

# Independent depositary Indos' chief exec Prew eyes phase of rapid growth

**INDOS Financial**, the only UK independent provider of depositary services to alternative investment funds, has grown steadily since its inception in 2012 and now boasts assets under oversight of nearly \$30 billion.



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Yet INDOS chief executive Bill Prew feels the firm is entering a phase of rapid growth as funds become more aware of the benefits of an independent depositary offering and their requirements change as they boost their private equity and real estate holdings.

Prew said the INDOS proposition is a simple one: an independent deposi-

tary service provider is more effective than another provider because all of them apart from INDOS are affiliated to a fund administrator.

He told Global Investor: “Most depositaries are connected to and part of the same financial group as their fund administrators which raises questions about the scrutiny that the depositary

may subject the fund administrator to, and the willingness to flag underlying administration issues. Since we founded INDOS, it is interesting how many fund administration and other issues we have identified as an independent depositary provider.”

Prew said INDOS sees the fund as the client rather than its manager:

“Ultimately the function of the depository is to protect the investors so sometimes we have to be firm, raising issues to ensure investors are being properly looked after.”

This, of course, can put INDOS at odds with the fund administrators or the managers themselves but this is the point of having an independent provider rather than one that is part of the same financial group as, and therefore commercially aligned to, the fund administrator.

Prew said: “Where the depository is affiliated to the fund administrator, managers and fund boards tell us the depository is often not visible and issues are rarely raised, whereas we would argue, if the fund is paying for service, why not get proper value out of it?”

Andrew Watson is INDOS’ depository director in charge of private equity and real estate funds, an increasingly lucrative segment for the UK-firm as more investment managers have piled

into physical assets such as real estate.

Watson, who joined INDOS in October 2015 and previously worked at the European private equity fund Argan Capital, Bank of America and PwC, told Global Investor:

“I am sure that we are picking up on some issues that wouldn’t have come to light if the fund were using a depository that was part of the same group as the fund administrator. There is no conflict of interest with us, we are completely independent from the fund administrators.”

INDOS also subjects its funds to high levels of scrutiny. Prew said: “The industry rule of thumb is that around 10 or more funds will generally be allocated to one depository analyst whereas we would typically allocate each individual around five funds. Having fewer funds per person means our analysts can get into greater detail with the funds.”

Watson added: “Normally the depository tends to fade into the background after its appointment but we conduct regular manager and fund administrator site visits for example.”

Prew said INDOS has also worked hard on its client-facing platform which offers a higher level of service to the underlying funds.

“We have also invested a lot in technology and in particular our DEPO-check depository workflow management and oversight system where we have mapped some 36 secure feeds to banks and custodians and 18 feeds to administrators. We can use this to pull-up at any time and demonstrate the work we have done with any individual fund,” said the chief executive.

European regulators are keen to make financial services companies more accountable and have introduced rules to unbundle services that were previously closely linked.

For example, the allocation of commission by fund managers to brokers for research and execution, which was previously covered with a single payment, has been unbundled by the European Commission through its revision of the Markets in Financial Instruments Directive.



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Prew said: “I do think the AIFMD rule-setters missed a trick in terms of requiring independence of the depository. Some regulators have issued guidelines requiring depositaries to appropriately manage conflicts and in practice the depository is a separate legal entity within a group.”

But, looking back over the five years or so since the company started trading, Prew said the business has performed well and has proven itself as a multi-asset depository service provider for traditional hedge funds as well as the growing private equity and real estate sector.

“Some five years after launch, we have established a broad client base. Over the years we have seen many inflection points, for example our first billion-dollar fund and the first switch to INDOS from an affiliated depository model. Now we support many large hedge, private equity and real estate funds, and complete a number of service switches each year – all driven by funds looking to enhance governance and service quality.”

INDOS said the broader move by many investors out of traditional hedge funds that use financial instruments and into private equity and real estate assets to tap the higher returns that these investments yield has presented the firm with an opportunity.

Prew said: “Private equity and real estate has been relatively untouched historically by regulation compared with hedge funds for example. We have seen significant growth in managers investing in private equity and real estate.”

He added: “With hedge funds we report on a monthly basis in line with the NAV frequency, whereas in real estate and private equity the NAV cycle is generally quarterly so we adopt

quarterly reporting.”

Watson, who became INDOS’ director for private equity and real estate funds in April 2018, added: “In real estate, part of the challenge is to ensure the ownership rights that a fund has over a particular piece of real estate which can involve drilling down through various Special Purpose Vehicles that may be domiciled in different locations. This can sometimes involve using third party legal advice. As an independent company, we simply cannot afford the reputational risk of getting this wrong.”

And Prew said the secular shift to physical assets has opened up a new client type for his firm: “With the transition into real estate and private equity we are starting to pick-up a new breed of client – that is, funds that also want to hold custodial assets. These firms are sometimes too small to attract the interest of the largest custodians and we have the flexibility and regulatory permissions to fill the middle ground.”

Prew said INDOS has applied to the Central Bank of Ireland for a license to handle Irish private equity real estate funds. This is its latest commitment to Ireland after the firm set-up in December 2013 an office in Enniscorthy, County Wexford to perform outsourced oversight of non-EU hedge funds.

The chief executive continued: “When it comes to Brexit, there was a big overhang following the 2016 Referendum while we didn’t know how the depository requirements were going to play-out but since then, it has become clear the AIFMD depository conventions will continue to be applied to UK firms.”

Prew said INDOS is also working out its strategy with regard to Luxem-

bourg, the other major European fund market.

He said: “We have looked at setting up a business in Luxembourg but that would be expensive and time-consuming, so we are exploring other options including the possibility of an acquisition.”

## Client Testimony

### **Russell Burt, independent fund director at Marbury Fund Services (Cayman) Limited:**

I have worked with Indos on a number of our hedge funds as well as some private equity funds and I have been so impressed that I actually refer newly launched funds to them. I would argue that if the fund is paying to have a depository, they might as well get something for it from an independent party

Personally, I am not convinced of the effectiveness where depositories are linked to a fund administrator, where they are all ultimately part of the same financial group. The question is whether the depo is going to hold the fund administrator to account whereas the reporting we get from Indos feels like a proper independent check.

Indos will often pick up on issues that have been missed by the fund administrator while the other depository seem less likely to flag-up issues than Indos.

I feel they are particularly good on private equity funds and they seem to work well with smaller private equity fund administrators.

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Prew went on to play-down the possibility that INDOS itself might become an acquisition target. "I'm happy with where we are and our rate of organic growth and the range of opportunities that lie ahead. We have had approaches from fund administrators but it would call into question our core business proposition which is based on independence," he said.

Looking ahead, INDOS is looking to position itself for organic growth by tapping new opportunities.

Prew said: "Recently, we have built a digital asset capability on behalf of one fund. The big unknown is how much of the industry will move to these types of assets but we are staying ahead of the curve."

INDOS is also moving to tailor its offering to make it more relevant to the growing number of investors who want greater insight into the environmental, social and governance (ESG) investment credentials of the firms that manage their investments.

Prew said: "Some 18 months ago, we saw there was more and more interest in ESG funds so we started thinking about ways we could leverage our investment in technology to offer independent ESG oversight. A lot of firms are getting ESG enquiries from investors and many of them value the input we are able to provide".

INDOS selected in early July data firm Vigeo Eiris to supply ESG and Corporate Social Responsibility data allowing INDOS to screen investment portfolios and provide bespoke reporting.

In June, the firm also appointed Seymour Banks as its head of ESG, responsible for leading and developing the firm's independent ESG screening and verification service to asset managers and their stakeholders.

Banks has over 20 years' experience in the investment management industry, predominantly in the alternative asset space. Before INDOS, he was CEO of Hilltop, a boutique fund of fund business, and prior to that a managing director of Signet Capital, the London-based alternative asset manager.

His investment management career started in 1996 at Barclays Global Investors where he was involved in product and business development, including hedge funds, i-shares and the FTSE4Good Index.

Prew continued: "There is a perception of green-washing. Personally, I don't think the industry is as bad in this area as made out but there is a perception, so I think there is a genuine role for INDOS to perform independent ESG oversight. We have entered into an agreement with a recognised ESG data firm to provide the data for one component of our service offering."

The chief executive said the INDOS ESG services could be particularly relevant for pension funds who do not have the necessary ESG analysis tools.

He said: "The largest managers typically have resource focussed on ESG but, for example, UK pension funds and their trustees also need to consider ESG factors so there is a valuable role for us potentially to independently screen ESG policies and report back to these firms to guard against green-washing."

Prew added: "Custodians have started to add ESG scores in reports for the assets they handle but there is no-one in the middle fulfilling a cost effective end-to-end assurance and oversight service."

INDOS has since 2012 ploughed a lone furrow as the only independent depositary services provider and Prew would welcome more competition.

He said: "I would have thought there would have been more awareness about the conflict of interests between fund administrators and depositaries by now but there are few other independent depositaries out there spreading the word. It would be good if there were more independent depositaries out there so we wouldn't be a lone voice."

For now, INDOS is doing a fine job on its own however and, with investor appetites shifting to real assets and ESG strategies, the firm has plenty to think about in the meantime. ■

## Biography



### Bill Prew, Chief Executive Officer

Prew is a qualified accountant, with over 23 years' financial services experience, starting his career in 1993 in the investment management division of Coopers & Lybrand (now PwC).

After 7 years with PwC in London and Sydney, working with a broad range of financial services clients, he helped to establish an email technology company, before returning to financial services and joining Barclays Global Investors in 2002. At BGI, Prew served as European Chief Financial Officer and then Head of Supplier Management, with responsibility for the management and oversight of BGI's European outsourced supplier relationships, providing custody, fund accounting, transfer agency and client reporting services to over 2,000 accounts and \$620bn of traditional long-only and alternative funds.

In December 2007, Prew joined Moore Capital Management to support the spin-out of the management of the \$3.5bn Moore Credit Fund to James Caird Asset Management, a hedge fund manager with offices in London and New York. During his time at JCAM, he was responsible for a range of operational areas including finance, legal, compliance, product control, investment operations, fund accounting and technology.

Prew left JCAM in December 2012 to focus full time on AIFMD and the development of the INDOS business.