



The Next Chapter of “Outsourcing.”

The Transition to Productivity Solutions

Jefferies Prime Services C-Suite Series

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Jefferies

From “In Lieu Of” to Necessary for Next Generation Operating Efficiencies

Outsourcing Has Come of Age

A relatively new phenomenon, what is commonly referred to as “outsourcing,” has matured and evolved so materially that many of these solutions are now seen as productivity tools for large institutions, rather than just substitutions for emerging managers.

What has happened to cause such a material shift in less than a decade? Among other factors: the maturation of the solutions providers themselves, the evolution of large institutions and their need for more agile and efficient operating footprints, and the Covid-19 pandemic that fundamentally changed how many firms quite literally – worked. These drivers all came alongside not just acceptance from the broader allocator and due diligence community, but a genuine understanding and respect for how these solutions can help optimize a business.

While the transition has not been seamless or overnight, it is clear that the early era of outsourcing has transitioned to a more sophisticated one. Institutions seek more from these providers – and the providers are now able to deliver holistic, next generation solutions that can keep pace with more complex needs.

It is now an **oversimplification** to talk about “outsourced” solutions like COO/CFO, compliance, or trading as ones that are in lieu of internal resources. Each of these is increasingly used to **create new efficiencies** in mature firms, improving workflows, enhancing agility and giving employees more bandwidth. It is more accurate to refer to them as **productivity solutions**, often being **leveraged for firms’ unique needs and business models**. They’re now seen explicitly as an extension of an organization’s own capabilities.

As such, we are increasingly seeing more mature firms, with billions in AuM, revisiting their operating footprints and workflows to determine if and how these productivity solutions can enhance profitability. Oftentimes, these solutions can be charged to the fund rather than the management company. And new proposed rules by the SEC specifically highlights potential future ability to charge cybersecurity costs to the fund rather than the management company.

The benefits to organizations, to employees themselves, to cost structures, and in enhancing agility has put these productivity solutions squarely at the center of many business plans for the coming years. Here we explore the evolution of outsourcing to productivity solutions, examine the benefits and drawbacks of their use by mature, complex organizations, and look ahead to ways the industry could continue to mature and help improve profitability.

It is our hope **The Next Generation of Outsourcing** helps drive strategic business discussions about enhancing operating footprints, improving employee productivity and growing profitability. Outsourcing providers have grown by leaps and bounds in the last decade, and given the foundation they have built, it stands to reason they will be a critical part of the alternatives infrastructure in the years to come.

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That Seemed to Happen Fast

The Rapid Evolution of Outsourcing to Productivity Solutions

In the early days of building outsourcing solutions, they were often pitched as “in lieu of” products to emerging managers who wanted to maintain maximum operating efficiencies while in the early days of launching their funds. For example, emerging managers increasingly could see the value proposition in leveraging an external COO/CFO to maintain flexibility in hiring until they were later in operation, which oftentimes lowered operating costs while allowing the founder to focus on managing the book. Outsourced traders were also used largely by earlier stage and emerging managers for similar reasons.

Now, across COO/CFO, compliance, and trading solutions, we see far larger, more mature and more complex organizations using all types of productivity solutions to improve their operating efficiencies in addition to the emerging manager community.

	THEN	NOW
Outsourced COO/CFO	<ul style="list-style-type: none"> • Early audience was smaller/emerging manager group • Less pressure to hire internal role pre Day 1 • No economics at stake • Seasoned professionals at different expense base • Typically was in lieu of internal dedicated resource 	<ul style="list-style-type: none"> • Productivity tool for large, mature firms that have grown layered over time • Now used to seek efficiencies with complementary external solutions • Can create bandwidth for internal headcount in accounting, operations or controller groups • Customized solutions depending on size, scale and strategy of organization • Works with firm’s COO and/or CFO to drive efficiencies
Outsourced CCO	<ul style="list-style-type: none"> • Often assisted internal Chief Compliance Officer (CCO), who wore multiple hats • Helped with documentation, DDQ and other early stage compliance response 	<ul style="list-style-type: none"> • Efficient way to stay ahead of regulatory and reporting requirements for funds • Assists with staying on top of cross border and multi-jurisdictional changes in regulation • One corner of consensus is that regulatory regimes will not get less onerous in the coming years and firms are planning accordingly
Outsourced Trading	<ul style="list-style-type: none"> • Early use for an in lieu of in house trader • Additional source of color and information flow • Can assist with global trading hours across time zones 	<ul style="list-style-type: none"> • More common part of a firm’s business continuity planning • Works with internal trading team • Extension of firm’s trading team to back up traders who are sick, on vacation or are unable to trade certain markets • Additional source of color and information flow, especially in volatile markets

Firm Evolution and Changes in Productivity Solutions

Organizations Don't Just Grow, They Oftentimes Need Streamlining

Traditionally, as alternatives funds grew and matured, they would develop even larger teams and capabilities in house. This resulted in the same bureaucracy, red tape and inefficiencies that challenge profitability in other sectors.

But until recently, firms had little option but developing capabilities for the types of sophisticated solutions they require in house. As outsourcing firms launched, their early days were often dedicated to servicing smaller and less complex managers. But in recent years, many have rapidly evolved their offerings and capabilities to deliver holistic services based on an organization's unique needs.

In fact, there are now early-stage productivity solutions who from Day 1 are equipped to help more established, complex managers with the experience to help build end to end solutions across workflows, systems and infrastructure to identify efficiencies and cost saving opportunities.

Drivers of Seeking Productivity Solutions

Emerging Managers



- Typically operating from a lower expenses base
- Want more agility in hiring during start up phase
- Not ready to dedicate internal resources
- Prefer experienced personnel and access to a team of resources early on

Mature/More Complex Managers



- Seek to drive efficiencies after growth
- Improve return on time for internal resources
- May benefit from customized solutions across counterparties and systems
- Technology and infrastructure may be more streamlined and agile than built in house
- Will consider both modular and "all-in-one" solutions, depending on firm's needs
- Can assist with globalization or other regional expansion plans

These third party providers have dedicated time and resources in recent years to attracting and retaining top talent to service clients. A number of managers have commented recently that in bringing these providers in for business updates or bakeoffs, they were less aware of the improvements in their offering over a few years ago. The providers have also matured such that their product suites are highly diversified, and are often customizable in ways that were harder to find years ago. Both modular and all-in-one solutions are popular.

What Are More Mature Managers and Institutions Doing

Taking a Pause, Revisiting Assumptions and Upgrading or Enhancing Where Appropriate

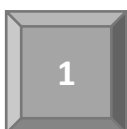
Here are things that institutions and more mature organizations are doing to plan for the next decade and enhance profitability. This is **not** just happening amongst alternatives funds. Their own institutional allocators – among them: endowments, foundations, pensions and multi-family offices – are also engaging in these types of reviews and optimization exercises.

Operating expenses directly affect how much organizations are able to:

- Attract and compensate talent
- Invest in research & development
- Explore product innovation or
- Incubate new strategies

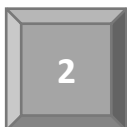
These are all the lifeblood of enduring, successful organizations. As such, many business leads are taking a pause to think strategically about how to develop their firm in the next decade – especially given recent volatile markets.

Processes to Optimize Operating Footprint



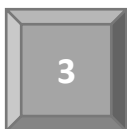
Review Workflow, Systems and Infrastructure

What are all of the steps critical to operating your business *today*? Get specific and go through step by step processes.



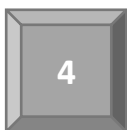
Revisit Assumptions

Are those steps, workflow, systems and infrastructure built for purpose for your organization *today*?



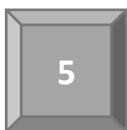
Question Efficiencies

Are there solutions or resources available that would help improve your operating efficiency?



Revisit the Market

Invite a handful of providers in to understand the updated landscape. Ask questions to understand what competitors are doing and how they are leveraging solutions.



Make a Plan

In every industry, providers and resources change over time. Things that used to live in house could be outsourced either fully or in a complementary manner. It's important to stay current on what is available and what competitors are doing. Even if you don't make any changes, make a plan to revisit these processes on a regular basis.

Questions to Consider

Productivity Solutions Are Not Always a Right Fit

Given the unique strategies and lifecycles of funds, these solutions are not necessarily the right fit. It is extremely important to ensure the partners you choose are the right match for your firm, given that they can now function as an extension of the organization.

Questions firms should ask themselves in vetting providers:

1. Does the provider offer not just capabilities I need *today*, but do they stay current or ahead of best practices?
2. What will the onboarding process look like? Is it onerous or efficient?
3. Does the provider's technology work well with our current infrastructure?
4. What does the provider's business continuity plan look like?
5. Are they truly a partner, and as an extension of the firm, will they represent us well?

How Jefferies Can Help

Jefferies is dedicated to helping clients find long term strategies and solutions for building enduring businesses. The Capital Intelligence team collaborates with clients on a variety of advisory projects to help them think through operating footprints and business models across cycles.

Our Outsourced Trading Team has grown materially in recent years to be a global, full service offering and increasingly works with mature institutions as well as the emerging manager community. Both teams collaborate to deliver best in class service, advice and brainstorming to help clients build more enduring paths to profitability.

We welcome any questions you have.

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