

KEYNOTE INTERVIEW

Checks and balances



The drive for transparency is heightening private equity's interest in outsourcing, but collaboration is key when it comes to governance, say Vistra's Onno Bouwmeister and Malcolm Pobjoy

Q What are the current trends around outsourcing for private equity managers? Where are you seeing the greatest growth in demand?

Onno Bouwmeister: Outsourcing was already of growing interest to private equity and, as in so many areas, the pandemic has accelerated that trend. Managers are looking at their operating models and seeking efficiencies. We have seen an increased number of outsourcing projects and those projects are greater in scale.

From a US perspective, we see operating platforms where managers used to do a lot in house now starting to move to outsourcing. There is also more consolidation around greater use of outsourcing in Europe, while in Asia managers launching new funds move straight

into an outsourcing model. Managers are very focused on their target operating models, sometimes with a need for greater automation. Transparency and control are big drivers of outsourcing.

Malcolm Pobjoy: We look to the client and ask about these drivers, whether they are efficiency savings, new technology capabilities, or the need for more expertise and resource to support the launch of new funds. Most new managers that are launching new funds go straight for an outsourcing model.

The increased focus on Know-Your-Customer and anti-money laundering requirements in the US and

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Europe, along with the growing focus around compliance with the Alternative Investment Fund Managers Directive in Luxembourg and the fast pace of AIFMD II and other changes, make regulation a big issue. For outsourcing, that means greater demand for knowledge and expertise on the regulations and how they are applied; the need for more data to respond to regulatory demands; and more control and oversight for management. Investors want these in the hands of experts.

Finally, as businesses move towards a distributed workforce model, outsourcing just makes more sense.

Q When GPs look to outsource functions to a third-party service provider, what governance

considerations do they need to focus on?

MP: Those who approach outsourcing with the view that they will no longer need to be involved are mistaken; managers still need oversight. The best outsourcing relationships work where there is an oversight collaboration, which must be metrics-driven. You need alignment around what you are trying to achieve and transparency on how it is done. The governance model should focus on both sides working to achieve the same objectives.

OB: It comes down to how you set up your operating model, because governance needs to support the control and workflow. You need to understand the objectives of management so that you can work collaboratively, including on governance and oversight. Technology nowadays is very helpful in this context.

MP: One element of governance that is overlooked is change control. Requirements are going to evolve, and processes are going to change, so you must make sure you can flex your operating model in a timely manner. The two main issues that managers worry about going into outsourcing are lack of control and lack of flexibility, so your change control procedures should allow for governance around that flexibility.

Q What are LPs most concerned about when outsourcing arrangements are

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ONNO BOUWMEISTER

discussed, and how can those concerns be addressed?

OB: This links to good governance, because investors are really focused on the checks and balances that are in place. LPs are looking at compliance, access to data and transparency, all of which come back to technology.

MP: LPs are generally very receptive to outsourcing because they like the concept of independence and that various elements of the process are being overseen. Their questions tend to be around fees, and who is paying for what. We spend time talking to managers about creating limited partnership agreements that make that clear, because transparency is critical. Sometimes the responsibility for costs shifts from the manager to the fund, and varies component by component, so how you manage that process is important.

Q What questions need to be answered from a business case perspective when considering outsourcing?

MP: I once had a client say they wanted to outsource their administration, they wanted to use their staff and systems, they did not want to change any processes, and they wanted a 30 percent cost saving. That is not a good starting point. You need to accept that things are going to change and embrace that change as you embark on the relationship.

The question that needs to be answered is: what is the saving you are looking for? Is it efficiencies, scalability, or is it access to technology or expertise? We also advise clients not to underestimate the cultural piece, because you have got to work with these people not just on day one but going forward.

OB: We aim to be an extension of the client's team, a business partner and a trusted advisor. Through that, we can keep management accountable. You want to get the right cultural fit and we have a pool of talented people at Vistra, so we try to bring the right people to

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MALCOLM POBJOY

the table to fit the client's needs. A lot of clients base decisions on a lengthy RFP, which is not necessarily the optimal way of getting to understand the outsourcing relationship. Even in the current environment, you can hold workshops and video calls to try to really get to know each other.

Q What kind of talent challenges face managers on the fund administration side, and how can outsourcing help?

MP: You can get access to additional talent via outsourcing. We see managers that want to be nimble and launch funds in credit, for example. They do not want to waste time hiring people to understand loan administration. Outsourcing provides speed to market and means managers do not need to worry about talent.

OB: Talent in a fund is expensive and you do not want to drown those people in administration when they can add much more value on deals. Fund administration is our business – many of us have been on the other side working with investment managers, law firms or accountancy firms and we now all work together at Vistra and are passionate about adding value by setting up efficient back-office or middle-office offerings. ■

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