



## GLOBAL MANDATES NEED GLOBAL SUPPORT

As general partners seek investment opportunities around the world, the fund administration industry is striving to support this vision. Paul Guilbert and Kate Stallard of Northern Trust take a look at this trend and focus on some of the major developments across the different jurisdictions, giving insight into how their firm is responding.

General partners (GPs) are continuing to expand their horizons to take advantage of global investment opportunities. As investors are becoming increasingly adventurous in their search for alpha, GPs are being challenged to unlock the potential of new markets, while constantly updating and refining their service delivery models.

In response to these globally minded investment managers, many administrators are embarking on a programme of jurisdictional office expansion to offer 'on the ground' presence to support GP product launches and meet ongoing service needs in different countries.

This is not just a case of finding office space and transplanting existing processes. Rather, it requires a careful planning exercise with the aim of offering regionally tailored solutions for key private equity support functions - from corporate governance through to regulatory approaches - whilst drawing on the strength of global best practice. This approach will support GPs' delivery of an operational infrastructure, which meets regional needs, whilst replicating the existing service level expectations at both a GP and Limited Partner level.

A partnership with a strategically located fund administrator can ensure they take advantage of all taxation benefits, to maximise investment returns. When launching a fund, the structure needs to be carefully planned. In particular, national tax authorities are challenging beneficial tax treatments far more than they used to, making it essential that management of any fund actually does take place in the location where the fund is based.

When seeking a strategic location partnership, GPs need to carefully assess the operation to ensure it offers a substantive and quality service provision and is not just a 'brass plate' approach. The resource implications are significant, not just in terms of cost, but also in terms of existing personnel, technology, risk management, regulatory compliance and senior management involvement.

Some GPs even consider moving administrators as they reassess if their existing administrator is able to offer the depth of experience to provide effective operational platforms which meet multi-jurisdictional needs.

At Northern Trust, for example, we are seeing a number of our clients pursue investment opportunities in new

markets. In response we continue to expand our global presence and over the past 18 months have established dedicated private equity servicing hubs in Chicago, Limerick and Jersey. These build on our long established Guernsey and Dublin operations which have been servicing private equity funds for over 20 years and enable us to meet the demand for greater jurisdictional coverage. We can now administer funds domiciled in these locations in addition to other jurisdictions: United Kingdom, Luxembourg, the Isle of Man, Cayman Islands and Asia. We also administer investment companies in many more jurisdictions, from Luxembourg to the British Virgin Islands (BVI) and currently support 57 client groups with committed capital of US\$72.7 billion.

#### In-house tradition

Despite substantial private equity fund investment, outsourcing is still a relatively untapped industry in the U.S. Recent Northern Trust commissioned research indicates at least 80% of the estimated 2,096 U.S. based private equity firms currently administer their funds in-house.

The added raft of U.S. regulatory developments and big upswing in institutional investors is prompting GPs to reconsider the benefits of outsourcing to an established provider who can offer them customised and flexible servicing solutions to meet all of their requirements. In particular, the big U.S. pension funds are seeking to exercise and demonstrate more control as LPs build their allocations to alternative investments. For this reason it is becoming more common for private equity investors to look for evidence of SAS 70 reviews of operations, which offer independent certifications of administrators' operations, typically authenticated by one of the big four accounting firms. This presupposes that LPs now prefer that the administration is no longer provided in-house - but rather at arms length by a known



Kate Stallard

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SAS 70 reviewed provider. The drive to outsource is particularly relevant for the funds of funds industry where 'off the shelf' technology solutions are challenged to meet specific needs.

Northern Trust has been closely following the U.S. market and has been developing a dedicated private equity fund administration office in the United States over the past 18 months, which is positioned to support this increasing trend to outsource. The establishment of the Chicago team has required a careful planning strategy involving periods of internship and training at our Guernsey operation, as well as extensive site trips by the key Guernsey support team. The Chicago office already has 13 staff administering funds with US\$3.5 billion in committed capital. When building out new locations of expertise, asset servicers can gain from previous experience and leverage off a well-established infrastructure, sharing technology, knowledge and best practice. This is certainly something we found when creating a team in Chicago, as well as applying previous experience gained servicing the offshore U.S. markets of the Cayman Islands, BVI and Bermuda.

Through the breadth of our global capabilities we have found clients attracted by our additional services such as banking, foreign exchange and wealth management services.

#### Channel moves

Meanwhile, the private equity industry has been growing enormously in Jersey with recent figures showing approximately €25 billion in funds domiciled in the island. The industry is expected to receive a further boost following the recent introduction of the Unregulated Funds regime in February 2008. This fund category is aimed at providing fund promoters with the simplicity, certainty and speed they require for structures aimed at high net worth individuals, sophisticated investors and institutions.

As with regulatory enhancements in Guernsey, it has been introduced in response to market demands for a more flexible framework for funds aimed at these specialist investors and builds on the toolbox of options Jersey has been steadily creating for promoters of alternative investments since the introduction of the Expert Fund Regime in 2004. As a result we are already seeing growing market demands for specialist provision in this location and established a private equity team in March this year. Already having secured its first fund mandates, this team is working alongside our existing Jersey fund administration operations.

Guernsey continues to build on its long-established private equity industry with new developments which aim to shift the focus to regulating the service provider rather than the fund products and provide a fast-track authorisation process for funds aimed at professional, sophisticated and institutional investors. It has led the industry in being a domicile for closed-ended private equity funds looking to establish permanent capital vehicles listed in London or Amsterdam.

With a staff of 70 servicing 47 clients groups, the Guernsey office remains at the centre of our plans and forms a central base for training our global teams. Attracting and retaining a talented workforce is a key success factor common to all fund administrators, and at Northern Trust comprehensive in-house development programmes are a major focus.

#### The Irish advantage

Dublin has the benefits of being an offshore centre whilst still being within the European Union, the latter being seen as beneficial by some investors given the drive towards tax harmonisation between the EU countries. Fund



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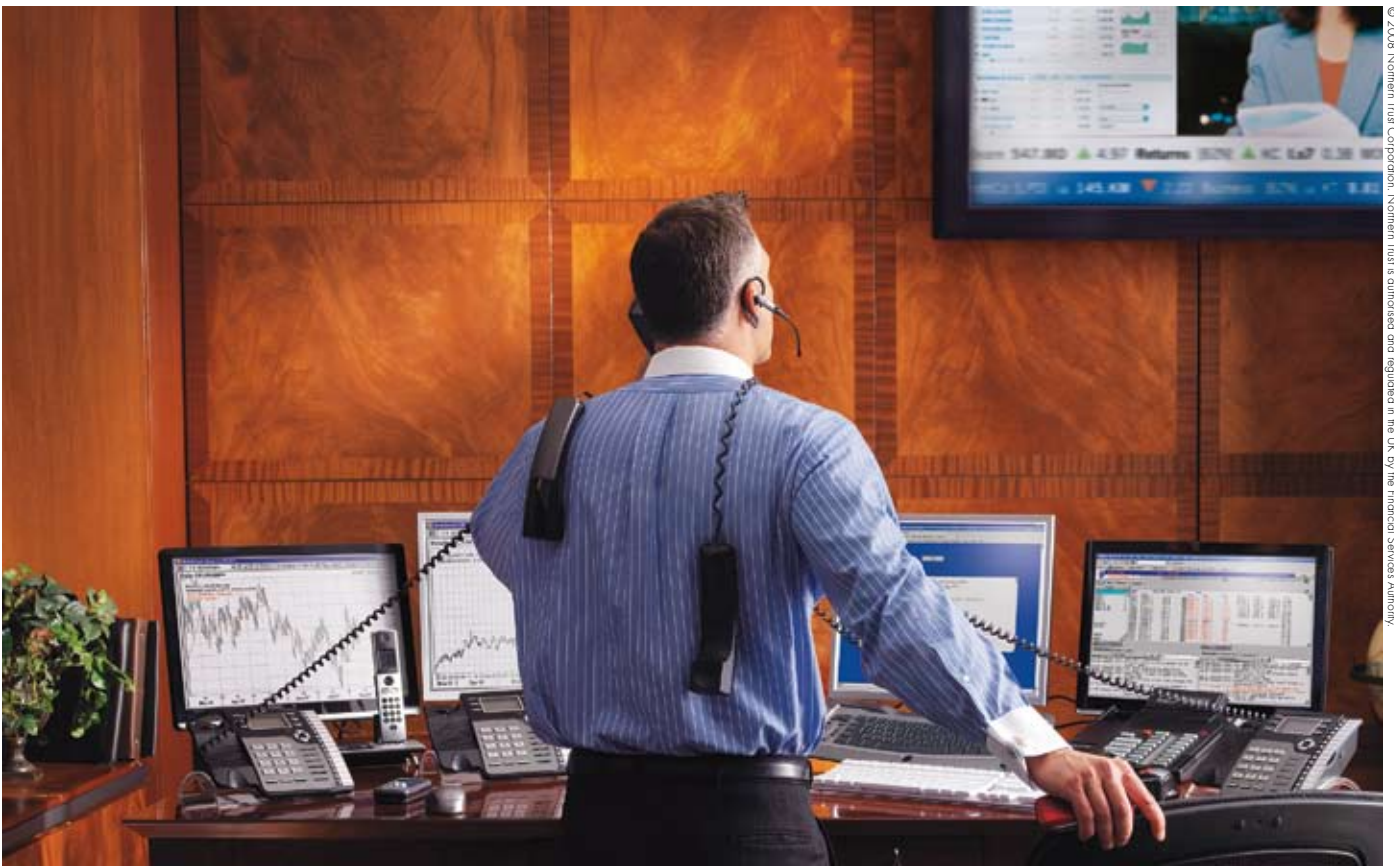
administrators are seeing growing investment but again face the common challenge of attracting qualified staff. Northern Trust has been fortunate in being able to leverage existing private equity experience in Ireland, allowing us in 2006 to be the first private equity administrator to announce the establishment of a dedicated private equity fund administration service in Dublin supported by a second hub established in Limerick in 2007.

So to conclude, as private equity investment continues to break geographical boundaries, fund administrators will carry on being challenged in the provision of support to GP's global investment strategies. Throughout the expansion process fund administrators need to be mindful not to dilute their existing client service provision in their established jurisdictions as they strive to replicate their servicing platforms in new locations. The ability of some administrators to support, not only GPs, but also their underlying investors via a complete service suite will give them a competitive edge. It would be fair to say that the fund administration industry's ability to provide a global support role is fundamental to the private equity industry as it continues on its path of year-on-year exponential growth.

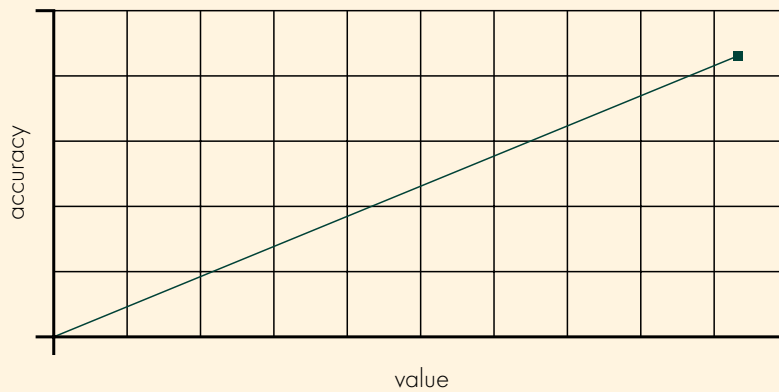
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## MAXIMISING ABILITY TO MAXIMISE RETURNS



How can you stay focused on delivering results if you're worrying about data efficiency and accuracy? Rely on Northern Trust's single, global operating platform. Functioning seamlessly on a global scale, it delivers meticulously the information you need, when you need it, how you need it. So you can keep your eye on the big picture. To learn more about our private equity fund administration services, call Kate Stallard at +44 (0) 1481 745618 or visit [northerntrust.com](http://northerntrust.com).



Fund Administration | Asset Servicing



### A leading private equity fund administrator giving you the freedom to focus on what really matters

Northern Trust provides a highly customised and controlled environment for the administration of global private equity funds. Our dedicated teams and specialist technology give our world leading private equity fund manager clients the freedom to focus on growing their private equity portfolios.

Supporting multiple fund structures across multiple jurisdictions, we partner with our clients to deliver a bespoke solution to meet their individual needs.

- **Global commitment** – Providing dedicated private equity fund administration teams around the world.
- **A trusted service provider** – Servicing over 55 client groups and over 670\* funds and related entities with committed capital of US\$72.7\* billion.
- **A leader in its field** – Administering one of the largest private equity funds in Europe: €11 billion, the largest secondaries fund in Europe: €7.3 billion and high profile private equity funds listed on the Euronext Amsterdam Exchange.
- **A partnership approach** – Sharing our knowledge at all stages of fund development from start-up and regulatory approval through ongoing administrative requirements.

Our success reflects our ability to leverage off our 20 year involvement in the industry to provide a cutting edge service model which is supported by experienced teams and specialist systems.

### A broad range of services

Northern Trust understands that no two private equity funds are alike, and works closely with its general partner clients to design adaptable solutions that accommodate unique and changing needs. Our comprehensive services include:

- Fund establishment and structuring
- Financial reporting
- Partnership accounting
- Capital drawdowns and distributions
- Investment and divestment execution

- Investor reporting
- Corporate secretarial
- Regulatory reporting and compliance
- Investor support

### Expertise across multiple fund structures in multiple jurisdictions

Northern Trust has extensive jurisdictional knowledge in our centres of administration in Guernsey, Jersey, Ireland and the U.S. and is able to support other major private equity domiciles. We administer a broad spectrum of fund structures and fund types such as mezzanine, life sciences, secondaries, communications, sustainability and turn-arounds on behalf of many leading private equity groups in addition to valued boutique private equity groups. Many of these funds have a global investment reach, with particular focus on Europe, but also on the Americas and the Far East.

### Exceptional client service

Clients benefit from focused management attention and access to people who understand and take their business seriously. We have a strong emphasis on the training and professional development of our work force offering clients the scalability they require to meet ambitious targets in this rapidly expanding industry. Our teams can demonstrate the ability to partner with our clients over many years as we continually evolve to meet their developing needs.

### Beyond private equity fund administration

Our private equity fund administration services can be combined with a broad range of services including banking, foreign exchange and secured credit services to provide a complete outsourcing solution. We also have fund administration capabilities across hedge funds, real estate funds, infrastructure funds and traditional asset classes.

*\*As of 31 March 2008*

## Northern Trust

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