that we are necessarily doing things that we hadn't done before, other than keeping more details and records. The FCA's biggest concern was what happens when your outsourcing provider fails - and there isn't an easy answer to this problem. Any plan that you can put in place can't be done in a flick of a switch.

Margie: Do you worry about issues like natural disasters or political risks in the areas where your outsourcers are based? Is this something that comes into your Disaster Recovery ("DR") plan?

Cora: A lot of our work is done in India and monsoon season is something that is considered in the DR plan. I am based

in South Africa and we have something which is called 'load shedding'; essentially, there is not enough electricity to supply our country and so the electricity cuts off say for 2 hour periods in a day in a specific area. So local things are definitely things that we do factor into our DR plan - we can't afford not to.

Stephen: We have an oversight of the providers plans and test results and these form part of our general oversight structure.

Denise: With offshoring, the DR plan has been important and we try to work not only with our third parties but also with other clients of our third parties to try and have a joint exit strategy. If there are five different clients with five different exit strategies it would be hard to put something in place if something were to happen.

Margie: Thank you all for sharing your thoughts on this topic.

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With regulators increasing their focus on asset manager's oversight of outsourced activities, along with fund expenses and investment restrictions coming under more scrutiny, there's a real case for increased control of outsourced operations.

pControl Fund Oversight allows you to keep an independent eye on your outsourced operations without increasing staff. It delivers transparency, control, quality management, continuous audit and service level monitoring.



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