SEC AMU
SMALL ADVISERS AND FUNDS
SUBCOMMITTEE

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Cramer Rosenthal McGlynn, LLC
TOPICS

- Outsourcing Considerations
- Vendor Management
- Cross Border Distribution / Starting a UCITS
Outsourcing Considerations

- Ongoing trend towards outsourcing
  - More investment management firms are relying on outsourcing today. And the numbers are increasing.
  - The industry has witnessed a dramatic move towards outsourcing, predating the COVID-19 Pandemic.
  - The post-pandemic environment is causing firms to further reevaluate ways in which business is conducted, with outsourcing multiple functions a key consideration.
## Pandemic Operational Strategies: Automate Legacy, Digitize Workers, Modernize and Outsource

Q. To what extent is your leadership pursuing the following operational strategies in this environment?

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Pursuing aggressively</th>
<th>Somewhat</th>
<th>Not at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automation as catalyst to modernize legacy business practices</td>
<td>65%</td>
<td>31%</td>
<td>4%</td>
</tr>
<tr>
<td>Revising and implementing Business Continuity measures</td>
<td>59%</td>
<td>36%</td>
<td>6%</td>
</tr>
<tr>
<td>Enabling a truly Digital Workforce (with end-to-end automation)</td>
<td>57%</td>
<td>37%</td>
<td>6%</td>
</tr>
<tr>
<td>Reducing our workforce to adapt to the current environment</td>
<td>40%</td>
<td>31%</td>
<td>30%</td>
</tr>
<tr>
<td>Increase outsourcing to reduce costs</td>
<td>35%</td>
<td>47%</td>
<td>19%</td>
</tr>
<tr>
<td>Outsourcing more of our operations to enhance business agility</td>
<td>31%</td>
<td>42%</td>
<td>27%</td>
</tr>
<tr>
<td>Increasing our workforce to adapt to the current environment</td>
<td>25%</td>
<td>25%</td>
<td>51%</td>
</tr>
</tbody>
</table>

Sample: 400 Executives across Global 2000 Enterprises  
Source: HFS Research, 2021
“SWELLING SUPPORT” FOR OUTSOURCING MIDDLE/BACK-OFFICE ACTIVITIES DUE TO COST, CLIENT EXPERIENCE AND RESILIENCE CONCERNS

**EXHIBIT 24**
Openness to operational innovation

<table>
<thead>
<tr>
<th>Service Type</th>
<th>Would Not Consider</th>
<th>Under Consideration</th>
<th>Already in Use</th>
<th>Seeking to Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outsourcing middle/back-office activities in their entirety</td>
<td>11%</td>
<td>22%</td>
<td>40%</td>
<td>18%</td>
</tr>
<tr>
<td>Outsourcing specific parts of middle/back-office activities</td>
<td>13%</td>
<td>26%</td>
<td>46%</td>
<td>16%</td>
</tr>
<tr>
<td>Technical outsourcing</td>
<td>11%</td>
<td>27%</td>
<td>54%</td>
<td>8%</td>
</tr>
<tr>
<td>Cloud services</td>
<td>11%</td>
<td>27%</td>
<td>54%</td>
<td>8%</td>
</tr>
</tbody>
</table>

Note: Totals may not be 100 due to rounding.

**Source:** SS&C-ADVENT, ET AL. “TECH & OPS TRENDS IN WEALTH MANAGEMENT 2021: KEY DEVELOPMENTS EXPLAINED BY TOP INDUSTRY EXPERTS”
Outsourcing Considerations

- **BEFORE:** “We should own everything.”
- **NOW:** “What should we outsource?”
  - Operations/Compliance/HR/Marketing and Distribution/Client Service/Cybersecurity and IT/Trading/Investing

**Cost Considerations**

- Fee Compression
  - **Former IM Division Director Blass:** “[The downward trend in fees] may mean investors end up with less access to small and mid-sized advisers, who do not have the scale of larger advisors.” (March 2018).

- **Challenges Raising/Retaining Assets** ➜ Leads to Consolidation
  - **E&Y June 2021:** “It will be hard for many asset managers – especially small and medium firms… to survive in their current form.”

- Scale

- **Technology Considerations**
Outsourcing Considerations

- Oversight and Responsibility
  - Board Involvement and Support
  - Use of Outside Consultants
    - Conflicts of Interest
- Due Diligence
  - Initial
  - Ongoing
  - Appropriate Techniques
- Risk
Vendor Management

- Selection Process
- “Partnership” vs Service Provider
- Duty of Care
- Oversight Responsibility
  - SLAs
  - Reporting Requirements
- Term, Termination and Renewals
- Hidden Costs
- Cybersecurity
- Reinvestment into the Business
  - Technology
Moving into Foreign Markets

- Considerations
  - Economic Considerations
    - “Chicken versus the Egg”
  - Where to Domicile?
  - Governance and Structure
    - Vehicle
    - Regulatory
    - Management / Oversight
    - Physical Presence
  - Distribution – “Passport”
    - So Many Markets…
Moving into Foreign Markets

- UCITS
  - European continent move toward a single market
  - More than $11 Trillion in European UCITS
- European Appetite for US Managers
- Opportunity to Raise New Assets
- Broad Distribution Capabilities
- Directives, Guidance, Regulatory Requirements
  - CBI
  - Consulting Papers
  - “Dear CEO” Letters
Domicile Considerations

- Preexisting Relationship and Reputation of Regulator
- Reputation of Domicile in the Industry
- Distribution Strategy and Location of Potential Investors

Service Provider Considerations
- Current US Service Providers?

Native Language(s) Spoken in Domicile

Political, Economic and Social Stability

Legal Environment and Taxation Regime

Convenience
UCITS Structure

- **Self Managed Company v Management Company**
  - Former is Losing Favor

- **Board of Directors**
  - Ultimately Responsible for Operations
  - Delegate Responsibility

- **Depositary Bank**
  - Similar to US Mutual Fund Custodian
Governance

- CP-86
  - Rationale for Board Composition
  - Directors’ Time Commitments
  - Organizational Effectiveness
  - Managerial Functions
  - Delegate Oversight
  - Operational Issues and Resolution
  - Procedural Matters
Distribution

Key Documents

- Prospectus
- Supplement

Key Investor Information Document ("KIID")

- Synthetic Risk and Reward Indicator ("SRRI")
  - 1 → 7

Passport Feature

- Allows Sales of Same Fund in Multiple Jurisdictions

Requirements

- Will Vary (Paying Agent, Translation Requirements, Fees)