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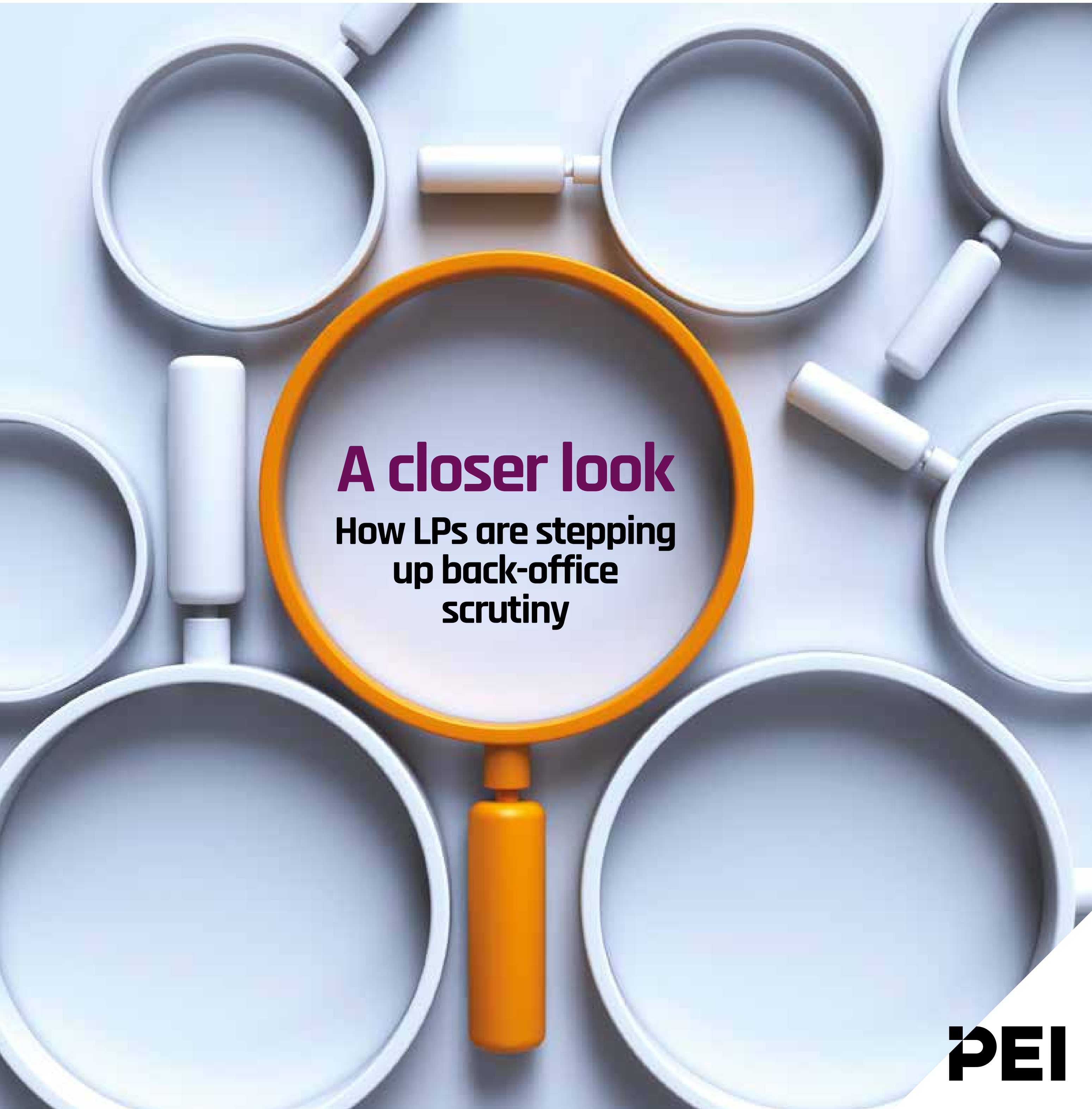


A closer look

How LPs are stepping up back-office scrutiny

PEI

CLIENT CASE STUDY

SEI

Revolutionising NAV reporting for scalable growth in private markets.

Strategic partnership with SEI helps deliver dramatic improvements.

Client profile

$150B
AUM

A **private markets manager** operating across alternative asset classes with a growing private debt business faced evolving investor and regulatory demands and complex operations, leading to inefficiencies and reporting delays.

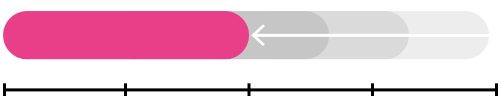
Strategic risks

Prolonged investor reporting time frames, coupled with the costs of growth, posed **risks to competitiveness and hindered the ability to scale a complex platform.**

SEI solution and key results

NAV timeline compressed by

50%



50% reduction in NAV reporting: Achieved through streamlined data operations, including enhanced data collection, aggregation, and processing.

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Effective collaboration: Invested with a long-term partnership in mind, laying the groundwork for the client's future growth and scalability.

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Insight

Key trends **Closer partnerships prove essential in a volatile environment**

The past few months have been nothing if not dramatic for GPs and LPs alike, with trade tariffs and global conflicts causing plenty of headaches. And while the focus initially has been on the headline-grabbing policy changes, market movements and the investment decisions – or lack thereof – stemming from those upsets, all that uncertainty ultimately feeds through into GPs' back-office operations too, ***writes James Sutton***.

Attention there has been dedicated to shoring up processes and ensuring existing relationships with fund services partners serve GPs and their end investors effectively. But with other big changes on the horizon – including the advent of AI-powered reporting tools, for instance, and more retail cash flowing into private equity than ever before – there's lots for GPs to get to grips with at the moment.

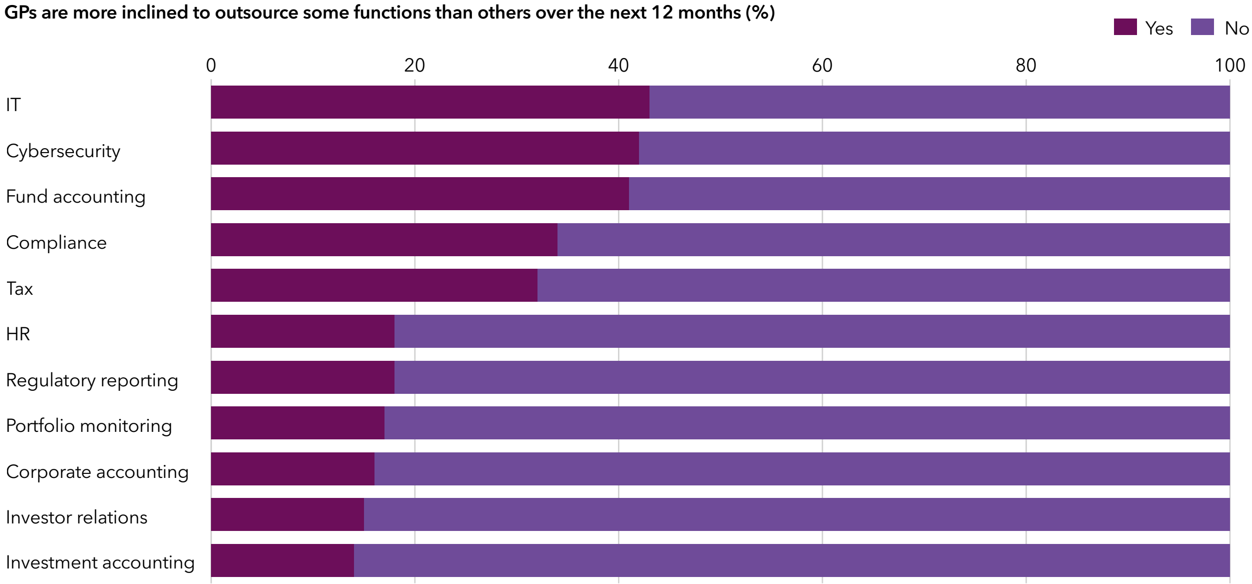
So, which way are firms leaning when it comes to embracing partnerships with fund services providers? And might those relationships change as the economic outlook turns gloomier?

1 Geopolitics turns up the heat

GPs' thinking on the subject of back-office operations and the role of outsourcing has taken on greater urgency of late, in response to rising uncertainty in the markets and a tighter focus on liquidity.

However, the pressure has been rising on this front for some time. In fact, LPs' scrutiny of GPs' back-office processes has been increasing for several years; according to the *Insights Survey 2025* from affiliate title *Private Funds CFO*, 61 percent of GPs have noticed an uptick in the level of LP interest in their back-office operating models over the past three years. This increase has been particularly marked more recently, with 91 percent of

GPs are more inclined to outsource some functions than others over the next 12 months (%)



Source: Private Funds CFO Insights Survey 2025

GPs reporting that LPs have been conducting more detailed due diligence over the past 12 months.

On several fronts, then, GPs are being prompted to reconsider the operating models they employ in the back office, and to seek help when it comes to ensuring they meet their increasingly stringent reporting responsibilities. According to the same survey, as many as 41 percent of GPs are considering turning to outsourcing for some aspect of their back-office fund accounting over the next 12 months.

This ranks third among the different functions GPs would consider outsourcing, beaten only by IT, on 43 percent, and cybersecurity, on 42 percent. By contrast, investor relations and investment accounting are among the areas GPs are most likely to keep in-house, with just 15 percent and 14 percent considering outsourcing those functions, respectively.

What's clear is that, where outsourcing is considered as a potential part of the mix, it will be essential for GPs to maintain close and effective partnerships with their service providers. After all, according to the survey, GPs are only considering outsourcing as a replacement for an entire function in 2 percent of cases. Instead, the internal headcount for back-office functions is still expected to rise in 48 percent of cases, remaining the same in a further 45 percent of cases.

2 Preparing for retail inflows

One area where GPs may be particularly inclined to seek external help at the moment is in preparing for the arrival of more retail investors.

According to a recent survey by fund administrator Apex Group, PE firms' accelerating efforts to cater to the wealth channel come in response to a genuine appetite for alternative asset classes among retail investors. As many as 97 percent of respondents within the asset management industry reported either 'significant' (48 percent) or 'some' (49 percent) appetite for the private funds space among retail investors.

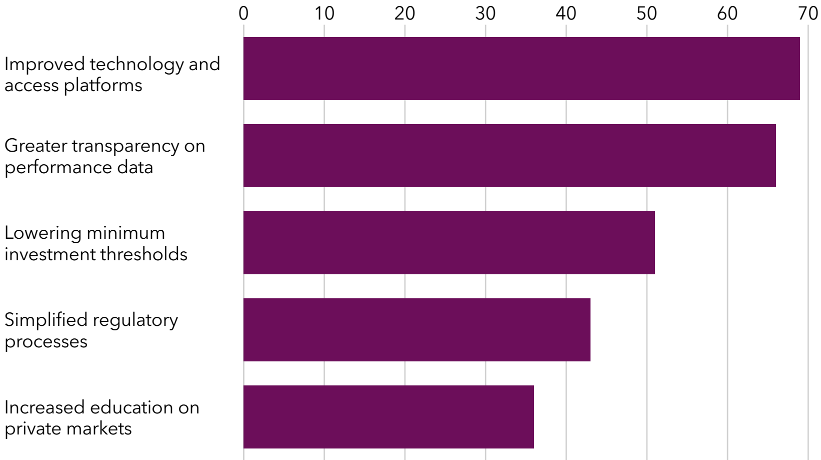
Nor is this interest a passing fancy. As many as 86 percent of respondents said they expect alternatives to make up a significant portion of retail investors' portfolios within the next five years.

However, as a sector that has historically catered to institutional investors, private equity is still characterised by significant barriers to entry, including regulatory restrictions, high minimum investment amounts and liquidity concerns. GPs will need to address some of these perceived issues if they hope to capture individual investors' cash.

Technological solutions – whether outsourced or developed in-house – could be a good place to start. More than two-thirds of respondents to Apex Group's survey felt that improved technology, such as platforms tailored to retail investors' needs, will be crucial to boosting retail participation in private markets.

That is something that already

Technological solutions are seen as a key way GPs can boost retail investors' access to PE (%)



Source: Apex Group

appears to be taking shape, too. "We've seen an abundance of new technologies and platforms launch to market, providing investors with direct access to those different investment strategies," says Georges Archibald, chief commercial officer at Apex Group. GPs that are minded to experiment with outsourcing their tech stack will need to pick through this expanding marketplace carefully.

> "Many firms still rely on outdated authentication systems that attackers can exploit"
>
> Rick Kurtz
> Agio

3 Cyber-threats on the rise

Of course, it will be worth bearing in mind that any increased reliance on technology – combined with more third-party relationships – is likely to leave GPs more vulnerable to cyber threats. After all, PE firms' push for digitalisation and democratisation is bound to open up fresh attack surfaces.

The cybercriminals are already on the case too, increasingly targeting PE firms with brute-force attacks in order to gain access to their networks and infrastructure, according to a recent webinar by cybersecurity firm Agio.

"About 90 percent of cyberattacks are financially motivated," explains Chris Schoenwetter, director of cybersecurity operations at the firm. He adds that attackers' methods are becoming increasingly sophisticated, as they seek to gain access to GPs' virtual private networks.

From there, they can often pivot to file servers or e-mail accounts. By stealing and encrypting files, they can then demand a ransom to restore access.

More specifically, Rick Kurtz, Agio's associate director of cyber operations, explains that PE firms face a wide range of cyber-adjacent risks, including regulatory penalties, reputational damage and fraud risk, since stolen investor data can be exploited in impersonation scams, leading to financial theft.

SEC- and FINRA-registered firms are required to report any breaches, and this can lead to enforcement actions if the breach is found to be due to inadequate security measures.

Additionally, brute-force attacks can cripple internal operations, delaying deals and fund transfers. Firms may also face lawsuits from investors whose data has been compromised, leading to further financial strain.

It's no surprise, then, that GPs are increasingly seeking outsourced support when it comes to bolstering their cyber defences, with 42 percent of respondents to *Private Funds CFO*'s *Insights Survey* saying they expect to take that step over the next 12 months.

After all, many of the recommended best practices on cybersecurity – from multi-factor authentication to the introduction of AI-powered monitoring tools – will require significant technical expertise to implement.

Understandably, LPs are very much on board with the idea of GPs investing in their cyber defences, too.

According to the *Insights Survey*, 36 percent of LPs ask GPs 'very detailed' questions about cybersecurity. Strong cybersecurity protocols – including risk assessments, business continuity plans, record storing policies and malware/ransomware protections – are considered a must-have, to a great or moderate extent, by 94 percent of LPs.

The trick will be balancing these needs with the cost of fulfilling them, whether internally or by means of an outsourced relationship. ■

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Editor's letter

Feeling the pressure

James Sutton
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It's a difficult time to be a GP. And it's not just macroeconomic headwinds, policy-making turbulence and a grim fundraising environment that managers need to keep an eye on. There's also a growing list of back-office challenges to address.

At the fund level, for instance, rising retail investor appetite for private equity brings with it particular requirements, namely greater liquidity and reporting complexities. Then there's the forward march of technology to consider too, notably the potential for artificial intelligence to shoulder some of the burden of routine tasks. For GPs, that both presents an opportunity and raises the prospect of certain risks.

"More than 60 percent of GPs have noticed LPs paying closer attention to the back office"

Meanwhile, as managers compete for capital, LPs are also carrying out more detailed due diligence, stepping up their scrutiny of GPs' back-office operations like never before. Indeed, more than 60 percent of GPs have noticed LPs paying closer attention to the back office over the past three years, according to a survey by affiliate title *Private Funds CFO*. In practice, that means GPs are now required to produce increasingly granular and timely data on an ongoing basis, on everything from valuations to third-party relationships.

On that latter point, rising investor interest in managers' outsourcing partners highlights just how integral these relationships have become. After all, while GPs' back-office teams grapple with a growing and diverse workload, outsourcing certain functions – whether wholly or as part of a 'co-sourced' arrangement – has quietly become market-standard. And the fact of the matter is that in an increasingly challenging world, with LPs demanding more of GPs, that seems unlikely to change.

James Sutton

James Sutton

Scrutinising the specifics

LPs conducting due diligence on private equity managers are delving into the detail of back-office operations and funds' third-party administrators, writes Amy Carroll

As most GPs will be aware, LP scrutiny of the back office is intensifying. Among several reasons, the slowdown in fundraising has given LPs more time to examine increasingly complex and varied back-office functions in deliberate detail as GPs compete for allocations.

"Between our last two funds – raised in 2021 and 2024 – we noticed a higher level of questions and review regarding the operational functions of the firm," says Jason Snider, partner and CFO at Gauge Capital.

"Given the current fundraising environment and the growing sophistication of LPs, it has been no surprise that there has been an increase in LP scrutiny as it relates to back-office functions," says Tim Toska, global sector head for private equity at Alter Domus.

"The private markets fundraising environment for the past couple of years has been challenging, with more funds competing for LP allocations," agrees Agnes Mazurek, global head of business implementation, digital assets at Apex Group. "LP allocation decisions are therefore being driven by a more complex set of criteria."

Operational diligence

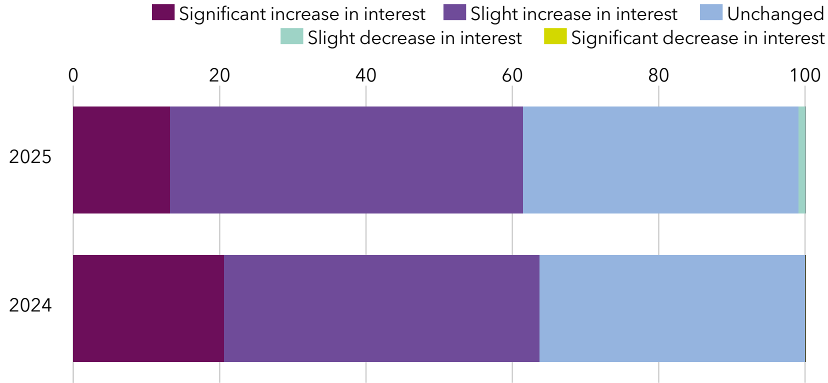
The nature of LPs' interrogation of back-office functions is varied and far reaching. "Every LP approaches it a bit differently, but recurring themes involve cash management and cash controls; our financing partners and policies around the use of leverage at the fund level; insurance coverage such as directors' and officers' liability, cyber and employers' liability; together with any major changes of vendor, for example, IT providers, auditors, tax advisers or legal counsel," says Snider.

"The robustness and reliability of core fund accounting systems is a key consideration," adds Mazurek. "So is the existence of business continuity procedures and processes, and the demonstrated ability to safeguard client data."

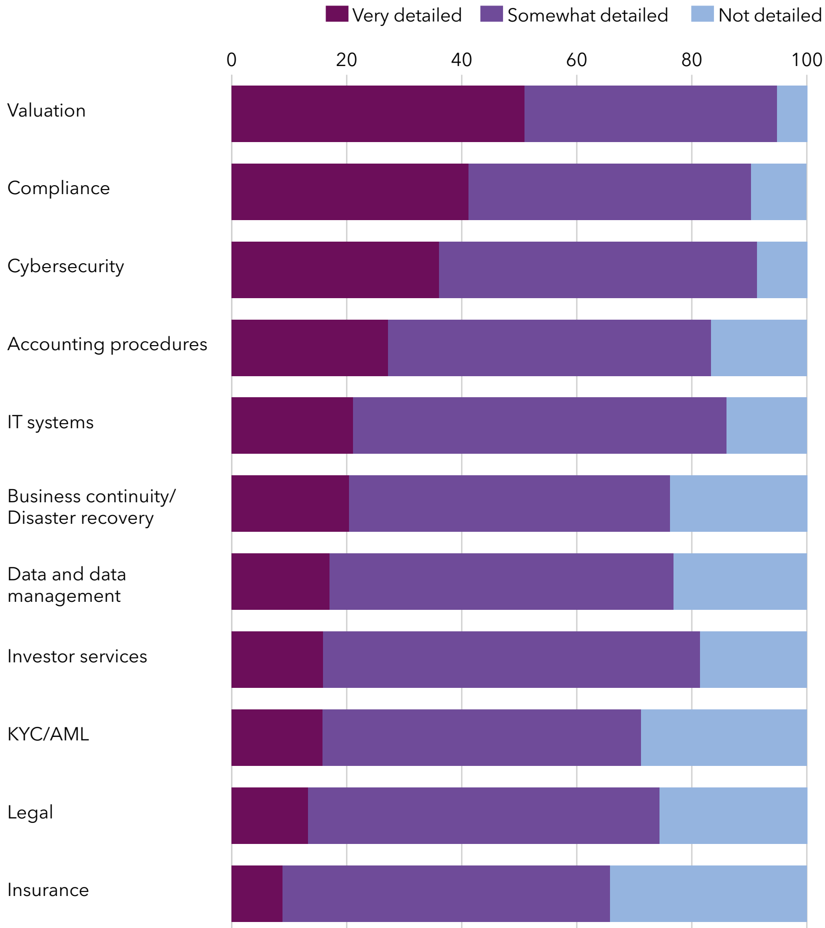
Jeffrey Stomski, partner in the financial services group at EisnerAmper, agrees investors want to understand how the back-office team is performing reconciliation, review and approval procedures for significant processes such as cash movements, investment activities and financial reporting, and notes that cybersecurity has become a hot topic.

"LPs focus on whether an investment manager has the correct cyber policies and procedures in place and, most importantly, what monitoring and testing procedures exist to verify

How has LP interest in your back-office operating model evolved over the past three years? (%)



How detailed are LPs' questions of the following back-office functions during due diligence? (%)



Source all for all data: Private Funds CFO Insights Survey 2025

the controls are operating effectively," Stomski says. "Regulatory reporting is another significant focus. LPs want to be sure that an investment manager has engaged with experienced professionals to fully understand regulatory requirements and meet regulatory demands."

Third-party involvement

The nature of LP operational due diligence differs, however, depending on whether or not a third-party administrator is involved. "If the GP has a third-party adviser, then LPs have a level of comfort that the back office work is independent from the GP," says Gulsey Torenli, director, alternative investments at Vistra.

"However, if the work is being handled in-house, then the LP will most likely perform additional due diligence. For example, the LP may request information such as an internal controls memo relating to accounting; information on the accounting platforms being used; or details regarding the investor services function. With a third-party adviser, internal controls are already in place and SOC 1 Level II Type 1 audits are conducted that will reduce LP due diligence and give LPs confidence, both during and after the due diligence process."

Nonetheless, as private market operating models become increasingly complex, typically including a significant outsourced component and possibly including a co-sourced or lift-out arrangement, these third-party relationships are going under the microscope as well.

"LPs are keen to have that third-party validation and objectivity to ensure that back-office practices are up to standard," says Torenli. "With that, some LPs are interested in who the third-party administrator is, clearly wanting a reputable administrator with solid experience to support the back-office function."

In fact, the relationships between an LP, GP and outsourced provider are becoming more interwoven. "Everything is becoming increasingly joined up," says Matt Horton, group head of private equity at the Aztec Group.

"It used to be that the GP would handle due diligence and then maintain a relationship with the fund administrator, while the LP would conduct due diligence on the GP and then maintain a relationship with them," he explains.

"Now, when LPs are asking GPs questions about the back-office set up during fundraising, those GPs are often reaching out to us for answers, particularly regarding the technology that is being used. This reflects the modernisation of the industry."

Toska agrees: "It has become a common occurrence for a fund administrator to be contacted by an LP to complete a due diligence questionnaire and in certain instances, request a call or an onsite meeting."

Indeed, not only are fund administrators fielding LP requests for information during fundraising, but they are also increasingly building direct relationships with those investors. "As LPs seek their own efficiencies and access to data, they are developing relationships directly with fund administrators in order to take advantage of the innovations in technology and to have access to all of their portfolio information managed by that fund administrator. The whole ecosystem is becoming interconnected," says Horton.

Data demands

Access to increasingly granular and timely data is, of course, one of the top priorities for LPs and integral to due diligence of the GP back office, their third-party administrator, as well as the ongoing reporting relationship.

"LPs are looking for transparency and detail in the data they receive from GPs," says Torenli. "For example, they want more robust reporting of their PCAPs [partners' capital account statement], which is why most GPs now provide the ILPA Fee Template as the standard PCAP reporting to LPs. There is also an increase in requests surrounding the waterfall calculation. LPs are beginning to request sight of the GPs' waterfall calculations to ensure that there is alignment with the terms of the LPA. They want the data delivered securely and in some cases, in real time."

"We see an increased focus on portfolio-level analysis and user-friendly portals that deliver dynamic dashboards," adds Apex's Mazurek. "Bespoke reporting, including but not limited to regulatory reporting, for various LP needs is now a common feature of funds small and large."

There can be no doubt that increased LP scrutiny of all aspects of the back office during due diligence, coupled with these added demands around access to data and reporting during the life of the fund, is putting added strain on finance teams and this is a trend that is not going away.

"Interest in alternative assets is increasing. The infrastructure required to support this investment activity must therefore increase as well," notes Mazurek. Unsurprisingly, CFOs are exploring tech solutions to help alleviate the burden.

"For the most part, we simply used brute force for our last fundraise, but I would definitely like to look at tools to improve the process going forward," adds Snider.

AI is being cautiously embraced. "Nearly every investment manager is looking at how AI can provide them with greater operational leverage without taking on significantly greater risk relative to what human resources are now providing," says Michael Merrigan, founder at co-sourced due diligence provider Shadmoor Advisors. "To date, implementation has been measured, but is likely to increase over time."

Further engagement of third-party advisers also seems to be inevitable as operational and technological complexity continues to grow.

"The challenge is to deliver tech solutions that flow from the time of the investment, all the way through to reporting to the end investor. That is something that was, historically, largely done internally, but GPs are now increasingly seeing the efficiency benefits of external providers," says Mazurek.

For Toska, meanwhile, as well as helping managers with the perennial issue of increased reporting requirements and demands for transparency, third-party support can help alleviate staffing risks and facilitate expansion into new strategies or jurisdictions.

"Third-party service providers can help GPs exponentially on all aspects of LP requests," Torenli says. "For example, third-party administrators have best-in-class accounting platforms, GP/LP portals, dashboards and most importantly, strong controls in place which are audited annually. In addition, these third-party providers have real administrative experts who live and breathe this work. Funds are able to leverage that expertise day-to-day and when they're looking at new opportunities, wherever they may be in the world." ■

In-house v outsource

When and how GPs should use a third-party provider

While the use of third-party service providers is considered market standard in 2025, rather than just best practice as it may have been in the past, "it is particularly important for LPs to understand what aspects of operations are completed in-house at the investment manager and what is outsourced to a third-party", says Shadmoor's Michael Merrigan.

"If in-house, it is important to ensure that the investment manager has personnel with the appropriate experience, the necessary software systems and the right procedures," he adds. "If a third-party is involved, each engagement can vary slightly in scope, so understanding the exact scope can be very helpful in operational risk identification and remediation. As there has been an increase in the utilisation of third-party service providers, it is particularly important to scrutinise newer or emerging service providers to understand their staffing levels and technology systems."

KEYNOTE INTERVIEW

PE's operating model evolution



Challenges within the PE ecosystem are prompting more GPs to explore outsourced and co-sourced solutions for fund administration, argue William Andreoni, Louis Crasto and Michael Carrillo of RSM US

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Q How are evolving dynamics in the private equity ecosystem driving the adoption of outsourcing and co-sourcing models, and what strategic benefits do these approaches offer for GPs?

William Andreoni: Global economic shifts and liquidity constraints are driving private equity firms to adopt innovative back-office strategies. Meanwhile, the industry is evolving rapidly amid fierce competition, complex regulations and growing investor demands for transparency, liquidity and more. These factors have the potential to affect dealmaking, portfolio performance and exit strategies, all of which results in the imminent need to stabilise your back office and build a scalable model that can weather all conditions in the economy and facilitate meeting changing investor demands and evolving dealmaking strategies.

In addition to these challenges, GPs must also carefully manage mounting operational, financial and regulatory pressures. In light of some of the deal and exit challenges, we are increasingly seeing PE firms leveraging alternative liquidity solutions, such as the secondaries market, NAV financing, portfolio refinancing and strategic M&A.

Additionally, there is growing pressure to execute more back-office innovation and automation, along with a refocusing of fundraising strategies and structures to attract new pools of capital for deployment.

Louis Crasto: Private capital has long adapted to a changing landscape. As a result, GPs have had to evolve and elevate the operating models of their firms to keep up with industry demands and ensure that their model is resilient and fits the needs and preferences of the firm. Each firm's specific circumstances and plans for growth will influence their decisions around adopting outsourcing, co-sourcing or insourcing. Additionally, there are cascading considerations to weigh, such as how these models might affect a GP's ability to hire people, have a scalable model, meet LP and regulator demands for granular data, and stay lean.

At the core of every target operating model is a sound data strategy, powerful technology with a single source of truth, supported by the right talent, both in-house and from third parties. However, given the dynamics facing multibillion-dollar fund managers, the co-sourcing option is becoming increasingly popular. It allows firms to have full control over their data, leverage technology, integrate with other platforms, and choose which service providers they engage, rather than simply using an administrator's platform.

Michael Carrillo: Insourcing, co-sourcing and outsourcing form a spectrum, and firms may pivot from one approach to another over time. Firms should be open to diverse models that incorporate elements of all these approaches while maintaining ongoing dialogue to review arrangements.

The goal is to establish a resilient and flexible operating model that can withstand current and future challenges. That means guarding against current threats and future-proofing

> *"There is growing pressure to execute more back-office innovation and automation"*
>
> **LOUIS CRASTO**

the back office, which is critical to shaping the LP experience. Since LPs are the lifeblood of private equity, a firm's ability to raise capital, especially in turbulent times, depends in part on back-office optimisation, as operational success is critical to long-term viability.

Q What role do advanced technologies play in enhancing operational efficiency, compliance and scalability for GPs within an outsourcing model?

MC: Technology is advancing rapidly, requiring GPs' back-office leaders to become hybrids of accountants and technologists, with the ability to distinguish useful tools from superficial tech.

It is essential not only to employ the latest and greatest technologies, but also to ensure that their use cases are solid, and their functionalities are viable in practice. Additionally, protection against cyber threats is crucial when considering controls with third-party service providers and the practical consequences of any breach.

WA: One additional dimension to consider is that technology needs to integrate vertically, not just horizontally. We see some firms struggle with the vertical element, and this can create inherent risk and slow down your speed of reporting to critical stakeholders.

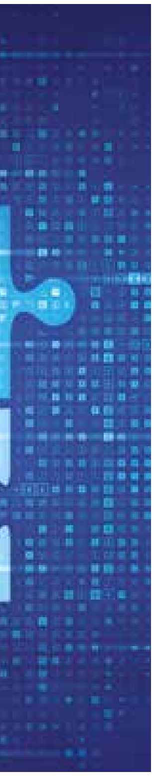
When discussing technology stacks, many back-office administrators often focus on how to solve at the fund level only, or even on specific tasks at the fund level. When solving for any functional area, firms need to understand how that solution will affect the broader tech stack upstream, downstream and horizontally across the PE ecosystem.

On that journey to innovate your back office and automate various areas, it is mission-critical to always have cybersecurity top of mind. You must protect firm assets from bad actors. With AI and data automation tools in use and data being transmitted globally, the

cybersecurity risk is significant. Private equity firms are increasingly seeking to enhance their operational safety and the security of their data, and ongoing diligence is essential to calibrating these.

Furthermore, advanced technologies enable GPs to build scalable and lean operating models. GPs want to scale their operations without significant capital expenditure on technology and staffing. The integration of automation and digital tools is essential for managing back-office operations efficiently, allowing GPs to focus on their core investment activities. Overall, advanced technologies are crucial in enhancing operational efficiency, compliance and scalability, enabling GPs to adapt to the evolving private equity landscape.

LC: Advanced technologies are significantly enhancing operational efficiency, and AI tools are being developed to provide investors with vast amounts of real-time data. Managers that ignore this trend risk falling behind.



Q Which elements should private equity firms prioritise when building a resilient operating model that aligns with the evolving investment landscape?

WA: A solid foundation of any firm starts with the team. Every firm experiences some degree of healthy turnover, which often can serve as a catalyst for exploring the outsourcing versus insourcing question.

The key consideration is this: what kind of talent do you want to attract and retain, both internally and externally? When GPs outsource, they need to recognise that it is not just about the provider's brand but also about the team members' brand, their calibre and quality, their level of care and their understanding of the private equity industry.

LC: For a resilient, future-proofed operating model, a firm should consider both technology and data strategy. With numerous types of data flowing in and out of the organisation, what is the plan for building a single source of truth? If that is not established by one platform, it can be achieved by integrating a series of strategic platforms through APIs and other technology. AI will most certainly play a significant role in that too, as operating models continue to advance.

MC: Envisioning a data strategy at the portfolio, fund and management company levels can be extraordinarily complex, making it difficult to build a complete picture. Managers need to leverage an outsourcing provider for some or all this, but a clear data strategy must be at the core.

Q Amid increasing regulatory and investor scrutiny, how are outsourcing partnerships enabling private equity firms to strengthen their reporting?

LC: Regulatory reporting and investor reporting fall within the same category: leveraging technology to capture granular data in a single source of truth. Outsourcing partnerships can help asset managers strengthen their reporting. Firms that are proactive and stay ahead of new regulations, industry trends and technological advancements will lead the way. AI is already being leveraged by the best firms and is sure to transform what it means to have a target operating model for all firms in the years to come.

Recently, the Institutional Limited Partners Association (ILPA) released new reporting templates, which come into effect in the first quarter of next year. Service providers incorporating these templates into their technology have an opportunity to help private equity firms lead the way in streamlining their reporting.

MC: There is also a commercial aspect to this. Even without mandates, investor expectations continue to drive reporting sophistication. Working with outsourced service providers can provide a competitive advantage.

WA: Outsourcing partnerships provide private equity firms with access to a highly skilled team of advisers who use advanced industry knowledge and innovative technologies to enhance reporting capabilities. By outsourcing key operational functions, firms can ensure that their reporting processes are aligned with best practices and regulatory standards, thereby mitigating risks and enhancing investor confidence.

Q How is the relationship between GPs and service providers expected to evolve over the next decade, and what factors will define successful partnerships in this new era?

MC: Historically, the notion was that certain services within the private equity ecosystem could be viewed as commodities, leading some within the industry to believe that simply going with the cheapest provider would check the necessary boxes. Where this notion has prevailed, many firms have encountered all too real issues with quality, some of which have carried their own, sometimes costly, consequences. There must be real trust between a GP and a service provider to achieve operational alpha.

Business is fundamentally about people. The most successful relationships between private equity firms and outsourced service providers occur where there is plenty of collaboration between the in-house and outsourced teams.

WA: The back office plays a crucial role in shaping the LP experience. The last thing any firm wants to see is incorrect information sent to investors, regulators or other stakeholders, which clearly creates very real problems. Fundamentally, the effectiveness of the back office strongly influences how satisfied those stakeholders are with the firm, so it is essential to get this right.

As the old saying goes, "a smooth sea never made a skilled sailor". We are entering a period of market volatility, and firms must ensure what they have built is adaptable to these conditions to maintain back-office agility and strength. In this ever-changing industry, it is crucial to understand your LP needs and your team needs.

The relationship between GPs and service providers is expected to evolve towards greater integration and strategic alignment. Factors such as trust, collaboration and the adoption of advanced technologies will be critical in defining successful partnerships. ■

William Andreoni and Louis Crasto are co-leads of RSM Fund Services+ and Michael Carrillo is business development director at RSM US

'Fractional' CFOs to the rescue

For emerging managers, they can be an effective way to lay the foundation of a firm's operations, but they can't replace a full-time finance chief forever. By Rob Kotecki

The long boom in private funds makes launching a fund both feasible and expensive, as the maturing sector becomes more institutionalised by the year. Three dealmakers working out of an abandoned Starbucks makes for a great story, but LPs still want those humble beginnings to have operational rigour. And those beginnings wouldn't be humble if the GP could afford an entire back office on day one.

This has led some emerging managers to tap "fractional", or part-time CFOs, to help them in the early stages of the firm.

These are not simply consultants addressing some needs of the finance department, but true finance executives, often working as little as two days a week, but who have the operational and financial expertise necessary to build and run a back office.

They can be cost-effective and, if the LPA allows, charged back to the fund. They're also becoming more popular as the tougher fundraising climate leaves managers without the resources for longer stretches of time.

And the reality is a CFO is sometimes needed where an outsourced fund administrator can't help. These part-time CFOs are best used to build the operational infrastructure of the firm and need a willingness and ability to set up operations by themselves.

Establishing clear expectations and a regular communication cadence help make fractional CFOs work best, along with an awareness that every one of them has an expiration date. Eventually, the assets under management and regulatory complexity require a full-timer.

Bargain bedrock

Cost is king for emerging managers as they raise their first dollar and hunt for their first deal. "We're seeing the practice of fractional or part-time CFOs more often," says Michael Tesoro, a senior director at the fund administrator Juniper Square. "It's a cost-effective solution for emerging managers."

And it may be better than the alternative. "There's the 'short straw' approach, where the three partners draw straws and the shortest one assumes the role of CFO because they don't have a budget for a full-time role," says Kwame Lewis of LewisLevy Consulting, which provides fractional CFOs and related services.

Adding to the lower price, Lewis notes that the cost could be billed

"We're seeing the practice of fractional or part-time CFOs more often. It's a cost-effective solution for emerging managers"

MICHAEL TESORO
Juniper Square

to the fund. "If the LPA allows it, the cost associated with the fractional CFO can potentially be included as a fund expense, whereas the salary of any full-time employee clearly belongs to the management company. Note, however, that fund expenses are a focus area of the SEC."

Adding to the appeal is today's slower fundraising pace, especially for new managers who might take two years or more to close a fund. "Imagine having to pay a full-time CFO before the fund is closed, full compensation inclusive of base and bonus," says Lewis.

Yet fractional CFOs don't work for free either, so is there a possibility an emerging manager can rely on the partner that drew that short straw? Perhaps with the help of their outsourced fund administrator?

Administrative limits

With the fund administration industry booming and touting their commitment to deep collaboration, why wouldn't they step up to fill the gap? The reality is there are strategic decisions unique to a given firm that aren't addressed by even the most proactive administrator.

"A fund administrator tackles pure operations," says Lewis. "Capital calls, distributions, NAV statements, financial statements, the onboarding of subscription lines, etc. But if a manager needs a model for how much money they need for next capital call based on management fees, that's not something an administrator may be willing to do."

Tesoro adds: "The fund administrator can provide guidance on certain internal operational functions, such as establishing internal controls, accounting and valuation policies, and regulatory compliance. However, the responsibility and ownership of these areas resides with the emerging manager."

In short, the fund administrator can't make the strategic decisions around establishing the firm's back office. That said, it should be noted when using a fractional CFO, the firm – not the CFO – is still legally liable for the process and controls.

"Creating a scalable back-office infrastructure doesn't require a full-time CFO," says Tesoro. "But it does need someone, even part-time, that understands the market environment and the key areas of focus that an emerging manager must navigate."

A fractional CFO sounds like the ideal fix, but there's still the matter of selecting the right candidate for a given firm.

Wanted: 'Founding' experience

If the fractional CFO is there to lay the foundation for the firm's operations, then it stands to reason that the candidate should have experience doing just that. But as with any role, the exact nature of that experience needs to be vetted.

"I was speaking with one executive who had started in private equity and was there for four years or so, and then left for a much longer career in manufacturing," says Lewis. "And now, they're looking to return as a private equity CFO. That may not be the right profile for the strategic skills required."

But even the CFOs with years at major firms may not be the ideal fit, as they might never have actually built a back office from scratch.

"The domain expertise for a fractional CFO is really building an investment firm," says Bo Weathersbee, from Till CFO, which provides fractional CFO services.

Beyond understanding all the dynamics of the GP-LP relationship, capital calls, waterfalls and the like, Weathersbee argues they need to understand them in the context of creating the back-office operations of an emerging manager.

That context is that the CFO will have to do that without the benefits of a substantial team. "One of the questions to ask [a potential candidate] is, 'Have you ever done this yourself?'" says Lewis. "'And if you haven't, would you be able to roll up your sleeves and

> *"It's vital to ask, 'How many other clients are you serving besides me?'"*
>
> **BO WEATHERSBEE**
> **Till CFO**

get it done?' The answers shouldn't be, 'I can learn' or 'I did, but that was 30 years ago'."

Specific sector experience isn't as crucial, with a few exceptions. "Healthcare has its own regulatory world and software often has its own unique reporting preferences," says Sean Mooney, the CEO of BluWave, a market network that connects PE firms with vetted service providers. And given this is a fractional arrangement, there's another core factor in play.

"It's vital to ask, 'How many other clients are you serving besides me?'" says Weathersbee. "If they're a solo fractional CFO serving 12 clients, they are going to be spread very thin, so it's key to establish the scope of the engagement and ensure that they have the capacity to meet it."

Market participants agree that culture fit is another major factor, as they're still technically an employee. "Even though they are external to the firm, they really should be part of the team," says Lewis. And if the right candidate comes along, it's now a question of onboarding them.

A fractional cadence

Given that nature of the role, one of the first priorities is to establish the formal parameters, which is often one or two days a week, although initially it may be more intensive.

"The CFO has to learn the strategy and priorities of the firm and understand what specifically their responsibilities are. Are they signing checks? What's the current budgeting and forecasting practices, if any are in place yet?," says Lewis. "And while a one- or two-day-a-week engagement is frequently the case, there's no reason a client can't reach out to them in between those days with questions or issues."

One of the blind spots during onboarding is not alerting the rest of the firm's service ecosystem of the hire. "It's important to introduce the fractional CFO to any third-party providers who may need certain protocols in place to share information and collaborate on the firm's activities," says O'Neil Levy of LewisLevy Consulting.

Once the CFO is up to speed on the work cadence and responsibilities and has met any relevant service providers, it's time for them to get started. "One of the first items a fractional CFO will assist with is selecting a fund administrator that they're comfortable working with," says Tesoro. "And it's important that they pick one that's great for the firm today and great for where the firm is going."

And that's not just true about the fund administrator. If the fractional CFO is founding the back office, it has to be built for the long term, which by its very nature, involves a time when the firm brings aboard a full-time CFO.

> *"Even though they are external to the firm, they really should be part of the team"*
>
> **KWAME LEWIS**
> **LewisLevy Consulting**

> *"It's important to introduce the fractional CFO to any third-party providers who may need certain protocols in place"*
>
> **O'NEIL LEVY**
> **LewisLevy Consulting**

Expiration dates

"Ultimately, firms need a full-time person in that seat, particularly for a fully funded private equity firm," says BluWave's Mooney.

Juniper Square's Tesoro argues that as soon as a fractional CFO is hired, the firm should start looking for a full-time option. But that begs the question, when exactly does that full-time CFO seat need to be filled?

Some argue that firms can get by with a fractional CFO until they need to register with the SEC, but others have a much lower threshold. "I'd say the threshold is roughly connected to AUM, and as soon as you have an AUM that can afford a full-time CFO, it's time to get it," says Weathersbee. "And I'd place that range between $100 million and $300 million for the management fee to provide for that."

Although in the end, that exact threshold may not be up to the GP. "At some point, investors will begin suggesting or prodding the firm about the timing of a full-time CFO," says Tesoro. And for emerging managers, LP preferences ring loud and clear.

When that time comes, no matter how capable the fractional CFO is at building that back office from the beginning, there will be some friction. "Every CFO is going to want some say in navigating their own operations," Tesoro adds. "Maybe they'll want to choose a different fund administrator or technology offering, so in a certain sense, nothing's permanent."

Although for emerging managers, a cost-effective foundation for their back office might be worth the trouble of switching things out when the full-timer steps into the role. ■

KEYNOTE INTERVIEW

Back offices go digital

As reporting requirements intensify, PE firms are reappraising their infrastructure needs and exploring new, AI-powered options for improving their capability, say Citco Fund Services' Claudia Bertolino and Timothy Harvey

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Q As assets under management have grown, how have private markets firms' operating models changed?

Claudia Bertolino: The evolution has been significant. The industry has gone from legacy quarterly investor reporting – produced within 45-60 days – to more frequent, granular reporting within substantially shorter timelines. Historically, there was far less focus on day-to-day operational support than there is today.

There is also an increasing reliance on third-party service providers to support operations in private markets. Outsourcing has been an established feature of public market back offices for years, but it is only relatively recently that the private markets space has begun to narrow that gap.

This has been driven primarily by regulatory necessity and LP demand. Alternative managers now require a larger operational infrastructure to support the compressed deadlines and more detailed reporting demanded of them, and outsourcing has offered a cost-effective option for providing that infrastructure. Outsourcing also supports the growth of private markets firms using technology to achieve scale, and in turn eases the burden of meeting compressed reporting timelines.

Timothy Harvey: Five to 10 years ago, managers could send a PDF to investors each quarter and that would be sufficient. But over time, volumes and complexity have grown, in parallel with the demand for greater granularity and transparency from investors, industry bodies and regulators. Digitised processes are now essential to deliver the granularity required, and outdated architecture will no longer support reporting needs and timelines.

Private capital's expansion beyond private equity into other adjacent asset classes such as private credit and infrastructure is another driver behind this trend. Managers are now running multiple investment strategies and funds across their platforms, so the need for greater automation to streamline processes and stay ahead of the nuances that come with each new asset class has never been greater. The industry can no longer rely on spreadsheets alone.

Q What tools are managers using to upgrade their operating models in order to help process their greater workloads?

TH: The availability of data, and the associated investment in technology to collate and present that data, have been key factors when it comes to supporting the higher ask on reporting volumes and tighter deadlines.

Managers are reviewing the entire digital lifecycle of their operations. How is data collected, processed and transformed within the manager's operational ecosystem? How is that data then digitised and reported back to LPs? And how can managers facilitate a full digital flow of information between their firms and their investors? These are key questions the industry is working to answer.

CB: Digitisation and automation go hand in hand. Carried interest calculations for waterfall payments, for example, are a crucial process and have lived in spreadsheets for years because of the complexities involved and their bespoke nature. It is now possible, however, to automate that process by bringing digital capability into play.

Here, the key trend to look for will be the integration of AI and machine learning, which could revolutionise scenario modelling and risk assessments, providing even more accurate and timely insights.

In time, as fund structures become more complex, we can also expect to see more tailored technological solutions that cater to specific fund types and strategies. It is the fund managers that embrace innovative technologies and adopt proactive risk mitigation strategies that will be better positioned to navigate these challenges successfully.

Q How important is data accuracy for private markets managers using AI? And where might accurate data and AI together be put to best use?

CB: Regardless of how sophisticated a GP is when it comes to using AI, data accuracy is absolutely mandatory. Indeed, AI raises the importance of daily, weekly and monthly data flows to a different level. In our experience, the focus from all GPs on that theme is very high across the board.

In terms of use cases, the combination of fund reporting expertise with AI is particularly powerful for private markets funds of funds. In that scenario, AI can help to free up material human resource and deliver efficiency gains very quickly after implementation.

Q Looking at AI in particular, how is this technology reshaping the digitisation of private markets operations, and what do managers need to have in place to unlock its full potential?

CB: The fund administration market has reached a point where most providers are proactively automating end-to-end processes wherever they can, be it on the GP side or on the service provider's end. The aim is to identify what can be automated, get it documented, get it built and get it streamlined.

It's not simply about automating a process in order to meet a given standard either; the aim now is to build automated systems that can deliver bespoke capabilities and perform complex calculations on a regular basis.

AI is a really helpful tool for delivering that, but harnessing its power comes back to the point about the availability of data. An AI tool will not be able to run speedy calculations if the data required is not available in the first place.

The ability to create tools that can scrape, ingest, normalise and synthesise vast amounts of data is the foundation for using AI to drive more complex and detailed automation. It is the managers that can put such building blocks in place that will be the best placed to leverage AI to deliver data and reporting that provides insights and informs decision making.

TH: That interconnection between data and AI definitely presents an interesting dynamic. You have to have the data available in order to use AI

"Outsourcing supports the growth of private markets firms [and] eases the burden of meeting compressed reporting timelines"

CLAUDIA BERTOLINO

effectively, but AI can also be used to enrich the data collection process in the first place, and can help with data validation too.

Instead of having to tick every cell on a spreadsheet manually, GPs can now use AI to review and validate data. PDF and document scraping technology has existed for many years, but there was always a question mark around whether that data was actually correct. We have found AI to be particularly powerful when it comes to exception-based reporting, as it removes much of the legwork and encourages greater confidence in the data.

Last year, for instance, we launched a platform that offers GPs and investors a fully managed document service combining AI and human fund reporting experts to interpret, organise and transform documents into discoverable insights. This helps managers to avoid missing opportunities as a result of the high volumes of emails they receive and the lack of structured data.

Technology has advanced at pace, and in addition to ingesting data, AI is now also cataloguing data and making it usable for downstream users.

Q How far along the curve is the average GP in terms of utilising this AI-powered capability?

CB: We have observed quite a wide gap in capability across the market. Some managers are extremely invested in this and are well prepared to utilise it. These early adopters have been laying the foundations for a long time. At the other end of the spectrum, there are GPs that really haven't looked much into AI and automation and are therefore relying heavily on their service providers in this regard. And then, of course, there is a large body of firms in the middle.

Where the GP sits on the curve shapes how service providers will interact with them. For managers that are more advanced, the focus is on accelerating their connection with service provider tools and linking that up with the technology GPs already have in-house.

If GPs don't have the in-house technology stacks in place, the priority is to introduce these managers to new technologies and provide opportunities to build their businesses around a service provider's tools, at scale.

TH: There is an interesting pattern, too, whereby those managers that invest in AI companies as part of their portfolio are usually also at the forefront of how AI can help them in their own operations.

Equally, there are other managers that don't have in-house capability but are very interested in how their fund accounting and CRM vendors, among others, are using AI to build and deliver their services, and then leverage that expertise.

This might be for very advanced functions, or more simplistic tasks. As soon as these use cases start to snowball, I think we will certainly see more uptake and more GPs jumping in with two feet.

Q So, for a GP that is starting a digitisation process from scratch, what is the first step?

TH: The approach to embedding technology in a firm starts with a decision on whether the GP wants to proceed full steam with outsourcing from day one or still retain some functions in-house. That's not just a technology decision – it goes to the heart of how the firm is run and interacts with its LPs and portfolio companies.

It also affects how a GP thinks about its team and informs hiring decisions. New senior roles are emerging all the time, as managers bring in the likes of chief data officers and data stewards.

Managers are fundamentally changing, and their reliance on data, and the requirement for that data to be reliable and available in real time, is increasing. Ten to 15 years ago, that wasn't the case in the same way in this asset class.

CB: When there is a blank canvas, the manager is in a very different position compared to a manager where legacy processes and technology are retained.

As Tim indicated, when there is a legacy aspect to a digitisation process, the scope of the project becomes much wider, as the GP is not simply implementing a new software system or technology – instead, they are proceeding with a project of transformational change. That demands training and consultation with the firm's people.

Each firm will have unique requirements. The priority is to build an operational model that aligns with a manager's culture and needs, and that allows the manager to keep pace with technological developments without having to slow down periodically to reintegrate and redesign its operating model. ■

Claudia Bertolino is head of private markets, and Timothy Harvey is head of private assets for North America, at Citco Fund Services

Artificial intelligence dominates any conversation about IT innovation, but how will it really affect back-office operations?
By Jon Yarker

Keeping AI accountable

From consumer-based applications like ChatGPT to US President Donald Trump's Stargate Project that plans to invest $500 million into artificial intelligence infrastructure, AI has the potential to infiltrate all aspects of the economy.

What does it mean for fund managers, and specifically, their ability to execute back-office functions, many of which are process-heavy with huge scope for automation?

Yegor Lanovenko, global co-head of fund services at Ocorian, highlights the need to reduce "manual touchpoints" in repeatable processes in the back office, including extracting and arranging data to prepare first draft reporting.

The use of AI tools "evolves fund finance and operations teams into a decision-enabling expertise hub", says Lanovenko. "Automating repetitive tasks means freeing up expert teams to focus on high-value client service, risk management and data-driven insights. The role of the back office is evolving from execution to strategic enablement thanks to robotic process automation and generative AI."

However, efficiency is not simply about automation accelerating the speed at which data is processed. "AI can interrogate the large amount of back-office data and derive operational insights, such as predicting issues with a NAV early in the day based on patterns consistent with prior issues or events," says Michael Galvin, global product manager of fund accounting at Linedata.

Given the volume of data processed by the back office, "traditionally, it takes experience and time to identify which reports to run or inquiry screens to access to get the data required", says Galvin. "AI will allow users to query this data using natural language and return valuable insights instantly. Such insights could be as simple as finding data to support a client query or more complex, whereby a user could ask questions like, 'What workflow is best for this scenario?' or 'Who is the next person to assign this task to?'"

Lanovenko notes that adopting AI is not limited to cost savings, but about scalability. "The real disruption is in how AI enables firms to handle complexity at speed, transforming how fund operation teams, fund administrators, auditors and regulators operate," he explains. "Technology solution providers are pivoting from offering static systems to AI-driven, modular platforms that integrate seamlessly into evolving workflows.

"For fund administrators, transforming operations to handle more complexity at scale allows our teams to spend more time on value-adding partnerships with their clients and less on manual touchpoints."

As focus shifts from process execution to technology-enabled decision making, the application of AI is impacting the shape of back-office teams. The change is creating new opportunities for professionals with data, automation and analytical skills.

"Career paths in the back-office space are already evolving as AI takes over repetitive tasks, creating a rising demand for new skill sets in data analysis, AI governance and strategic oversight," says Steven Kilby, chief technology officer at Allvue Systems. "Instead of traditional operational roles, employees will increasingly focus on managing AI systems, interpreting outputs and ensuring compliance.

"This shift will also change hiring patterns, with more emphasis on data literacy and AI fluency. Entry into the field may require a mix of expertise and technical skills, making cross-disciplinary training more valuable than ever."

Believe the hype

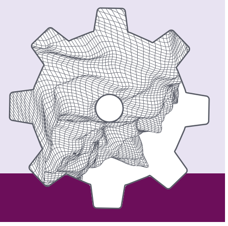
And while there will be challenges with AI adoption and "integration hurdles, data quality issues and workforce skill gaps can slow down progress, these obstacles are being addressed at an accelerated pace", says Kilby. "While there is always hype around emerging technologies, AI is different in that its practical applications are already yielding cost savings, improved accuracy and enhanced decision making. The real question is not whether AI will transform back-office functions, but how quickly firms can adapt to its capabilities."

Galvin adds: "Use cases [for AI] are already visible in all walks of life. We are starting to integrate AI and machine learning into our technology, and our clients expect AI to become part of our platform and their operations sooner rather than later."

However, the introduction of AI "is exposing capability gaps in workforce skills, data management and organisational adaptability", says Kilby. "Many companies lack the in-house expertise, making it difficult to deploy and manage AI-driven processes effectively. AI relies heavily on structured, high-quality data, requiring organisations to refine their employee skill sets, data strategies and governance frameworks."

"The real disruption is in how AI enables firms to handle complexity at speed"

YEGOR LANOVENKO
Ocorian



Handing over tasks to AI

Finding the right talent to build the systems is only one part of the challenge facing AI integration. Adopting AI requires a mindset shift. Teams must get comfortable with handing over tasks to AI, all the while considering regulatory compliance and client responsibilities.

Ashmita Gupta, Lindeta's head of AI and data analytics, says a role remains for executives in overseeing the application of AI. For instance, if used in know your customer or anti-money laundering risk assessments, appropriate transparency, explainability and model audits should be conducted to verify the accuracy of input data and to avoid bias, she says.

"Most importantly is the issue of accountability if AI makes an erroneous decision that violates compliance standards," Gupta says. "Leveraging this technology to automate mundane tasks and reduce risk does offer tremendous value. Firms should establish comprehensive governance frameworks around AI and ensure ongoing validation, auditability and adherence to compliance standards. A human-in-the-loop approach is a must to mitigate the accountability risks posed by AI."

"AI should enhance, not replace, accountability," Lanovenko adds. "Compliance and regulator teams are rightly cautious, ensuring AI-driven processes are transparent, auditable and within a strong governance framework particularly around data privacy and controls. The real risk isn't AI. It's failing to have a controlled AI strategy."

Kilby says back-office third-party providers are proceeding carefully with AI implementation. He advises firms adhere to best practice in advance of regulation: "Missteps in AI-driven compliance or reporting can have serious consequences, making strong oversight, rigorous validation processes and governance frameworks essential. As regulations around AI usage continue to evolve, firms will need to establish clear accountability structures to mitigate potential liabilities." ■

Why co-sourcing is on the rise

*As GPs rethink their models, here are five reasons why co-sourcing is growing in popularity. By **Claire Coe Smith***

Co-sourcing, where data and systems remain with a fund manager and third-party providers supply fund administration expertise, is increasingly popular, favoured by firms that want to avoid the costs of a full-scale technology transfer and those that prefer to keep hold of their own pools of data. Here are five key reasons why the alternative to fully outsourcing rising up the agenda.

1 Low friction

At Alter Domus, head of key client partnerships for North America Kenny King says: "One of the main reasons co-sourcing is really gaining popularly is because it is low friction – you are allowing your administrator into your technology environment. One of the biggest challenges with outsourcing is it requires a conversion, which can be costly, whereas co-sourcing allows an administrator, or a number of administrators, into your system... For certain managers that want to control their data and have 24-7 access to it, this is a great option."

Another upside is the added visibility that comes with retaining ownership of that data. Russell Andrews, head of wealth and asset management at FIS Global, explains: "A major benefit is the ability for the fund manager to improve their oversight of back-office processes through direct access to the same systems and data being used to calculate NAVs, produce investor reporting and ensure compliance.

"Additionally, this approach offers fund managers greater portability of service provider, should they suffer service degradation, as they own the technology, which means they can more easily switch providers without the need to migrate platforms at great cost and risk."

2 Specific expertise

From a back-office perspective, the ability to bring in expertise for certain projects while retaining ultimate control of oversight and delivery of the task is the core reason co-sourcing is becoming so popular, according to Bryan Atkinson, Apex's country head for Ireland.

But he cautions that such an approach is not without risks. "Ultimately, these are contracted staff so they can be removed from your business as required by the third party," says Atkinson. "They can quickly become key people from a service delivery perspective, but ultimately are not direct staff."

3 Strategic transformation

Asset managers might consider co-sourcing as a strategic transformation initiative, according to Ismail Ekmekci, head of private equity solutions at Trident Fund Services. "Co-sourcing brings technology and operating models together," he says. First, the fund manager chooses a technology for integration across the front, middle and back-office functions to align underlying data structures, streamline workflows and enhance reporting efficiency.

"Then, once they do that, they must hire skilled professionals to oversee key functions such as investor services, fund accounting, treasury and administrative operations," says Ekmekci. "Co-sourcing simplifies the technology stack, enhances data control and enables asset managers to leverage the expertise of fund administrations. It also drives transformation and can generate operational alpha, optimising efficiency and performance."

The arrangement can give rise to concerns around data security, cybersecurity and business recovery strategies. "When evaluating vendors, asset managers must conduct thorough due diligence, look under the covers and ask critical questions to assess how the technology provider addresses jurisdictional regulatory requirements, including GDPR compliance," says Ekmekci.

"The key to success lies in embracing a transformation mindset, with a strong focus on selecting the right partners for both technology and operations."

4 Control

Co-sourcing may be a good option for mid-size and larger managers, Ekmekci says. It allows full control over processes and lets managers determine how many operational functions they want to keep in-house, making it a flexible option.

There are additional costs associated with retaining control of that technology though, says Andrews. "The in-house back office has responsibility for maintenance of the technology and data, which can be more expensive," he says. "This also requires the fund manager to recruit and retain the level of technical expertise to operate the platform, while also overseeing the service provider, which increases the size of the in-house operation and introduces key-person risks.

"Additionally, the fund manager retains responsibility for ensuring the regulatory compliance within the applications being deployed, which historically was part of the outsourcing arrangement."

"Firms must go into this strategy with their eyes wide open, understanding that the benefits do not come for free"

RUSSELL ANDREWS
FIS Global

For these reasons, the jury is out on the extent to which co-sourcing can be feted as a pure cost-saving play. King says: "In a co-sourcing model, there are a lot of bespoke processes that are created, which leads to standardisation, but that is where you get the risk of errors. The other challenge is data integrity – making sure that when an entry is posted, it does not inadvertently get reversed, for example. So you really need more oversight from the client of the work being done and who is in control.

"The costs differ because if you decide to fully outsource, you do have to fully convert your teams and your systems to the fund administrator, and you have to run parallel processes to make sure data is accurate. With co-sourcing, you don't have to do all that."

5 Long-term benefits

In the long term, however, the ability to leverage all the capabilities of a fund administrator may just be worth the upfront expense.

"In the short term, the cost of co-sourcing is much lower and that is also the key reason people love this," says King. Whether it winds up being as cost efficient as people expect will vary depending on the size and complexity of the manager. He adds: "Technology always needs to be upgraded, which falls to the GP in a co-sourcing arrangement, whereas in an outsourcing model, the fund administrator will handle that." Getting access to the deep benches of talent on offer in third-party providers is a compelling upside of both arrangements though.

Making sure the people-fit works well is fundamental to success. Andrews says: "Collaboration is key. Selecting the right technology solution and the right service provider is paramount, ensuring there is a commonality in strategic direction, working styles and day-to-day expectations.

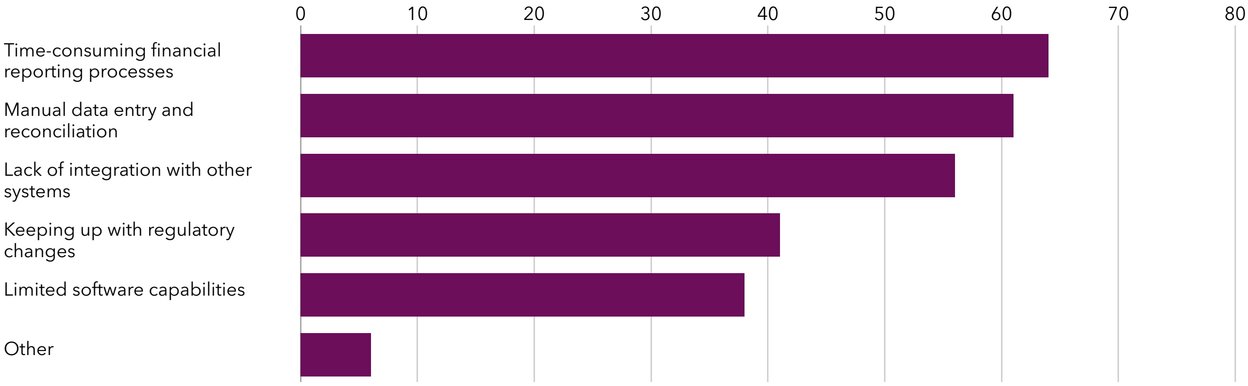
"Firms must go into this strategy with their eyes wide open understanding that the benefits do not come for free and additional operational expenditure will likely be needed. Also, when a misalignment across stakeholders occurs, this can also diminish the value of co-sourcing, which is why it is critical to get ahead and stay ahead of stakeholder relationships."

Atkinson points to long-term stability as something that underpins thriving co-sourcing arrangements. He says the model works successfully, "where the back office has adequate controls and support to ensure the expertise can operate as required and the co-sourced staff are integrated and acknowledged in the same way as direct staff would be". ■

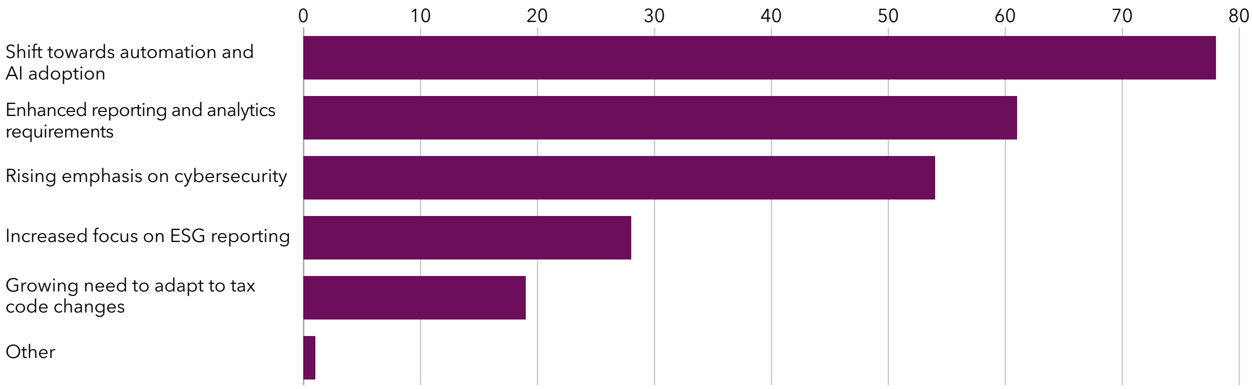
The end of the manual era?

When it comes to fund accounting, GPs know what they want from the latest tech-based solutions, according to data from Dynamo Software

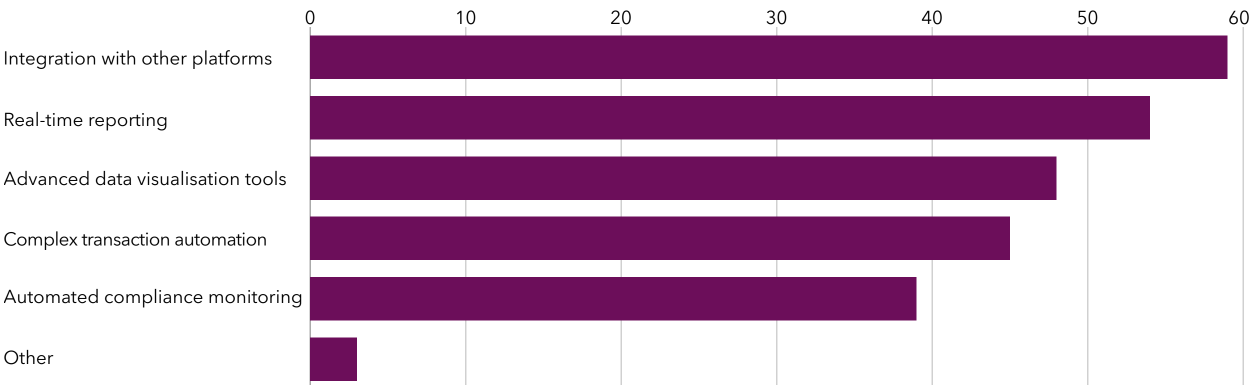
Manual tasks are chief among the challenges GPs face in the back office (% respondents)



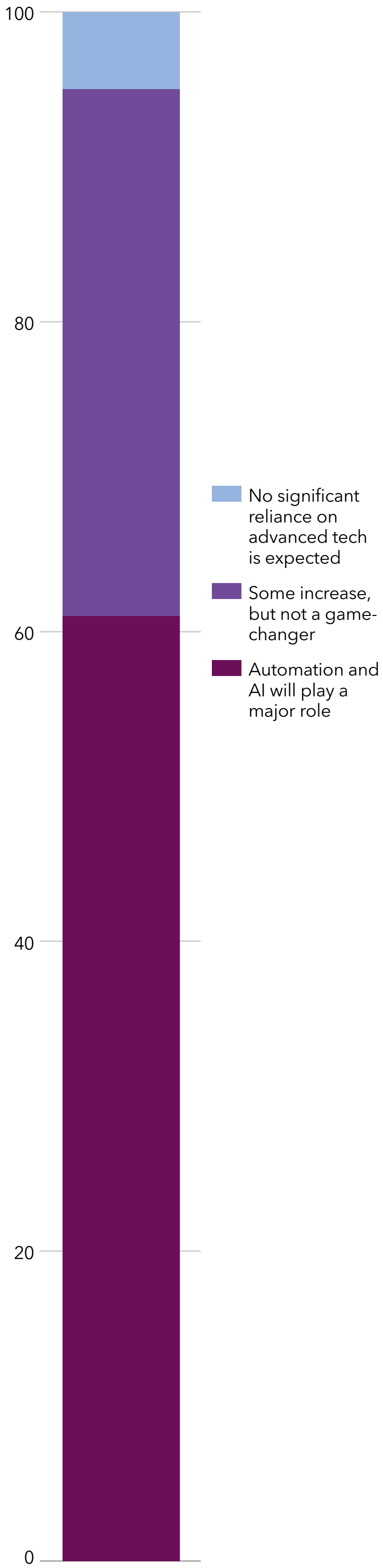
AI and automation are the top trends expected to disrupt fund accounting practices in 2025 (% of respondents)



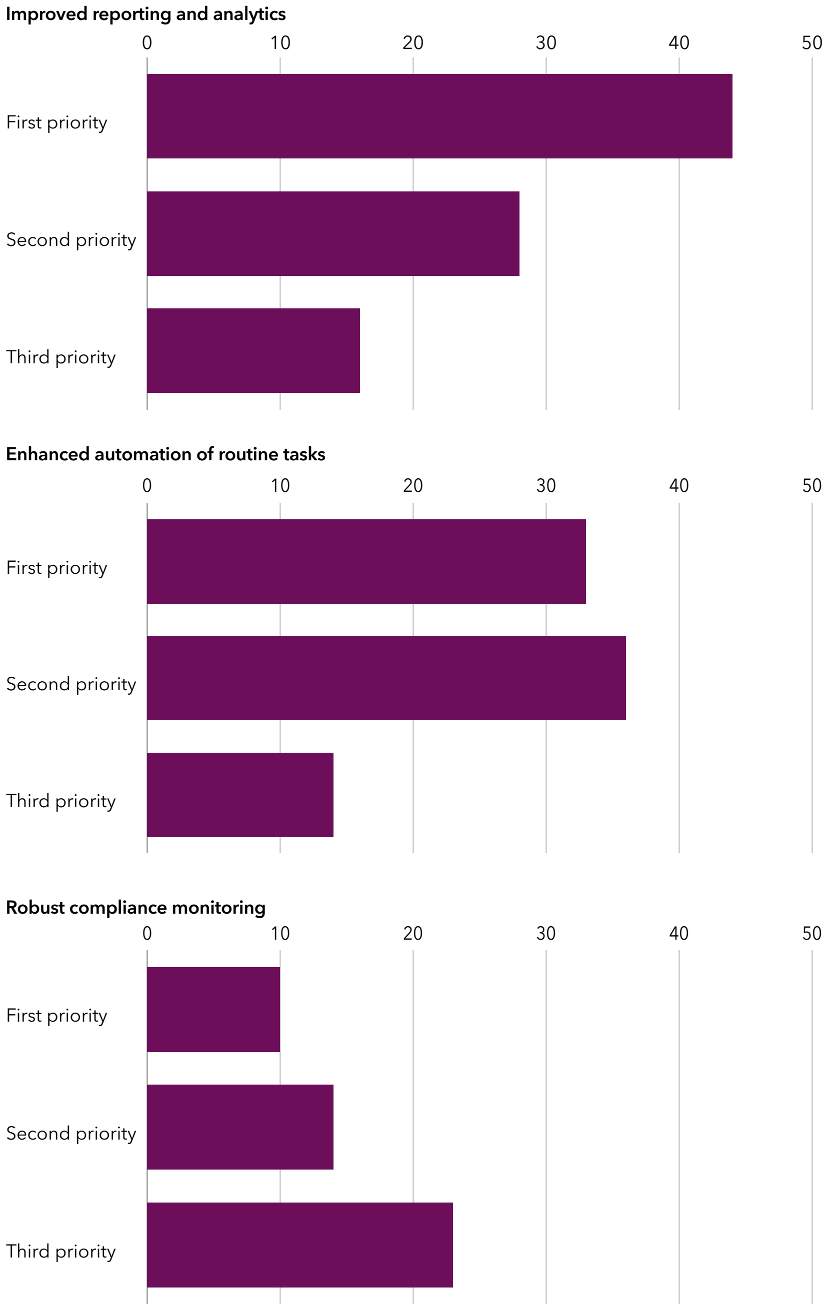
GPs would most like to see more integration and real-time reporting from fund accounting tools (% of respondents)



Nearly all GPs expect their reliance on AI for back-office functions to rise (%)



Reporting is a top priority for GPs when assessing fund accounting solutions (% of respondents)



Source for all data: Dynamo Software

18%

Share of GPs that have experienced significant disruption from regulatory or compliance updates

66%

Share of GPs that would prefer fund accounting software to be configurable to their specific needs

"It's really about building the processes in advance that address your documentation requirements"

BRIAN DILLON
Vigilant Compliance

"Blockchain ensures transparency and efficiency in [fund] administration, compliance and reporting"

DORIS ODIT ACHENGA
Odit Frontier Partners

"Many firms struggle to keep up with demand while managing their operations effectively"

RICHARD SCHNUERER
Starrlight Advisory

They said it...

Final thoughts on GPs' back-office challenges and the fund services market

"GPs still underestimate the volume of work that today's SEC exams require"

MARC PONCHIONE
Debevoise & Plimpton

"Firms need to have solid infrastructure in place to be able to react to industry changes"

CARLY ALTIERI
Victory Park Capital

"One of the things I've noticed is that everybody's trying to build an AI product"

JILL LAMPERT
NGP Energy Capital Management

"The culture has certainly evolved in terms of information transparency"

GEORGES ARCHIBALD
Apex Group

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