

The Rise of Co-Sourcing: A Catalyst for Private Capital Growth

Learn More About Co-Sourcing, and How the Right Fund Administrator and Technology Platform Can Give GPs Scalability, Flexibility, and Superior Data Management



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Introduction

The rise of co-sourcing has been driven by rapid growth in the private equity landscape, and the drive for General Partners to deliver value and support their Limited Partners' growing demands for support and increasing transparency.

Traditionally, private equity general partners (GPs) have approached middle and back-office operations by either keeping those functions in-house or outsourcing them entirely. However, as limited partners (LPs) evolve and become more sophisticated, they demand increased transparency, robust support, and access to real-time data and reporting. These changing dynamics are prompting GPs to reconsider their operational strategies, leading to the rise of co-sourcing as an attractive alternative. The impact on firms' data management, accounting, and investor reporting operations will likely be significant, and GPs may naturally have questions or concerns about their ability to comply within the given time frames.

Read on to learn more about the intersection of fund administrators, technology, and how they create the ideal platform for GPs drive the ideal co-sourcing strategies.

In this paper we will review:

- The evolving landscape of private equity
- Why firms choose co-sourcing vs insourcing
- How the right technology and fund administration partner can help General Partners scale rapidly while maintaining control over their data
- What to look for in a technology solution that supports co-sourcing
- The benefits of co-sourcing from a compliance perspective
- How LPs can also benefit from co-sourcing

The Evolving Landscape of Private Equity

Insourcing vs Outsourcing

Private equity has long been a cornerstone of high-growth investment strategies. Historically, GPs have chosen between insourcing, maintaining complete control over their operations, and outsourcing, entrusting these functions to third-party service providers. While both models offer distinct advantages, they also come with inherent limitations.

Insourcing provides GPs with direct control over their operations, enabling them to maintain proprietary knowledge and ensure data security. However, it can be resource-intensive and may lack the flexibility needed to scale rapidly in response to market demands. Manual processes, industry demands for increased transparency, the drive to protect data privacy, and regulatory requirements for third-party management can significantly impact the bottom line.

Outsourcing offers the advantage of leveraging specialized expertise and economies of scale. Yet, it often comes at the cost of reduced control and potential delays in accessing critical data, which can hinder responsiveness and agility.

The Rise of Co-Sourcing

Co-sourcing, a hybrid approach, is emerging as a compelling alternative that combines the strengths of both insourcing and outsourcing. By partnering with fund administrators while retaining strategic control over key functions, GPs can achieve a balance that enhances operational efficiency and supports growth.

Scale and Flexibility

One of the primary benefits of co-sourcing is the ability to scale operations dynamically through a combination of the right technology and fund administrator. As private equity firms grow, their operational needs can expand rapidly. Co-sourcing allows GPs to tap into external expertise and resources as needed without the long-term commitment and overhead costs associated with insourcing. This flexibility ensures that firms can adapt to ever changing market conditions and quickly seize new opportunities without being constrained by operational bottlenecks.

Superior Data Management and Control

In the modern investment landscape, data is a critical asset. Co-sourcing enables GPs to maintain superior control over their data while benefitting from the advanced data management capabilities of their partners. This dual approach ensures that data security is upheld, and real-time reporting becomes a standard practice, meeting the increasing demands of LPs for transparency and timely information.

Addressing the Needs of Limited Partners

Limited Partners are Increasingly More Sophisticated

As LPs become more sophisticated, their expectations regarding transparency and support are heightened. Co-sourcing directly addresses these needs by providing a framework that enhances data accessibility and operational visibility, further enabling GPs to focus on more strategic aspects of their businesses.

Transparency is Critical

Sophisticated LPs demand transparency in investment operations and outcomes. Co-sourcing facilitates this by ensuring that GPs have the necessary tools and support to provide real-time data and comprehensive reporting. This transparency builds trust and fosters stronger relationships between GPs and LPs, leading to

greater investor satisfaction and loyalty.

Providing Nuanced Support

In addition to transparency, LPs require robust support mechanisms. Co-sourcing allows GPs to offer enhanced support services by leveraging the expertise of their technology and fund administrator partners. Whether its handling complex regulatory requirements mandated by the SEC, ESMA and others, or providing detailed performance analyses, co-sourcing ensures that GPs can meet LPs' needs effectively and efficiently.

Co-Sourcing In Action: A Real-World Scenario

Consider a mid-sized private equity firm that transitioned from a traditional insourcing model to co-sourcing. The firm can partner with a fund administrator to handle its back-office operations, while retaining strategic oversight and control of its operations. This approach enables the firm to scale its operations rapidly in response to new investment opportunities and regulatory changes.

By leveraging the provider's advanced technology platform, the firm can improve its reporting capabilities, offering LPs real-time access to performance metrics and detailed analyses. The enhanced transparency and strengthened relationships with LPs create increased investor confidence potentially leading to additional capital commitments.

The Backbone of Successful Co-sourcing Relationships

Better Together: Technology and Fund Administrators

Fund administrators and their technology partners are at the heart of every co-sourcing partnership to enable the success and effectiveness of middle and back-office activities across both parties. This is why it is essential to implement a multi-faceted technology solution to support co-sourcing.

The right solution should deliver robust accounting capabilities, along with a granular security model, provide the proper oversight framework, and enable collaboration across entities through a centralized cloud-based architecture. A true general ledger, built on Microsoft, specifically for the private markets – is ideally situated to execute co-sourcing arrangements.

Data Consistency: The Cornerstone of Co-Sourcing

The key to successful co-sourcing is to create a single source of truth for data. Rather than duplicating efforts, exchanging Excel files across potentially insecure servers, and opening opportunities for error through repeated manual entry. Firms can simplify data management across the fund lifecycle by offering an end-to-end, fully integrated platform

that leverages a single source of data. This creates data consistency and control – meaningfully streamlining processes and workflows and creating confidence about data accuracy.

Without the right technology, GPs will be limited by the structure of their system and will be forced to replicate data when creating a co-sourcing environment. The right technology can and should easily integrate with existing authentication methods, allowing for multiple stakeholders to interact with a sole source of data securely.

Real-Time Data Access and Insights

With a single source of data, multiple stakeholders can engage in real-time analysis simultaneously. A fund administrator's underlying technology should allow for a 360-degree review of materials and processes, as well as enabling portfolio management teams to run analysis of existing holdings while the fund administrator executes accounting and reporting.

Scalable, Cloud-based Technology Wins the Day

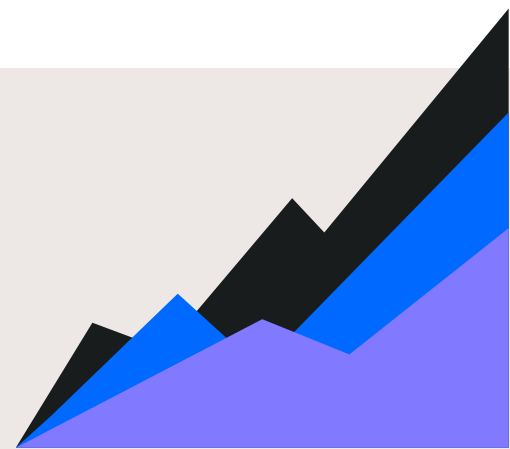
A scalable, cloud-based platform is an essential component for co-sourcing arrangements. When evaluating underlying infrastructure for co-sourcing, the right technology platform should feature:

- **A truly integrated system** that ensures data accuracy, so that GPs can spend less time scrubbing data for errors and more time serving their clients.
- **Innovative technology** that stays current. A solution built on Microsoft technology effortlessly ensures there are no costly upgrades, and that your entire tech stack is continuously up to date.
- **A best-in-class solution** that services every private capital asset class so that GPs can build complex portfolios while maintaining simple workflows.

Compliance is Critical, Tech Can Help

Technology plays a critical role in supporting co-sourcing by providing advanced tools for monitoring, reporting, and managing requirements. The right solution can automate tracking of compliance metrics, generate documentation, and alert organizations to potential issues in real time. Additionally, cloud-based platforms enable seamless collaboration between internal teams and external partners, ensuring that co-sourced operations are efficient and transparent.

In addition, the ability to grant access to stakeholders anywhere in the world is essential. Firms should also ensure that General Data Protection Regulation (GDPR) compliance is built into the platform they use, and that the platform supports accounting and reporting in a wide variety of countries to support International Financial Reporting standards (IFRS) or Generally Accepted Accounting Principles (GAAP).



Future Outlook and Strategic Considerations

What are Key Strategic Considerations When Evaluating a Co-Sourcing Model?

As the private equity industry continues to evolve, the trend toward co-sourcing is likely to gain momentum. GPs should consider the following strategic considerations when evaluating co-sourcing as an operational model:

- 1. Assess Core Competencies:** Identify which functions are critical to retain in-house and which can be effectively managed through a co-sourcing partnership.
- 2. Evaluate Partners Carefully:** Select fund administrator partners with proven expertise, robust data management capabilities, and a track record of success in the private equity sector.
- 3. Focus on Integration:** Ensure seamless integration between in-house and co-sourced operations to maintain operational coherence and data integrity.
- 4. Prioritize Transparency:** Implement systems and processes that enable real-time data access and reporting, meeting LP and regulatory demands for transparency and timely information. Ensuring your data is readily accessible, means that your firm will be able to respond to your LPs quickly when they request information, enhancing your overall relationship.
- 5. Leverage the Right Technology:** Choose a platform that simplifies data management across the entire fund lifecycle by offering an end-to-end, fully integrated platform. The right solution will create data consistency and control – meaningfully streamlining processes and workflows and creating confidence about data accuracy across all of your important stakeholders.

In Conclusion

Co-sourcing represents a significant shift in how private equity firms manage their middle and back-office operations, with fund administrators playing a pivotal role in this paradigm. By combining the advantages of insourcing and outsourcing, GPs can achieve the scale, flexibility, and superior data management necessary to thrive in a competitive and rapidly evolving industry. As LPs continue to demand greater transparency and support, co-sourcing offers a strategic pathway for GPs to meet these expectations and drive sustainable growth. Fund administrators, as vital partners in the co-sourcing model, provide specialized expertise that enhances operational efficiency and supports private equity firms in capitalizing on growth opportunities while maintaining control over their critical data assets.

By embracing co-sourcing and integrating fund administrators into their operational strategy, private equity firms can navigate the complexities of modern investment management with agility and confidence, ensuring they remain at the forefront of the industry. As the demands of LPs evolve, co-sourcing provides a robust framework that supports transparency, enhances data security, and enables scalable growth, making it an essential strategy for forward-thinking GPs.

01

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02

See our software in action

From sophisticated reporting, to seamless data sharing across LPs see Allvue's capabilities via our library of two-minute demo videos.

03

Reach out for a demo

Contact our team with your bespoke software needs and set a time for a demo personalized to your challenges.



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Allvue is a leading provider of technology for investment managers in the private capital and credit markets industry. Its mission is to empower superior investment decisions by pairing modern cloud-based software solutions with capabilities across multiple asset classes. Allvue's software solutions serve the entire investment life cycle and are seamlessly integrated to provide a comprehensive product suite, serving investment managers of all sizes worldwide.

Allvue was established in 2019 through the merger of Black Mountain Systems and AltaReturn, two leading providers of investment technology solutions. Allvue is based in Miami, FL. With a commitment to innovation and a focus on multiple asset classes, Allvue's software solutions allow its clients to operate and grow their businesses more effectively by automating manual processes, improving data accuracy and consistency across workflows, and delivering enhanced analytics.