



**CONVERGENCE**  
OPTIMAL PERFORMANCE

**Alternative Fund Administration Industry  
Growth is Harder to Achieve  
Convergence Insight #15  
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Fund Administrators are finding growth tougher to achieve. The math is simple, “declining new launches + increasing fund closures + increasing competition from new Fund Administrators = lower growth.” To grow within this paradigm, Administrators must win more than their fair share of new business, take-away business from others or convince Advisers to outsource funds administered internally. The rising tide that once lifted all Fund Administrator boats is starting to recede and the impact on growth is clear.

Yet there are clear winners among the Top 10 emerging as they battle for growth. These Administrators have shaped their business development agenda around the “voice of the market” which is based on a deep understanding of data that helps them maximize the value of their existing client base and win business from competitors.

**Table 1: New Fund Launches, Fund Closures and Fund Administrators**

<b>Factor</b>	<b>2015</b>	<b>2017</b>	<b>2017-2015</b>
<b>New Fund Launches</b>	<b>8,396</b>	<b>7,322</b>	<b>-13%</b>
<b>Fund Closures</b>	<b>3,562</b>	<b>4,134</b>	<b>16%</b>
<b>Fund Administrators</b>	<b>436</b>	<b>517</b>	<b>19%</b>

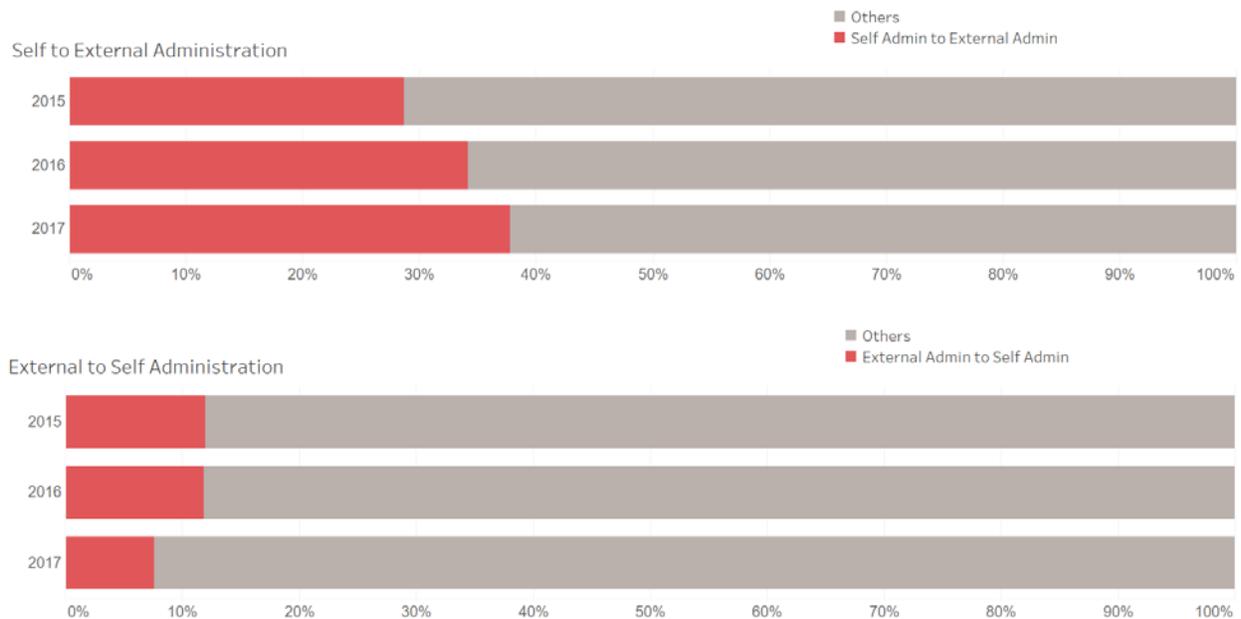
Administrators who take business away from competitors are gaining market share. Growing this way is tough and many Administrators do not actively pursue competitor business. And even if the Administrator were to pursue this type of growth, Advisers are showing signs of Administrator fatigue. Meaning, there is simply no reason to switch if the positives don’t outweigh the negatives.

In fact, for the three-year period April 2014 through April 2017, the percentage of Adviser funds changing Administrator declined from 5.2% to 4.8%, or 8%. Adviser Funds in 4 of 6 size bands experienced declines in the percentage of Administrator changes.

**Table 2: Funds that Change Administrators by Size Band**

<b>Funds Changing Admins</b>	<b>2015</b>	<b>2017</b>
<b>&lt;=\$100M</b>	<b>5.70%</b>	<b>4.90%</b>
<b>&gt;\$100-\$250M</b>	<b>5.40%</b>	<b>4.80%</b>
<b>&gt;\$250-\$500M</b>	<b>3.90%</b>	<b>4.40%</b>
<b>&gt;\$500M-\$1B</b>	<b>5.00%</b>	<b>4.80%</b>
<b>\$1B-\$10B</b>	<b>2.80%</b>	<b>4.20%</b>
<b>&gt;\$10B</b>	<b>4.70%</b>	<b>3.20%</b>

Conversely, Convergence observed an increase in Advisers outsourcing funds to Fund Administrators that they previously supported in-house. During the same 3-year period, Convergence observed that the outsourcing rate increased from 28.7% to 37.8%. At the same time, the proportion of fund managers who insourced Fund Administration declined from 12% to 7.6% which only reinforces the trends observed by many in the market. Moreover, Convergence’s July 2017 League Tables (<http://convergenceinc.com/league-table/>) highlight a clear change in the rate of Self Administration versus Third Party Administration. ***“The rate of fund growth in PE, RE and VC fund types exceeded the rate of Self-Administered funds by 3:1, 2:1, and 2:1 respectively proving that PE, RE and VC fund types are accelerating their move toward Third Party Fund Administrators”.***



### Why Growth Matters

Administrators who grow at or above historical levels can maintain or increase the investments in the technology, products and services needed by their Adviser clients. They can also use marginal profit growth to offset profit pressures created by the allure of lower prices offered by competitors. Administrators who do not grow have less to invest and may choose to offset lower profits with client-unfriendly actions, including increasing prices, reducing services, lay-off staff, restructure the business, sell the business or close it. None of which appeal to me as a CFO/COO busy managing day-to-day investment operations.

### The Call to Action

Fund Administrators who have the data and develop the insights needed to generate proactive business development opportunities in this highly competitive industry will continue to gain market share and grow. Those who do not will wither and die. Administrators who develop the narrative and competency to win business from competitors and convince Advisers to outsource Self-Administered business will fill the growth gap created by slower hedge fund growth, increasing hedge fund closures and greater competition.

### About Convergence

Convergence dedicates itself to creating data, transparency and insights into the alternative assets industry. We gather over 600 data artifacts on Registered Investment Advisers and their Private Funds and create over 1,200 new artifacts that our clients use to improve the way the manage revenue, expenses and operating risk.

For more information on the factors preceding a manager’s decision to change administrators or how Convergence can help you manage revenue, expense and operating risk, please contact John Phinney at 203-956-4824 or George Evans at 215-704-7100.