



INVESTMENT SERVICES



**CASESTUDY**

[www.stpis.com](http://www.stpis.com)

**FUND ADMINISTRATION SERVICES:**  
FINDING OPERATIONAL ALPHA IN A  
SEA OF SAMENESS

Money managers, including plan sponsors, institutional managers, family offices, hedge funds and private equity firms, generate value for investors in three ways: investment performance, cost management and fiduciary supervision. The former represents the alpha that all firms look to produce for clients, while the latter is often seen by investment firms as a necessary evil, particularly when it comes to operational functions, like fund administration. More and more, firms are outsourcing fund administration tasks in an effort to establish rigorous controls, stronger processes and minimize risk associated with operational inefficiency. With a landscape cluttered with providers who all offer the same services, finding the right fund administration partner is just as critical as the decision to outsource.

## Background

An investment firm was looking to maximize its return on investment (ROI) with respect to outsourcing fund administration functions by partnering with a firm that would enable it to not only establish effective controls, but also provide easily scalable processes. The firm's core competencies were clearly in investment and manager selection, not managing operations functions, and as such, the primary objectives were to: automate as much of the fund administration workflow as possible, and implementing robust processes around accounting, tax support and audit tasks.

The firm recognized that an independent partner would instill confidence in its investors, as it would provide for a separation of investment and operations functions. While many firms claim to be independent, STP is a truly independent, employee-owned third party with no connections to clients whatsoever. Recognizing the importance of independence, the investment firm chose STP to oversee and manage all of its fund administration processes and workflows. The firm knew that addressing and resolving fund administration inefficiencies represented a significant opportunity to optimize its cost structure. Doing so would allow the investment firm to focus on higher value activities like increasing performance and attracting new clients.

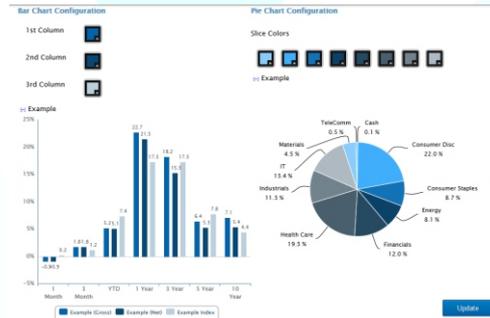
STP's long-standing expertise with building stringent controls and implementing rigorous fund administration processes provided the investment firm with the air cover it needed to focus on adding value. Finding the right partner to bring control and consistency to complex processes was mission critical to the investment firm's current and future success.

## Analysis & Teamwork

The STP team applied its significant fund administration expertise across a range of functions to bring much-needed control, flexibility and scalability. Working with the investment firm's internal teams, STP mapped out the current workflows, and end-to-end fund administration processes.

Establishing an automated process, while challenging, creates efficiencies, especially with incoming new requests. Understanding the firm's operational model was key to STP's

efforts with implementing a full-scale fund administration process that plugged operational holes. It also gave the firm more relationship firepower in the form of client-friendly dashboards and statements. The STP Portal provided the firm with a dashboard, which gave the firm faster and far easier insights into its operational efficiency. STP applied a combination of fund administration and investment operations expertise, process/workflows knowledge and technical skill to implement airtight control over the firm's operating environment.



Inaccurate NAV calculations pose not only potential financial risk, but also (and perhaps more importantly) reputational risk. Failing to provide client with correct data undermines confidence, and nothing causes a mass exodus of clients than a lack of confidence. STP implemented fund administration processes that allowed the investment firm to accurately track and manage requests appropriately, and proactively manage issues. At the same time, STP delivered much-needed automation of fund administration workflows, complete with dashboard insights that gave the firm the “at-a-glance” oversight it sorely needed.

Having comprehensive, end-to-end fund administration processes in place is not simply a nice-to-have for investment firms; it's mandatory. To tackle this important operational function, STP devised a set of best practices covering four key areas of fund administration services:

- ✓ [Accounting](#)
- ✓ [Audit Support](#)
- ✓ [Tax Support](#)
- ✓ [Administration](#)

## Accounting

For the investment firm, STP's fund administration solutions established rigorous control over a firm's books and records, a critical task for ensuring investor confidence and minimizing risk. Within the Accounting framework, STP seamlessly solved for five key operational tasks for the firm:

- Preparing trial balances based on the client expectations
- Follow the clients valuation policies when pricing portfolio holdings
- Calculate and record the performance fee allocation along with management fees
- Allocate income, losses and expenses across investors
- Calculate fund NAV

## Audit Support

Effectively managing audit processes demonstrates operational competence. For the investment firm, STP performs several key audit functions, including:

- Preparing annual financial statements in accordance with US GAAP standards
- Coordinating with the clients auditor to produce a year-end audit package
- Distributing annual audited statements to investors
- Maintaining SSAE Type 2 unqualified audit opinion

## Tax Support

Few things are as complicated (or as certain, as it's been said) as taxes. The investment firm recognized STP's expertise in providing best-in-class tax support services including:

- Reviewing the company's books and records for potential year-end tax adjustments
- Calculating taxable income
- Allocating taxable income to each investor using the aggregation method and assist the client accountants in preparing schedule K-1s
- Assisting the clients accountants with preparing US federal and state partnership tax income tax returns

## Administration

The business of fund management is more than just picking investments and managers. There are extensive day-to-day operational requirements that must be met. STP's administrative services provided the investment firm with a capable ally by handling the following key administration functions:

- Processing subscription and redemption requests following the firm's policies and meeting clients expectations
- Providing investors with financial statements and other support materials on an ad-hoc basis
- Storing documents, contracts, agreements and investor correspondence

While players in the fund administration space tend to promise the same set of services without offering much differentiation, STP's platform gave the investment firm tangible value. Some of the key, value-added components of STP's suite of fund administration solutions include:

- Real Time Dynamic Reporting Suite
- Interactive Reconciliation Dashboards
- Valuation & Reference Data Rules Engine
- State-of-the-Art Granular Security Framework
- Reliable Scheduling & Distribution Engine
- Premier Operations & Financial Technology Team
- Fully Customizable Fund Factsheets

Service Level Agreement (SLA) commitments govern our service relationships. After all, what good is a service without a standard of performance? Collaborating with the investment firm, STP outlined key deliverables, and in doing so, developed guiderails for building appropriate controls, processes and workflows. The SLA governs STP's role, along with key stakeholders and communication, all of which provided the investment firm with necessary structure.

No less important than SLAs, the STP Portal enabled the investment firm to further extend its operational capabilities. With an easy-to-use graphical interface and an ability to seamlessly integrate with any system, the STP Portal gives investment firms added controls, including fund administration tools, operational compliance and oversight, along with dashboards that deliver unmatched top-down analytics.

The white-hot focus on fiduciary responsibilities as a result of the DOL rule means that investment firms need to demonstrate rigorous compliance and oversight of client accounts. One key to safeguarding the firm's reputation and its relationship with clients is an Investment Policy Statement (IPS). An IPS is a document that captures a client's investment strategy, along with any specific client constraints (for example, having Do-Not-Buy or Do-Not-Sell lists, or to include/not include specific asset classes). Adhering to the IPS is a key compliance function. Partnering with a fund administration company that offers robust IPS functionality provides investment firms with DOL-friendly compliance support. In an upcoming release, STP is launching a dashboard that will provide much-needed IPS governance and oversight.

## Value

Defining what value looks like can be challenging for firms. For some, it's an easier way to do a specific set of tasks. For others, it's overhauling a complete operational workflow to gain efficiencies. In an effort to add alpha for investors, investment firms tend to look only at enhancing tools that improve investment performance. Equally



important, and just as often overlooked, are finding operational efficiencies that increase the bottom line. Most service providers pitch the same set of fund administration services, with little differentiation. That's what makes finding a fund administration partner so difficult.

Finding operational alpha need not be as frustrating as searching for the elusive Bigfoot. A fund services firm like STP Investment Services, with significant fund administration expertise, provides investment firms with ways to generate operational alpha. Investment firms not getting real value from their fund administration partners and needing to maximize operational cost effectiveness should look at STP and benefit from the following value drivers:

- Leverage Global Operational & Development Practices
- Reduce Administrative Costs
- Scalable & Stable Operational Model
- Access to Best-in-Class Enterprise Grade Software
- Increase Investor Confidence on Valuations
- Experienced Industry Experts
- Refocus on Core Competencies
- Seamless Transition Model That Minimizes Switching Costs

With investment firms fighting to bring in and retain assets, every basis point of cost and performance is viewed with ever-increasing scrutiny. Change can be painful. Understandably, many firms are reluctant to change their fund administration partners, fearing huge switching costs and a choppy transition. Solving for this fear of change, STP's Fund Administration Service follows a streamlined, efficient process that provides an easy transition. Finding alpha from non-core competencies like fund administration services can be a challenging question. And answering that question by outsourcing fund administration services to a long-term partner is simple: STP Investment Services delivers the fund administration talent and expertise to generate operational alpha from the above value drivers.