Global Custodian

Private equity administration uptake set to spike in 2017

Only a small percentage of private equity firms using fund administrators, but this could soon be set to rise.

Private equity outsourcing to fund administrators' looks set to rise in 2017 due to capital injections, regulatory pressures and technology demands, according to industry experts.

In its annual predictions for 2017 report, Centaur Fund Services revealed that more private equity firms will turn to administrators with increased investor demands for greater independence and transparency.

"Private equity firms are quickly realising that going it alone without the help of fund administrators will only bring lost growth opportunities," said Karen Malone, founding partner of Centaur Fund Services.

"2016 saw extraordinary growth in this sector and all indications are that growth will continue to be steep."

Global Custodian recently investigated the increasing trend of private equity firms becoming more acceptable to the idea of outsourcing to capable fund administrators.

Private equity, as an alternative asset class, had enjoyed solid growth over the last few years as investors seek absolute, non-correlated returns and diversification. Assets under management (AuM) stood at $2.4 trillion, as of June 2015, according to Preqin, and inflows are likely to continue.

Despite the surging interest in private equity, the asset class was previously facing a number of challenges. Whereas approximately 90% of hedge fund administration is outsourced to third party providers, BNY Mellon previously estimated just 20% to 30% of private equity administration is externalised.

According to BaseVentures, estimates are that penetration by fund administrators of private equity and real estate funds AuM will rise to 45% by 2018.

This level of outsourcing has undergone recent increases with a number of banks and independent fund administrators bolstering private equity administration capabilities by appointing private equity specialists.

"Very few fund administrators had the skillsets to deal with the nuances of private equity funds around five to ten years ago," said Alan Flanagan, global head of private equity and real estate fund services at BNY Mellon, to Global Custodian last year.

"This has changed dramatically with private equity fund administrators hiring qualified people and improving their technology to deal with the asset class."

Source: Global Custodian