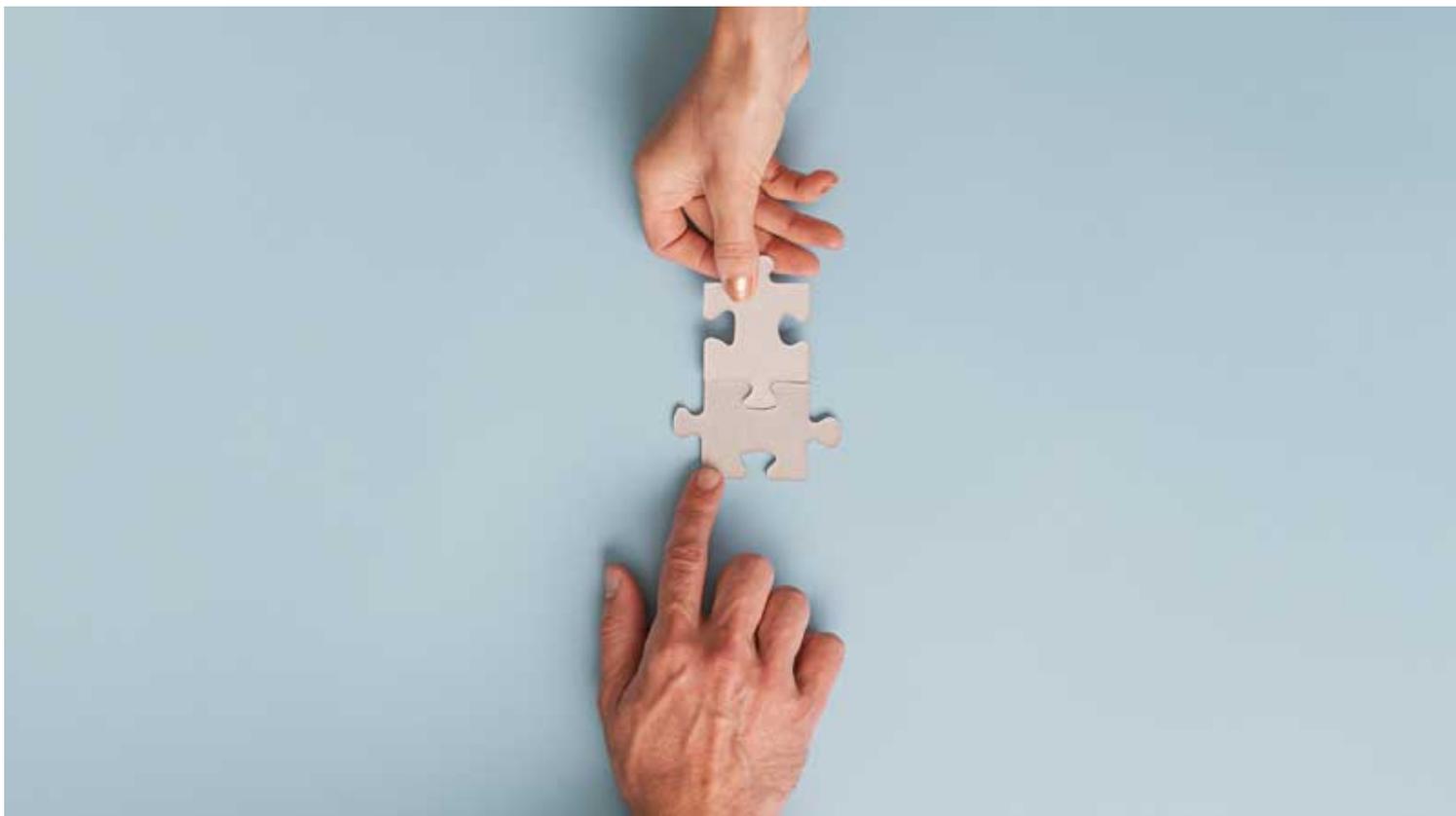


M&A among fund administrators on the rise



By Susan Barreto. Originally published in [Alternatives Watch](#) on July 2, 2021.

Business is booming for Paddock Capital Market's Bill Salus, and seemingly there is no end in sight.

His New York-based firm specializes in the asset servicing space and working with firms that are facing challenges of growth and expansion projects. His work centers on fund administration M&A -- a mission grown out of his own experience working in financial services, including a stint at global fund administrator Apex Group in its New York office.

Based on his client engagements, the questions almost seemed to be predictable. Does the firm want to grow organically, or do they want to buy? Would they rather raise capital in order to buy? Should it be a merger of equals? In other cases, it's a question of whether a geographic or product expansion is necessary or if it is just an issue of buying a technology platform.

Fund administrators are looking to branch out, adding "upstream" services to their core fund accounting product suite, and are now looking like fund solution providers more than they were before and even like data analytics providers, according to Salus. Cost pressures are driving managers to outsource traditional middle- and back-office functions.

"You see this movement in that fund administration is taking a much broader view of the wallet of these managers," Salus said. "Just because of the potential to expand the outsourcing mandate, there is a lot of room for M&A."

One doesn't need to look any farther than the headlines in the last month to note that consolidation is picking up. One announced deal saw the business, legal, tax and digital brand service group CSC purchase outright PEF Services, an administrator to private equity, private debt, venture capital and small business investment companies. The strategic acquisition helped CSC's fund services growth plans in the U.S., while adding a technology platform to the group's increasingly sophisticated solutions, officials said.

A few weeks ago, private equity firm TA Associates announced a strategic growth investment in Apex Group alongside another private firm Genstar Capital, which had invested with the fund administration firm four years earlier.

While Salus adds that there are tens of private equity firms looking to invest in the fund administration business, a recent deal he worked to complete between U.S.-based STRAIT and European-focused firm Sanne back in April shows the power of firms doing their homework before drawing up the paperwork.



Bill Salus



Stacy Relton

Sanne acquired Dallas-headquartered STRAIT, which began in 2006 as a "high-touch" model approach in serving investment funds and their investors. As a FTSE 250 listed business, Sanne's expertise is in private equity, real assets, private debt, capital markets, hedge, AIFM and corporate services.

"The Dallas business has become an integral piece to Sanne's overall growth strategy," Salus said. Stacey Relton, managing partner at STRAIT, is now Head of North America at Sanne and forms part of the global management team.

Relton recalls that despite the firm's longevity, the team had noticed the market growing in its work with billion-dollar funds. The irony was, she said, that the bigger the firm grew and the larger our clients, the more the firm's brand and the demand for advanced technology became.

STRAIT initially considered making an acquisition and approached Salus with that goal in mind.

"I started speaking to fund administration owners in the U.S. thinking that if three of us combined, we would have the larger AUA and breadth of services," Relton said. "The problem was that we would still be missing global reach and a leading technology platform."

As for Salus, he sees fund administrators increasingly looking to move beyond core fund administration into data analytics, performance measurement, specific strategies such as retail and regulatory, ESG and social reporting. In the first quarter, Sanne launched Sanne Rio as a next generation ESG reporting platform. Through the acquisition, Sanne now offers their clients a full ESG solution that includes green fund administration, ESG advisory and ESG reporting.

For other firms out there, the challenges are mounting in the areas of geography and technology, according to both Relton and Salus. Of course, both are areas where smaller administrators can struggle. Both agreed that fund managers are looking to outsource more, but they rather only employ a single firm to get the work done. It all leads down a path of the larger administrators offering the widest range of services and technology.

"Technology is key, not only for driving efficiencies, but for transparency and the value add for managers," said Relton. "Throughout our due diligence process evaluating which firm was the best partner for STRAIT, we placed a great deal of value in the firm's technology plans."

Looking at global growth prospects, in Relton's view the UK/European investment market is more mature and more regulated than the U.S. and so it makes sense that European firms want and need to expand their geographic footprint in North America.

For her though, the question really was one of client service and corporate culture aligning. She didn't want to do a deal with a firm that was not willing to keep her team in place, for instance, as she views people as making the difference on the long-term prospects for a company's viability.

"M&A can either be a great thing or it can be disastrous," she added. "We'll know in the next 24 to 36 months which firms did it well and which ones did not."