A GUIDE FOR FUND MANAGERS

2025 Trends in Fund Administration

KAUFMAN ROSSIN

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EXECUTIVE SUMMARY

The fund administration landscape is undergoing significant transformation as we enter 2025.

Fund managers, CFOs and COOs seeking effective administration must navigate a complex environment characterized by increased competition for this work from CPA firms, consolidation of established providers through mergers and acquisitions (M&A), technological advancements including artificial intelligence, and heightened cybersecurity concerns.

Increased complexities as funds grow, coupled with continuing investor demands, put the fund manager in a position to evaluate if their fund accounting practices – whether internally managed or outsourced – continue to serve their interests.

This report provides insights into these trends, identifies triggers for outsourcing fund administration functions, and outlines key considerations for selecting an outsourcing partner.

INDUSTRY LANDSCAPE

Pooled investment vehicles continue to grow, both in number and in assets under management.

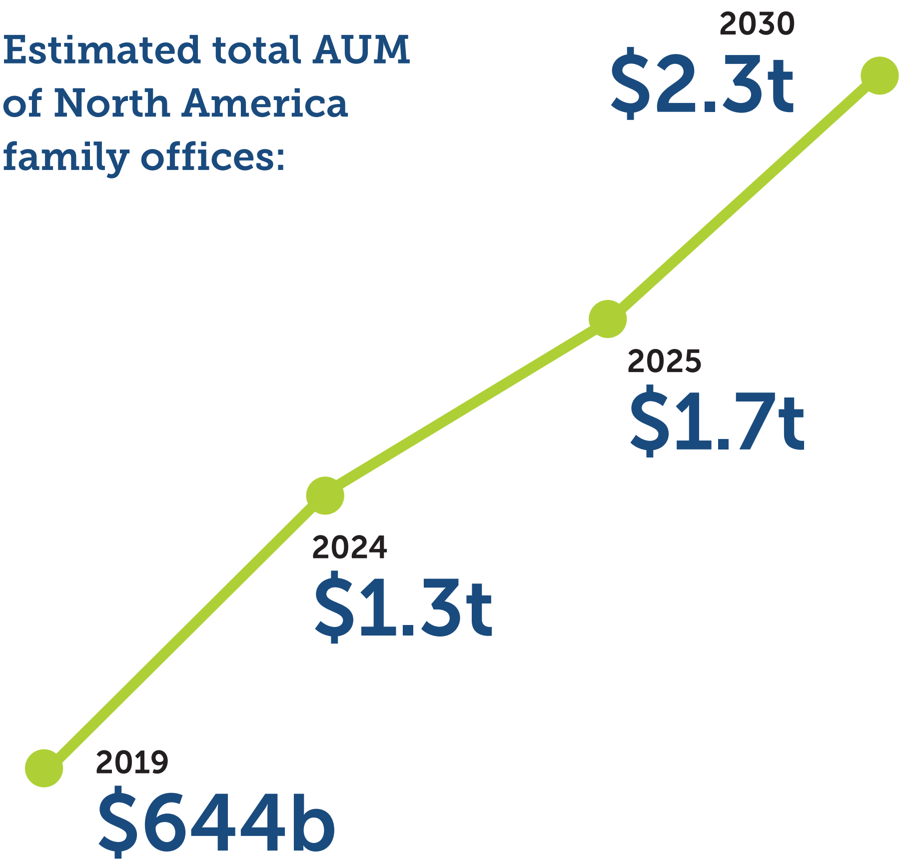
Family offices, for example, are experiencing tremendous growth. In September 2024.

> *"Family offices have experienced explosive growth in recent years.... there are an estimated 8,030 single family offices in the world today, up from roughly 6,130 in 2019. This number is projected to grow to more than 10,720 by 2030, a remarkable 75% increase. Similarly, family offices' total estimated assets under management (AUM) are expected to rise 73% from US$3.1 trillion today to US$5.4 trillion by 2030."*

– Forbes

The liquidity events that often prompt families to set up independent family offices or join multi-family operations are growing as wealth transfers from baby boomers. These operations experience the same changes and challenges seen in other pooled investment vehicles, plus additional complexities family dynamics can create.

Estimated total AUM of North America family offices:



Source: https://www.deloitte.com/global/en/about/press-room/global-edition-explores-the-rapid-expansion-family-offices-and-ffers-vision-of-the-future-landscape.html

KEY TRENDS AND THEIR IMPACT ON FUND ADMINISTRATION

1 Growth and scalability challenges

As fund managers experience this dynamic market growth, their needs change and more complexities are introduced. Keith Sharkey, managing principal of Kaufman Rossin Fund Services, outlines the growth path he's seen with many family offices.

"Typically they start with a few employees, maybe family members. They begin with one or two investment vehicles, but as they grow, they may add one or two more funds per year. Suddenly they're up to 15 or 16 entities. More staff is needed, and the expenses for technology increase. Family members demand increased reporting, and eventually the operation reaches the tipping point where it makes sense to consider outsourcing aspects of the operation."

— **Keith Sharkey,** Managing Principal at Kaufman Rossin Alternative Investment Services.

Triggers for Outsourcing Fund Administration Functions

Fund managers should consider outsourcing fund administration when facing:

- **Operational Inefficiencies:** Internal processes are overburdened, leading to errors and increased costs.
- **Increasing Regulatory Complexity:** Challenges in keeping up with evolving compliance requirements across jurisdictions.
- **Investor Expectations:** Demands for detailed, timely, and transparent reporting that internal systems cannot support.
- **Growth and Scalability Challenges:** Difficulties in expanding fund operations, especially for multi-asset or cross-border investments.
- **Risk Management Concerns:** Heightened risks of non-compliance, cybersecurity threats, or operational failures.

Among other examples, continuation vehicles (CVs) are becoming a strategic option for private equity sponsors seeking liquidity without exiting high-performing assets prematurely. This trend is expected to continue into 2025, offering flexibility that traditional exit opportunities lack. In addition. This could mean administrators will need to manage more intricate fund operations, requiring advanced capabilities to handle varied asset classes, capital structures, and extended investment timelines.

One venture capital fund, with more than 10 years in business, wrote to their investors that their existing administrator hadn't been able to meet their needs.

“ *[They] have not provided the service they promised. We have encountered challenges related to the accuracy and timeliness of reporting, lack of communication and poor service, which have impacted us and our [limited partners]. We are making this change with the goal of addressing these shortcomings, enhancing the overall investor experience, and supporting our continued growth."After an extensive search, they chose to move to a more experienced firm with "a proven track record of excellence in alternative fund administration and a commitment to high standards of service."*

“ *As fund structures become more complex, and as managers add more and more funds to meet investors' appetites, smaller administrators struggle to keep up. We are onboarding multi-billion-dollar entities with dozens of funds who need quality service from their administrators."*

— **Robert Alonso,** Managing Director at Kaufman Rossin Alternative Investment Services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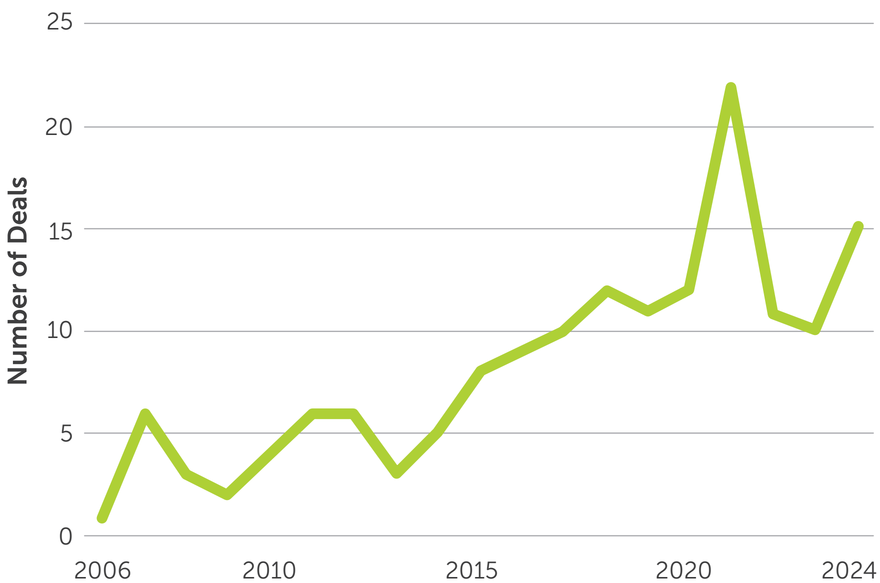
2 Industry consolidation

The fund administration industry has been through an extended period of consolidation for more than a decade.

Fund Administration Mergers and Acquisitions



Source: https://www.fundrecs.com/blog/a-complete-history-of-fund-administration-mergers-and-acquisitions

> *"Private equity sponsors have remained actively on the lookout for investment opportunities in the fund administration space – validating the industry's resilience and solid long-term growth fundamentals."*
>
> **— Drawdown's Fund Admin Report 2024**

"It's attractive for larger players to acquire independents with strong technology, experienced professionals and solid client relationships, as ALPS did 10 years ago when they acquired our predecessor firm, KRFS. The difference now is that clients are more educated, and they recognize the disruption they'll experience when these deals occur. Differences in technology, process, and – most important – the client service culture can lead to unexpected costs, errors, and decreased responsiveness."

– Keith Sharkey

As the mergers and acquisitions within the industry and the opportunistic private equity investments continue, fund managers will find themselves facing lower levels of service, decreased timeliness or higher risks of errors as newly consolidated competitors struggle through the growing pains of consolidation.

3 More service providers entering fund administration space

The accounting industry has been experiencing a notable shift in its revenue composition, with a growing emphasis on consulting services alongside traditional compliance offerings such as audit and tax services. This evolution has created a ripple effect in the fund administration world. As technology has become more capable of performing many of the basic compliance tasks that have represented the lion's share of revenue for CPA firms, firms have been diversifying their revenue streams by adding a range of services, from business consulting to wealth management to fund administration.

Keith Sharkey started Kaufman Rossin's original fund administration business based on the request of a client who needed reporting for a client's portfolio.

> *"Small CPA firms are taking the leap into fund administration much the way we did in the eighties. We learned and grew and became a powerful resource in the industry. But the exponential growth of the investments industry and the sophistication of today's fund managers have made it a much more complex and expensive business to enter."*
>
> **– Keith Sharkey**

Smaller, newer funds and family offices may find the lower fees of new players attractive, and their services may suffice for simpler needs. As funds grow and investors become more sophisticated, however, requests for non-standard services become more frequent.

For example, a multi-family office with more than a dozen marketable funds might need data consolidated so each investor receives one aggregated statement, even if they invest in these entities as individuals, jointly, or through a trust. Capturing data in customized systems to create flexibility in reporting isn't something a small CPA firm would likely be able to do.

“Fund managers should be able to trust their administrators to have the developers, the expertise and the tools to be able to customize reporting or processes to make things more scalable for them. They shouldn’t have to hire somebody every single time they have a new product, or they have a new wrinkle in their operations. They should be able to focus more on higher value processes on their side and let the administrator take on the other stuff.”

– Josh Altchek, Managing Director at Kaufman Rossin Alternative Investment Services.

4 Advanced technology and associated risks

Continuing advances in technology bring many benefits. Funds are increasingly adopting advanced technologies, including artificial intelligence and machine learning, to enhance trading strategies and risk management. Investments in AI and machine learning are anticipated to play a significant role in value creation, driving top-line and margin improvements across portfolio companies.

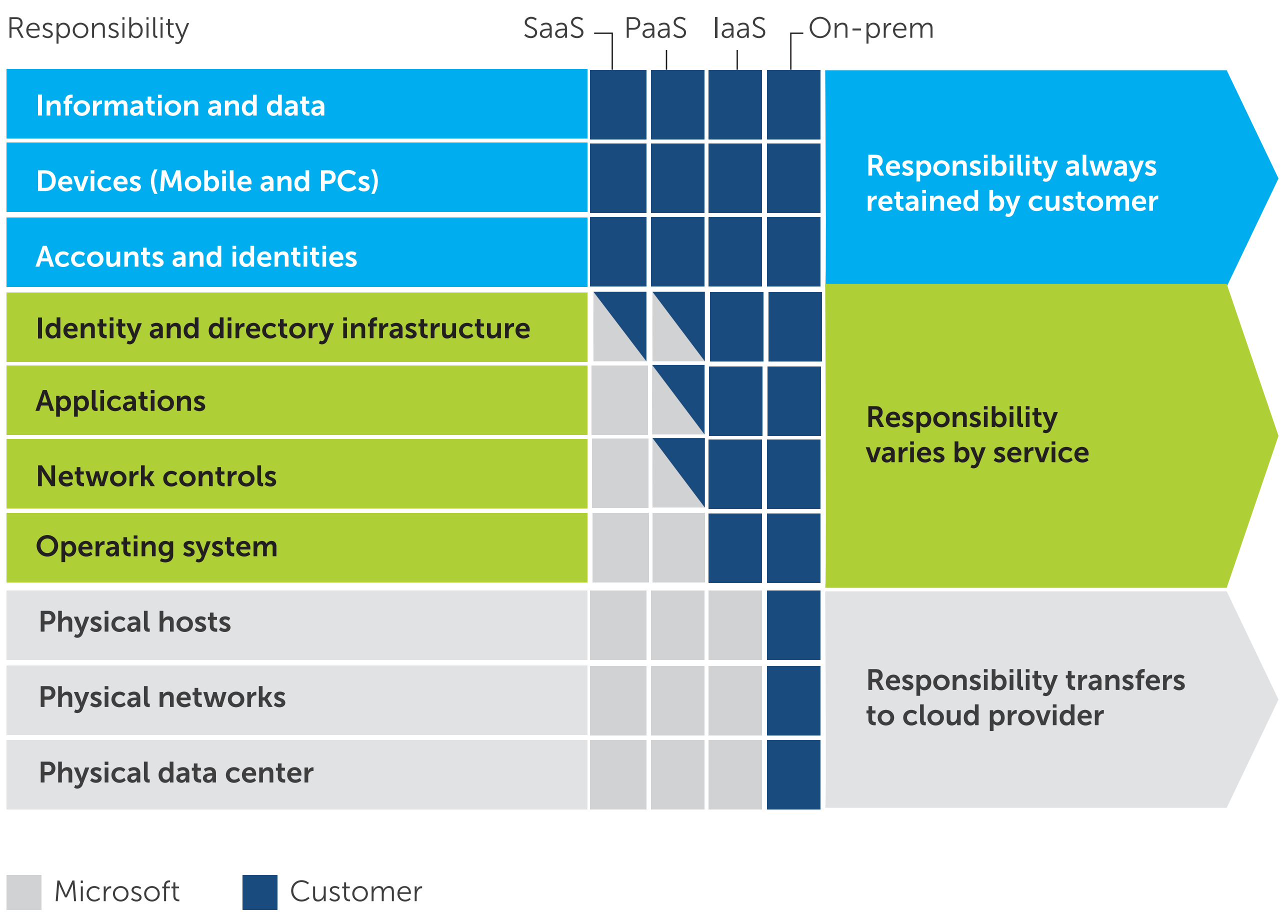
This focus on technology is expected to continue into 2025. And fund administrators continue to employ a variety of new tools to improve data gathering, analytics and reporting.

This increased digitalization and sophisticated cyber threats necessitate robust cybersecurity measures.

> *"Protecting sensitive financial and investor data is critical to maintaining trust and complying with regulatory requirements. As fund management and administration move to the cloud, issues of data security and data privacy become a shared responsibility."*

– **Vladislav Rudnitsky,** Chief Information Security Officer for the Kaufman Rossin Group.

Shared responsibility model



"Key elements of a robust cybersecurity strategy for a fund administrator will address the particular risks and capabilities of the industry, through cybersecurity audits (SOC reports), assessments against standards and frameworks (including ISO, NIST, and PCI, and investigations of security incidents and data breaches."

— Vladislav Rudnitsky

Cybersecurity measures for a fund administrator should include strong access controls with multi-factor authentication, robust encryption for sensitive data, regular security audits, secure network architecture with firewalls, data backups, employee cybersecurity training, thorough risk assessments, and monitoring for suspicious activity, all while staying compliant with relevant regulations and industry standards.

Key Factors in Choosing an Outsourced Fund Administrator

1. **Expertise and Specialization:** A proven track record with similar funds in terms of size, complexity, and geography.

2. **Technology Capabilities:** Utilization of advanced platforms for reporting, compliance, and automation, with sufficient development resources to meet fund needs as you grow.

3. **Service Customization:** Ability to tailor services to the specific needs of your fund rather than offering a one-size-fits-all approach.

4. **Regulatory Knowledge:** In-depth understanding of compliance landscapes in relevant jurisdictions.

5. **Financial Stability and Reputation:** Demonstrated long-term stability and positive client feedback.

WANT TO LEARN MORE?

As the fund industry continues to evolve, so does the fund administration landscape. Fund managers should regularly assess whether their current and future needs are met, and whether there are alternatives that might improve their ability to satisfy investor demands.

If you have questions or would like assistance assessing your current and future needs, reach out to us. We're here to help.

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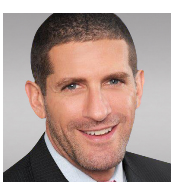

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