

Earning their stripes

By Rikke Lilla Eckhoff

Q&A

Rikke Lilla Eckhoff speaks to Ipes chief executive Kevin Brennan about fund administration's role, the resurgence of fair value accounting and the industry's adaptability in the face of growing European regulation.

Ipes has been in business for more than 10 years, how have you seen fund administration change over the past decade?

The most significant development has been the changes in regulations and accounting standards, resulting in increased due diligence requirements. In addition to the globalisation of the industry with various tax requirements and GAAP conversion of accounts, these developments have driven the demand for the technical skills of fund administrators. When Ipes started out in 1998 we were one of the first specialists in the market, now there are more than 50 fund administrators offshore alone. Crucially, technological advances have enabled fund administrators to do their job more efficiently, in real time 24/7. Today, offshore is the same as next door.

How is the current hiatus in the fundraising environment affecting your clients?

Fundraising has slowed down, but not fully stopped; many of our clients are currently raising new funds. What we see is that, if forced to, funds with a track record choose to delay rather than cancel raising follow-on funds. New outfits raising maiden funds, on the other hand, are struggling, with processes lasting up to a year. On the bright side, other asset classes are attracting more attention. Our mezzanine clients are flourishing; their follow-on funds are very popular among investors, as are secondaries funds.

As a fund administrator which challenges would say have impacted GPs the most?

Three things mainly: LP demands; financial concerns; and increased

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scrutiny. With regards to the LPs, the increased focus on carry and fees means that there is no such thing as easy money anymore. The financial concerns are primarily brought on by underperforming portfolios which means GPs spend more time and effort on negotiating with banks. Their investors are also facing liquidity constraints, adding to the pressure for realisations despite the unfavourable economic climate. Finally, as the private equity industry has moved from the business page to the front page, it is faced with increased scrutiny from government, regulators and investors. This also applies with respect to tax issues on both a fund and personal level.

How do you view the recent debate of fair value, which has raised questions regarding the valuations of private equity portfolios?

Fair value is essentially judgement based. In some ways we view it as a bit of a non-debate as fair value is here to stay, for the time being at least, since returning to valuations on a cost basis isn't of benefit to investors. With financial engineering becoming a thing of the past, operational value-add has again come to the fore, and with it fair value accounting is becoming increasingly relevant. Investors are asking GPs detailed questions regarding the performance of portfolio companies.

In the December audit processes, the first in the post-Lehman era, auditors were uncertain about the value of portfolios – giving rise to such concepts such as “emphasis of matter” disclosures in the audit report. In effect, they returned to the old accounting concept of prudence and looked to write down where possible. Whilst this was not admitted – if you cut through the smokescreen this was the reality.

Where do you see the fund administrator industry moving in the next decade?

As investors are seeking more information, we need to rationalise how information is shared. Investor self service will probably be a key feature in future developments. Secondly, as private equity expands into new and emerging markets, fund administrators must follow and cover multiple jurisdictions. We also expect GPs to outsource an increasing range of services.

Finally, and crucially, the ongoing changes in the regulatory environment are likely to dictate how administrators operate, particularly the results of the EU AIFM Directive. Whatever the outcome, the fund administration industry will adapt to the changing needs of our clients. ■