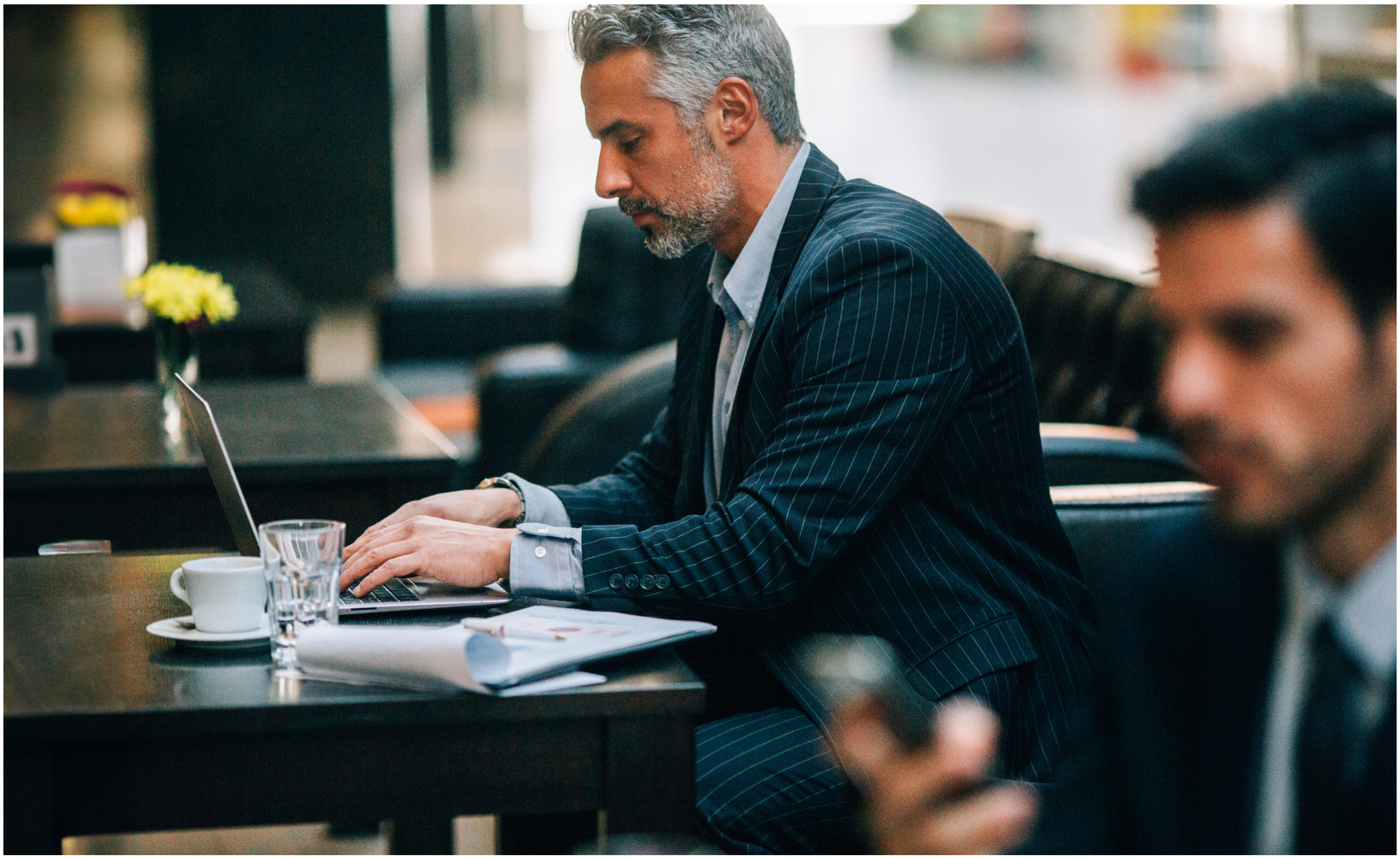
Article

Alternative fund servicing: bank or boutique?



Banks excel at institutional expertise and scale, while boutique firms offer unmatched attention and client service. Learn how to find the ideal balance based on your needs and account complexity.

Broadly speaking, alternative asset administrators fall into two categories – banks and boutiques – each with different approaches, strategies and client considerations.

In this article, we'll examine advantages, disadvantages and options to help you make the best choice for your management style and portfolio.

Bank administration

Bank-owned administrators provide many institutional advantages that benefit asset managers. Banks tend to offer a broader service model than boutique firms, incorporating administration, custody and depositary solutions. They can also offer a host of related services like foreign exchange (FX), lending, risk monitoring, reporting, compliance, treasury and more.

"Working with a bank gives you access to a whole toolbox of services – pretty much anything you'd need for any of the panoply of investment funds out there," says Tony O'Brien, chief commercial officer for Ireland at U.S. Bank. "You have options for repo and securities lending, cash, liquidity, money market funds, and the list goes on."

Additionally, the bank model provides a broad base of experience and expertise, which is especially important in alternative assets to deal with new types of products and strategies.

"When you have a large, bank-owned administrator, there's not much they haven't seen," says Tony. "And with that comes the confidence and flexibility to navigate different tax treatments, jurisdictions and operating models."

Banks usually have a large enough scale and footprint to provide local presence in multiple jurisdictions – often with teams spread throughout the U.S., Europe and beyond. Systems and platforms are standardized across the organization, meaning clients are less affected by time zone differences and have greater operational agility.

"The bank model is usually built around standardization, with a laser focus on controls and processes," says Tony. "This appeals to asset managers who want a 'build once, serve many' approach to help them manage a large number of investment products and a wide distribution net."

Boutique administration

The large institutional nature of banks can also present some pain points for clients. Banks take more of a one-size-fits-all approach, which works well for scale, but not as well for flexibility. Client service may not be as attentive as at boutique firms, and services are less tailored.

"One of the most common difficulties with banks is that within the organization, teams become siloed, and the client service structure becomes layered," says Tony. "As a client, you don't always have direct access to the people doing the work – making it harder stay nimble."

Compared to banks, boutique firms excel at being high-touch and client-centric with exceptional levels of white-glove service.

"For boutique administration firms, nothing is too much trouble, and client service is delivered with people in mind," says Tony. "Staff tend to develop very close relationships with clients, and they function almost as an extension of an asset manager's back-office team."

The boutique model works well for smaller, more complex funds that need attention and benefit from that flexibility. While they typically can't match the same level of scale and depth as a bank, their advantage is that they can offer clients much greater attention and responsiveness. A more direct relationship makes interactions more immediate, and everyone can move and adjust with greater agility.

Greater complexity and a shift toward the middle

The distinction between bank and boutique has long been relatively clearcut. A fund manager's needs and preferences – for the most part – steer them toward one model or the other.

Recently, however, accounts have been growing more complex, and client needs have been shifting. The line between bank and boutique is becoming blurrier as service providers try, to varying degrees, to evolve their model to meet today's new demands.

"Over about the last five to seven years, we've seen larger managers wanting to extend and expand the range of strategies they're providing for their clients," says Tony.

“A lot of those strategies are more complex, which demands a boutique, hands-on approach to servicing. At the same time, they still want the operational flexibility, global presence, local availability and sizable balance sheet that a bank-owned administrator brings to the table.”

As accounts take on a certain level of complexity, traditional models start to fall short.

“When you’re adding layers of complexity – which many managers are doing these days – you need boutique-level attention, where your team intimately understands what you’re trying to accomplish and how to get you there. But you also need bank-level scale and breadth of services.”

Best-of-both model

The alternatives business is evolving rapidly, and many managers now need the best attributes of banks and boutiques. This middle-ground approach can still be surprisingly difficult to find.

“We’re in this transition period where many large, bank-owned administrators are working hard to feel more boutique. And many boutique firms are working hard to solidify relationships with larger institutions. Everyone is trying to find that balance, and that’s essentially always been our sweet spot here at U.S. Bank – the best of both.”

At U.S. Bank, our offering organically incorporates boutique sensibilities with bank-level service offerings.

“This approach has been our DNA since day one,” says Ken Somerville, U.S. Bank Head of Fund Services – Ireland. “Our European team originated in Ireland as a brand-new operation, designed to support both specialised local and global service requirements, but crucially as part of the larger organizational infrastructure of U.S. Bank. We will always have those agile sensibilities of a specialized business, combined with our infrastructure as one of the world’s top global custodians and with the ability to deliver all those additional benefits to clients.”

Drawing from both models, the teams at U.S. Bank can innovate and adapt more quickly than most institutional administrators.

“We can bring different technology stacks together, for example, to make them work in different ways that are tailored to client needs,” says Tony. “We are very close to our clients, and they love being able to interface directly with the individuals in Europe doing their work without layers and layers of organizational channels. At the same time, they also love having the experience, expertise and scale of a large organization in the U.S. with credit services and other benefits that pure boutiques just can’t offer.”

*For more information on our European fund servicing solutions, **contact us** or visit our **website**.*