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# Real Assets Managers Step Up Fund Outsourcing

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Private real estate and infrastructure managers are following in the footsteps of their private equity peers that in recent years have bumped up their use of third party fund administrators, largely responding to pressure from institutional investors.

The market for real assets managers using fund administrators is still small at $638 billion, compared to the $2.2 trillion these providers report administering for private equity managers, according to a recent eVestment report. But it's an area where fund administrators see growth potential for the same reasons that have sparked hires by private equity firms, says **Minkyu Mike Cho**, senior research analyst at eVestment.

"They certainly anticipate that it's going to be a big growth area, particularly for administrators that didn't have a presence in real assets and real estate in the past," he says. "These firms are now seeing [private fund] firms are more receptive to outsourcing."

The larger players in the market include **Citco Fund Services**, **SS&C Technologies**, and State Street **Alternative Investment Solutions**, all of which report having more than $100 billion in committed capital from real assets fund managers, according to the eVestment report.

The private equity market's accelerated push toward hiring third party administrators has played out over the last three years, but the real assets echo has been much more recent, says **Bill Salus**, CEO at **Paddock Consultancy**.

"These are tricky assets to account for and manage – infrastructure and real estate – and they've been under pressure to be more efficient and less costly," he says.

The past year has been busier for real assets manager inquiries and business across a range of strategies, says **Dennis Westley**, managing director for North America at **Apex Fund Services**. The third party administrator has seen funds that target assets such as residential housing, hotels, and storage units seeking outsourced help, in addition to a larger surge of activity from private equity managers generally, he says.

"That's something that two or three years ago you did not see quite as much," he says.

The real assets outsourcing appears to especially involve big fund managers, often to please larger, more sophisticated institutional investor clients, says **Max Kimpton**, senior manager at **Castle Hall Alternatives**, an operational due diligence consultant. There is much less activity in the rest of the market, he says.

Big investors primarily have three goals in mind with ongoing private fund due diligence – verifying the existence of assets, confirming the validity of valuations, and ensuring the presence of cash controls to prevent fraud or theft, Kimpton says. Most fund administrators are expected to at least provide services on the valuation and cash control concerns, he says.

Several recent administrator hires also have involved managers of open-end funds, which raise capital on a continual basis and allow periodic redemptions – a common format in core real estate and infrastructure investment strategies where investors increasingly demand reliable, independent valuation estimates, Kimpton says.

Another factor driving the increased outsourcing efforts is the greater scrutiny from regulators that encourage managers to have independent checks on key business information and decisions, Salus says. “They are pushing firms toward outsourcing, particularly in the U.S.,” he says.

And the growing size of real estate funds and managers also is putting more pressure on firms to improve their accounting, portfolio management, and other operational services, Salus says.

“These firms are looking to build stronger finance and accounting capabilities,” he says. “They’re also maturing. The needs of a real estate manager are just really expanding with more services required to run these assets.”

As part of that evolution, however, managers are likely to seek administrators that have developed expertise in the real assets market, Salus adds.

“The complexity of these strategies is getting more difficult every year,” he says. “They want a third party provider built around that complexity. It’s not just real estate – credit fund managers want credit expertise.”

That may favor more nimble fund administrators that specialize in real assets strategies in the short run, Kimpton says.

“Smaller administration firms that specialize in private equity and real estate are getting larger [fund] managers,” he says. “[Smaller administrators] are tailoring their format to these managers and providing more personalized services.”

One new fund administrator may be tapping into that trend, with **Fairway America** in Portland, Ore., having spun out its real estate fund administration arm to form **Redwood Real Estate Administration** earlier this year.

Specialists also can avoid the awkward scenario that Castle Hall came upon earlier this year when it asked a fund administrator for verification of valuation data for a real estate manager client – and found out that was the first time the outsourcing provider had ever gotten that kind of request, Kimpton says.

“That fund administrator had not been asking for independent third party valuation checks – the third party appraisal was going to the real estate manager to calculate the year-end [net asset value], not the administrator,” he says. “That’s not what we wanted to hear.”