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With ever-increasing regulatory hurdles and technological requirements, almost all independent asset managers now use outsourcing partners to help shoulder the burden. We quizzed four independents on which parts of the business they outsource, and how to select the right partners



PETER HOTTINGER
Pilotage Private
Wealth
Zurich

The ultimate objective of outsourcing is to reduce operational expenses and to use those savings to help make better use of working capital or even improve profitability, while also increasing operational gearing and optimising human capital.

When considering whether outsourcing is an option, a key question management must answer is where does the organisation struggle and where are business operations exposed to risk?

An evaluation of day-to-day operational processes, combined with the size of the organisation, will answer this question and can

help in the decision-making process. This has been our approach.

- **IT:** A key element to consider is whether the business has the ability to manage its own IT infrastructure in a secure and compliant manner. IT systems should automate as many day-to-day tasks as possible. Depending on the business needs and regulatory obligations, IT is key to the successful management of any company. Ensuring the system is managed professionally is critical, otherwise the company can be exposed to considerable risk.
- **Accounting:** The options to be considered are having an in-house accountant (part time or full time) versus an outsourced accountant. However, regardless of whether or not this is outsourced, all companies should have in-house cash flow analysis with at least a 12-month forward projection.
- **Compliance:** With recent regulations taking effect, compliance has become key to protecting the company, employees and risks associated with the management of the business. If you were to outsource, are your key controls really at their full potential? It is recommended that having an in-house compliance officer is a must for any company operating in the financial services industry.

Pilotage has decided to keep compliance and other key controls in-house. Therefore, by partnering with a reputable accounting firm, auditors and solid IT providers, Pilotage ensures business continuity and mitigates operational risk.



OLIVER FOCHLER
Stone Mountain
Capital
Pfäffikon/London

Stone Mountain Capital is a London and Pfäffikon based alternative investment adviser founded in 2012. We provide European direct lending to the lower middle market and offer advise in research, structuring, public and private placements of private debt, private equity, real estate, and hedge funds to institutional investors.

The core philosophy is to keep the organisation streamlined and to deploy technology and outsourcing as much as possible in order to focus on our core activities of advisory and asset management.

Since 2015, we have used a set of external providers for regulatory compliance: an FCA-regulated entity that works with us as appointed representative across Europe, a US broker-dealer chaperoning agreement for US securities services, and distribution agreements with Swiss representatives for dealing with qualified investors.

For our hedge fund and general partner (GP)/private asset manager clients, we provide customised bottom-up financial structuring according to the investability and bankability criteria of institutional investors, LPs and loan providers, and we execute targeted capital introduction via our global network of institutional investors.

We structure and place firms, partnerships, AIFs, Ucits, offshore funds, closed-ended and public funds with exchange listing, ETI/ETN, and managed account structures (SMAs) across alternative investment sectors. For this we use the following service providers: ratings agencies, tax and regulatory advisers, and tier-one legal, audit and fund service providers.

Most funding vehicles are customised and built from scratch, with some deploying a platform with a predefined provider bundle. But branded, sizeable and established service providers with a proven ability to meet our GP and LP clients' needs are our preferred choice.

For the distribution of research, we complement our in-house capabilities with providers such as Bloomberg, Thomson Reuters, S&P Market Intelligence, specialised alternatives and hedge fund publications.

In our placement activity, we utilise external buy-side and sell-side advisers to enhance our access to new markets. Then we engage advisers internally to help set up a new and regulated entity.

For our new in-house European Direct Lending fund, we have chosen to focus on asset management and outsourced all other services based on criteria such as the provider's ability to fulfil our structural, regulatory, administration, legal, tax and audit requirements, and consideration of provider brand and value added.



**LUCA
PARMEGGIANI**
Sumus Capital
Geneva

Sumus Capital was founded in November 2015 as a family office. Starting with less than \$500 million in assets under management, we knew we had to identify the services we would develop internally and those that would have to be externalised.

As an asset manager (we asked for the Finma certification in March 2016), we decided to keep anything internal that would help us demonstrate our focus: asset management, risk management and compliance. When it came to these three, either having the skills and knowledge from the beginning or developing them internally was essential.

Regarding other activities, namely accounting and IT, we organised some 'beauty contests' where the main criteria were simplicity, flexibility and, of course, cost. Selecting the right option is key, as many providers offer services you have no need for, and prices can vary a lot.

On the IT side, we defined our requirements with our provider, and they designed our system. We also outsourced legal services. In order to obtain Finma approval quickly and to offer our clients strong legal support, we chose to select one of the top Swiss law firms. We have never regretted our choice.

Another big question is the portfolio management system. It is certainly a key tool in our profession, which you either develop from scratch or externalise. The first option is impractical for a small company. You need a system that checks restrictions, that has a direct link with the custodians and evolves alongside new regulations. Externalising this activity, even though it is a core element of the asset management, was mandatory.

Today, we have nine employees and double the assets we started out with. But our infrastructure works, and we do not currently plan to change any of our external service providers.



JESMAR CIAPPARA
MWC Group
Schindellegi

At MWC Group, we are asset managers and financial planners with an international clientele, and therefore we work with third parties in many respects. We partner with lawyers, accountants, financial advisers, insurance companies, banks, trustees, IT experts and other specialists. This allows us to funnel specialist advice to clients.

A significant external third-party relationship would be custodians such as insurance companies, investment platforms or banks. Unlike deposit accounts, our third-party partners are required to segregate invested assets from their own, so in the unlikely event of a failure the clients' investments are still protected.

One of the challenges we face is the varying compliance requirements across the industry. Although this is mandated by governments via regulators, interpretation often differs, which can slow down processes, causing frustration to clients.

To a lesser degree, we also use external IT experts for ad-hoc projects that we embark on from time to time in order to make improvements to our systems, with the ultimate aim of providing an ever-better service to our clients. The obvious drawback to this is the high cost involved in hiring IT experts; however, it is necessary to keep our systems up to date and able to adapt to the changing market landscape.

It is imperative that asset managers and third parties keep working together to improve the processes required to ultimately provide a better service to the customer.

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financial advisers, insurance
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