

CREDERIAN SERIES:

What Does It Mean For Investment Managers?

System Integration and Fund Administration

Technology is a critical driver of the financial services industry. Better technology tools correlate with better financial products and services. Technology shapes the scope and quality of financial services; and system integration is a critical element of technology-enabled services. System integration represents a significant leap forward in the on-going technological evolution of the industry. System integration enables:

- greater data integrity
- simplified workflows
- consistent, accurate results
- enhanced ease of use
- reduced turn-around times

Below, we present a discussion of the benefits of system integration in the context of fund administration services. This review may be useful to you when selecting a fund administration agent. We look at the concept of system integration, generally, and the added value of integration within a fund administration system. We also include a few real-life examples of how system integration enabled client success.

Please explain the concept of “integration”

Integration refers to the degree to which your funds’ information technology resources work together or with third parties. IT management will talk in terms of partial, full or comprehensive integration of the various components of their IT platform. The concept of straight-through-processing (“STP”) has been part of the discussion for many years. The goal of system integration or STP is to minimize human

intervention in the data input process and leverage a system's architectural design to feed various system applications which might include, portfolio management, general ledger, partner data and reporting, allocations and back-end web portal access. Acceptance of data into an IT environment becomes a matter of critical concern and should only be allowed from sources within one's own organization or from highly trusted external sources. The reduction or elimination of re-keying of data has been a significant objective in reducing operator error, reducing risks, enhancing operational efficiencies, increasing the speed of producing usable output and reducing overall operating expense. The goal is to use technology resources to manipulate data in accordance with processes that have been subject to strenuous review and approval procedures thereby assuring a high degree of certainty in producing consistent, accurate results.

Please comment on the extent of technological integration among fund administrators

Previously, a significant number of investment managers have opted for an "admin lite" approach to their fund services, whether performed internally or on an outsourced basis. The "Admin Lite" service uses various systems to perform specific tasks without tying the systems together into a coherent network. This style necessitates significant human intervention in moving data from one system to another, requiring re-keying of data, making the process highly prone to error. With "admin lite", there is a need for time-consuming review protocols to assure the accuracy of data following each step. In this paradigm, data does not flow from one system component to another; data is re-entered as required for each element of the fund accounting, administration and investor reporting cycles. This approach fails to achieve the benefits of available technology. This operating model greatly increases the probability of error at multiple points with a heightened likelihood of exposing operational inadequacies to investors.

Some fund administrators, such as Crederian, utilize technology platforms that seek to achieve a high level of integration among the various service elements of the fund administration process. This is not common, even among full-administration firms. With greater system integration, workflows can be streamlined as data flows between the various components of the system without manual intervention. This level of system integration greatly enhances data integrity and the speed with which required tasks may be performed.

Aren't all systems integrated to some degree?

The answer may be that a system is integrated within itself, but a single system may not have the capability to perform all the functions necessary for fund administration. As a result, the fund manager or administrator may be moving data from the trading system to the accounting system and again to the reporting system through multiple re-entry of data. The data is not flowing seamlessly; rather it is being re-created through the repeated re-posting of the same information with the almost inevitable by-product of data error. Think of a house where water was once received by pump in the kitchen but needed to be carried by hand to other areas for various uses. The chance for spillage or leakage is easy to understand with resulting inconvenience or even damage. It is important for managers to determine whether their operating infrastructure enables the smooth flow of data not only within a function (trading, accounting, investor reporting, web portal) but among all the necessary elements of the fund's operational platform.

Doesn't "Admin Lite" reduce fund servicing costs?

There is a belief that the use of "admin lite" will lower the overall costs for investment managers, especially those in the start-up phase. However, the "admin lite" approach may result in the significant expenditure of time on non-revenue producing activities. "Admin Lite" approach usually results in higher audit and tax return preparation fees. This approach forces the auditors and tax preparers to perform additional interim testing. The additional testing is required as a result of control point gaps and the data supplied to them may not be sufficient to complete the audit or tax returns. Managers also need to consider the implicit opportunity costs embedded in their operational structure when deciding to pursue an "admin lite" approach to fund servicing. Such implicit costs include distraction from the manager's core business objective of attracting new clients and raising additional assets.

Can't we migrate from an "Admin Lite" approach to a more full-service platform after we achieve our goal of asset growth?

It is understandable for fund managers to think that they can begin with an "admin lite" approach and then upgrade to a more complete service environment at a later time. The focus of this analysis is almost always the direct cost of the Administrator. However, in order for this analysis to be complete, managers need to add the cost of time spent on managing the "admin lite" agent, assuring data integrity, reviewing the quality of investor communication and the cost of potentially losing a client due to foreseeable administrative issues, such as incomplete or incorrect information. With "admin lite," managers are accepting a predictable level of investor-visible error for lower costs. In essence, it becomes a matter of time or chance as to whether known system inadequacies will result in more pain and cost than the manager would willing to accept.

The “admin lite” approach is by definition not sustainable. With projected asset growth, the shortcomings of the “admin lite” approach add an ever-increasing amount of strain on the servicing side of the operations with almost certain impact on the asset gathering side of the business. Loss of an investor or prospect due to system or personnel inadequacies on the servicing side should be unacceptable to every manager. A more desirable approach would be for managers to work with a full service administrator, such as Crederian, that is willing to provide fee concessions for stated periods to enable the manager to focus on and ramp up asset growth.

Please specify the functionality requirements of a full-service fund administration system

- Fully-integrated among portfolio, investor data and activity, general ledger, allocations and reporting functions
- Auto-integration with prime brokers and OMS (Order Management Systems) to minimize manual input of data
- Excel template loaders to allow for easy conversion of tax lot and investor information
- Automated, third-party pricing and corporate action to ensure accuracy
- Real-time processing with no overnight batch required
- Document Manager to allow for the posting of organizational documents, sub docs and Manager communications
- Customized PDF and Excel reporting
- Back-end investor login to allow Manager, Partners and Investment Advisors access to reporting and documents

Please provide case studies that highlight the benefits of an integrated fund administration system

Case Study #1

Client was tired of performing all the accounting and investor services functions in-house on Excel using the prime broker statements. The manual errors were causing the fund to lose investments from high net worth and institutional clients.

Client selected Crederian to perform all accounting and investor services functions for the fund using a fully-integrated accounting/investor services solution that allows for the portfolio, investor data and activity, general ledger, allocations and reporting to all come from one system. As a result, the client was able to save on internal costs associated with back-office operations and were able to retain and raise additional capital due to strengthening of the fund's administrative services and due diligence. Additionally, Crederian's technology solution and operational controls are both SAS 70 certified.

Case Study #2

Client wanted more reliable controls concerning the release of partner statements. The fund manager had experienced client dissatisfaction resulting from internal operations personnel mailing statements to the wrong partners.

Crederian was able to generate and e-mail partner statements directly from our fully-integrated system with no manual intervention in the process.

Case Study # 3

Client was relying exclusively on the prime broker for securities valuations and corporate actions. Client wanted to enhance the reliability of this information by using a more independent source.

Crederian provided pricing and corporate actions from IDC, an independent, third party source. With IDC's auto-feed this data flowed directly into Crederian's accounting solution with no manual intervention. The IDC data values the portfolio on a daily basis and books corporate actions on ex-date.

Case Study #4

Start-up fund was not sure if they should go with an Administrator who performs “Admin Lite” or a full-service Administrator. Focus was on direct cost.

Crederian provided fee concessions in the early stages to enable asset growth. Crederian’s technology platform enabled integration among the various elements of its fully featured fund administration system as well as with order management systems, prime brokers and custodians with limited manual intervention to assure accuracy.

By using a full service administrator, such as Crederian, the fund will have a stronger operational base and will be more fully protected against missed trades, missed dividends, inaccurate partner statements and incorrect securities valuations.

Do you have a topic or question that you’d like us to discuss? Please e-mail them to:
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