

# PROS AND CONS OF OUTSOURCING

A GUIDE FOR ASSET AND HEDGE FUND MANAGERS

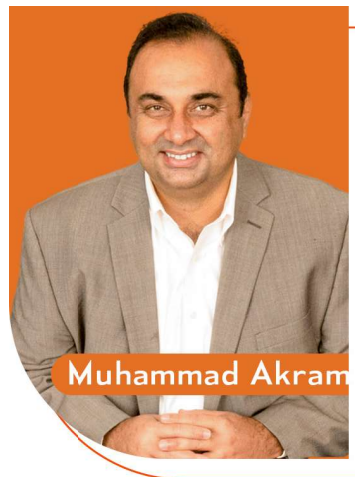


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**SPEAKER**  
Akram | Assurance,  
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**Program level : Basic**  
**No prerequisites are required**  
**No advance preparation is required**



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# ABOUT



**AKRAM & ASSOCIATES** IS A FULL-SERVICE ACCOUNTING FIRM PROVIDING ASSURANCE, ADVISORY, AND TAX SERVICES FOR THE FINANCIALLY SAVVY, ESPECIALLY HEDGE FUNDS & CRYPTOCURRENCY FUNDS.



**BLUERIBBONCFOS**

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# INTRODUCTION

For many asset and hedge fund managers, the question is no longer whether to outsource, but how much and which functions to outsource. This presentation explores the range of outsourcing options and the strategic advantages of outsourcing today.

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## OLD APPROACH AND PRACTICE

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In the past, technology and operations outsourcing in the investment management industry were mainly seen as a means for firms to reduce IT overhead and back-office responsibilities. It provided a convenient solution for accessing advanced technology and operational expertise without significant investments in hardware, software, or staff. However, customization was limited, and all clients received standardized services just like '**One size fits all**'.

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# CHANGE OF APPROACH DYNAMICS

Times have changed considerably due to advancements in technology, increased competition among outsourcing providers, and growing demand from the market. Outsourcing has evolved beyond a "one size fits all" approach and is no longer an "all or nothing" proposition. Modern outsourcing providers now offer more flexible options, allowing firms to outsource some or all of their core investment management technology and operational workflows.

Simultaneously, firms have the freedom to manage certain systems or processes internally while outsourcing others. This flexibility provides a more tailored and adaptable outsourcing experience for investment management firms.



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# CHANGING FACE OF OUTSOURCING

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Firms are now adopting a more strategic approach to allocating their internal staff time and resources. While cost remains a factor, it's no longer the primary driver. Firms now opt for outsourcing to enhance efficiency, reduce operational risk, and gain agility in adapting to market changes, such as launching new products or entering new markets.

Outsourcing offers faster implementation of technology and reporting solutions compared to onsite installations, ensuring regular upgrades to stay technologically current. It also allows firms to offload compliance requirements to experienced providers. The convenience of "anytime, anywhere" access through hosted technology and enabling faster recovery from disasters. Data security, outsourcing providers undergo rigorous audits and certifications to meet the latest

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# **POLLING QUESTION**

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## **WHAT WAS THE TRADITIONAL PERCEPTION OF OUTSOURCING IN THE INVESTMENT MANAGEMENT INDUSTRY?**

- a) A way to drive greater efficiency and reduce operational risk.**
- b) An opportunity to add new products and enter new markets.**
- c) A means to reduce IT overhead and back-office burdens.**

## **REASONS WHY FIRMS CHOOSE TO OUTSOURCE THEIR INVESTMENT MANAGEMENT FUNCTIONS TODAY?**

- a) To incur a significant investment in hardware and software.**
  - b) To have more control over compliance requirements.**
  - c) To stay current on technology with regular upgrades and for business continuity.**
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# THE OUTSOURCING ADOPTION SPECTRUM

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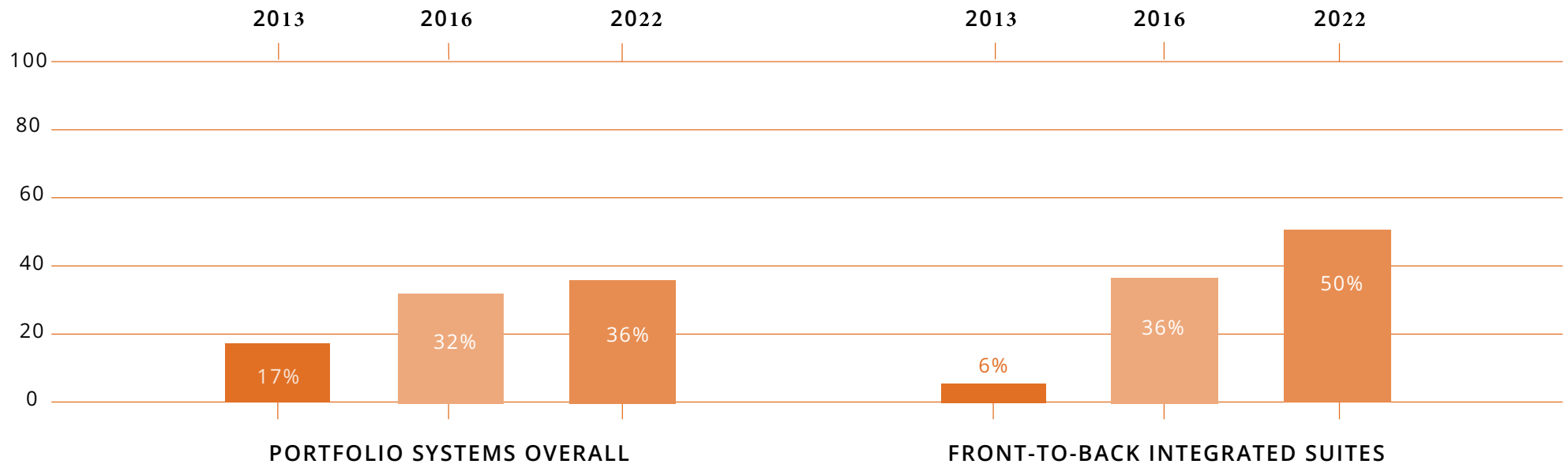
Due to changing dynamics of outsourcing firms now have the flexibility to customize their technology solutions and operational services based on their specific business needs.

Co-sourcing arrangements are also available.

However, the level of flexibility depends on whether the provider offers both technology and operations outsourcing and possesses the necessary capabilities. Some providers may only offer technology hosting or specialize in specific operational aspects, which can be limiting as a firm grows or its needs change.

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## 2008 VERSUS 2016 (*PERCENTAGE OF TOTAL SYSTEMS DEPLOYED*)



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## **AN IDEAL SOLUTION - OUTSOURCED CFO and CCO**

Finding a provider that can deliver both technology hosting and a full range of operational services will prove much more efficient and likely more cost effective. Issue resolution will be far easier if the outsourcing provider is the same company that built and supports the hosted solutions. And if a provider offers a full range of options, it's easier to add capabilities with minimal disruption should the need arise.

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## WHAT TO LOOK FOR:

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When considering technology hosting, providers can differ significantly in service levels and capabilities. It's crucial to assess whether a provider can host multiple systems that support core investment management functions, covering portfolio management, accounting, trade order management, CRM, analytics, trading compliance, billing, and more. Working with a single provider that can handle all these aspects is advisable for firms seeking to offload extensive IT responsibility. Additionally, the scope of services provided by the hosting provider goes beyond a simple "lift and shift" approach, requiring careful evaluation.

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## **ENHANCED HOSTING-FACTORS TO CONSIDER:**

- **Make sure the provider meets stringent standards for security and risk controls, with the attestations and SSAE16 certification to prove it, in addition to managing and maintaining systems.**
- **A provider should be able to guarantee uptime and provide 24/7 monitoring to confirm that data uploads and downloads are successful, integrations are working as intended, workflows are in order, and the system is responding as it should.**

**As your business grows, and your needs become more complex, you will need to be able to adapt on the fly. With enhanced technology hosting, you don't need to rip-and-replace an old system. With the right provider you'll have a platform that can scale with your business.**

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# **POLLING QUESTION**

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## **WHAT DISTINGUISHES ENHANCED TECHNOLOGY HOSTING FROM GENERIC OR PRIVATE HOSTING?**

- a) SSAE16 certification.**
- b) 24/7 monitoring and guaranteed uptime.**
- c) Continuous improvement and future enhancements.**

## **WHY DO FIRMS CONSIDER OUTSOURCING BACK-OFFICE TASKS SUCH AS DATA MANAGEMENT AND RECONCILIATION?**

- a) To eliminate the need for in-house staff.**
  - b) To focus on revenue-generating activities.**
  - c) To execute tasks more efficiently and reduce compliance risks.**
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## **WHAT TO LOOK FOR: A LARGE, CUSTOMIZABLE MENU OF OPERATIONAL SERVICES**

Historically, outsourcing back-office tasks like data management and reconciliation aimed to free in-house staff from repetitive work and enhance focus on revenue-generating activities. While these reasons remain relevant, firms now recognize that operations outsourcing is about finding a provider that can execute tasks more efficiently, accurately, and with reduced compliance risks, leveraging experience from working with multiple firms. In-house teams can then transition to reviewing the provider's work and engaging in higher-value projects. However, certain processes may need to be kept in-house for business reasons. Therefore, the ideal provider should offer a wide range of capabilities and the flexibility for co-sourcing arrangements, allowing custom-tailored services in partnership with the firm. The goal is to establish a strong working relationship, with the provider acting as an extension of the in-house team, promoting effective communication channels.

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# WHAT TO OUTSOURCE?

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With the flexibility to pick and choose among different operational processes, the question moves quickly from "Should we outsource?" to "What should we outsource?" Firms need to look at what they do best and what drives revenue—anything else becomes fair game for outsourcing.

**That typically includes the following:**

- Reconciliation
  - Performance Management
  - Financial Reporting
  - Data Services
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# RECONCILIATION

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Firms cited reconciliation as the number one activity they are looking to outsource. Firms acknowledge it's not a core business and keeping it in-house adds little value. Resolving exceptions is a big drain on the operations and accounting teams' time. By moving reconciliation to an outside expert, firms seek to gain efficiency, improve accuracy and redeploy staff to more productive pursuits. In reviewing outsourcing providers, it's important that they have a track record of delivering reliable reconciled data every day. Look for a provider that offers comprehensive capabilities and can accommodate complex reconciliation scenarios, including position, cost basis and transaction reconciliation.

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# **FINANCIAL REPORTING**

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Firms are finding that the time spent on reporting could be used more productively elsewhere. Reporting is another low-value activity that involves collating inserts from multiple systems, packaging them, then posting the packages electronically or sending them through the mail. Because the quality of reporting is highly correlated to the cleanliness of data coming out of the reconciliation process, it makes sense to outsource both reconciliation and reporting to a single provider. Outsourcing providers should have the flexibility to offer more than standard reports.

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# PERFORMANCE MANAGEMENT

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Every firm has its own criteria by which it measures and analyzes performance. Compiling the data and calculations to address all the performance variations is a time consuming process. Performance management is a task that is ripe for outsourcing. The right provider will have the flexibility to deliver performance updates at intervals you designate, based on your firm's particular criteria, enabling you to focus your time and resources on analyzing and reporting performance rather than managing the underlying data.

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# DATA SERVICES

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Firms are highly reliant on external data sources, including custodians and market data providers. Maintaining a complex maze of individual interfaces with data providers is extremely expensive, and time spent chasing down missing data from individual providers as a drag on efficiency. And if the providers make changes to their service or technology, as they are likely to do, it's disruptive and can add further costs.

Look for an outsourcing provider that can aggregate and normalize daily security information and pricing data feeds from multiple sources on a single platform.

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# **POLLING QUESTION**

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## **WHAT IS A KEY BENEFIT OF OUTSOURCING BOTH RECONCILIATION AND REPORTING TO A SINGLE PROVIDER?**

- a) Improved accuracy of reporting.**
- b) Reduced operational risk.**
- c) More efficient utilization of resources.**

## **WHAT IS ONE OF THE MAIN REASONS FIRMS OPT FOR OUTSOURCING IN THE INVESTMENT MANAGEMENT INDUSTRY?**

- a) To gain access to external data sources.**
  - b) To meet regulatory requirements.**
  - c) To focus on revenue-generating activities.**
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# MEETING REGULATORY REQUIREMENTS

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It's no secret that the global regulatory environment has become increasingly complex in recent years. Besides the glacial implementation of Dodd-Frank in the US, many firms have to deal with global regulations such as FATCA, MiFID and AIFMD. It's critical to find an outsourcing provider that is up to date on these ever-evolving rules and can help you meet your reporting obligations. Reducing operational risk is one of the main reasons for outsourcing in the first place through outsourced CFO and CCO.

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# **OUTSOURCING CHECKLIST - TECHNOLOGY**

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- Full suite of integrated solutions, including PMS, OMS and compliance
  - Guaranteed uptime
  - 24/7 monitoring for system performance
  - Dedicated service and support
  - Automatic upgrades at regular intervals
  - High-security hosting facilities and SSAE16-certified risk controls
  - Business continuity and disaster recovery
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# **OUTSOURCING CHECKLIST - OPERATIONS**

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- **Wide range of operational services, including comprehensive reconciliation, reporting, performance management and data services**
  - **Dedicated team of operations experts**
  - **Flexibility to customize selection of services**
  - **Ease of integration with internal systems and processes**
  - **Support for regulatory compliance**
  - **Institutional-grade risk controls**
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# **POLLING QUESTION**

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## **WHAT IS THE PRIMARY BENEFIT OF OUTSOURCING TECHNOLOGY AND OPERATIONS IN THE INVESTMENT MANAGEMENT INDUSTRY?**

- a) Improved accuracy of reporting and data management.**
  - b) Cost savings and reduced IT overhead.**
  - c) Freedom to focus on core business activities and gain strategic advantages.**
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## **CONCLUSION** - *FREEDOM TO FOCUS ON YOUR BUSINESS*

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The fundamental logic for outsourcing operations has not changed: it allows firms to apply their intellectual capital to investment strategies, client service and business growth. What has changed is the depth and diversity of options available along the outsourcing adoption spectrum. What has changed as well is the growing realization among asset and wealth managers that outsourcing is not merely a matter of convenience and cost control, but can actually deliver a strategic advantage—a smarter way to drive efficiency, manage risks, and gain the agility needed to adapt to a fast moving market.

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# THANKS FOR LISTENING



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