THE DRAWDOWN

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the-drawdown.com

◆ **Overview** The next growth phase of fund administration

◆ **Supporting growth** Our list of fund administrators in the market

◆ **Adapting to change** Converting upheavals into opportunities

The EDITOR

JESSICA NANGLE

Welcome

WORK IN PROGRESS

The fund administration sector is in a state of flux. It is evolving and adapting to demands while also fighting existing hesitancies from market participants toward change. Increased regulation and greater expectations from LPs are creating an environment where streamlined processes and excellent client service are no longer nice-to-haves; they are imperative for success in today's climate.

According to *The Drawdown*'s latest overview of the market, there are signs that fund administrators are turning a corner. Technology is the catalyst for change, and our exclusive conversations with key figures in the market show that not only is technology being widely welcomed by fund administrators, but newer boutique entrants to the market understand that the change is the way forward rather than adopting existing templates. Turn to *page 14* to explore the latest iteration of our fund admin list.

Elsewhere in our latest *Fund Admin Report*, we reveal on *page 26* how despite the sector facing a shortage of talent and tech, there is still time for fund administrators to turn it around. We also investigate on *page 34* how consolidation, changing regulatory requirements and emerging investment trends are upheavals that fund administrators could convert into opportunities.

Where the market was previously at breaking point, progress is being made. There is still more to do to create the ultimate symbiosis between fund administrators and GPs, but there is an increased understanding that welcoming change and embracing new processes with the help of modern means has the potential to create a successful outcome for all.

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Contents

FUND ADMINISTRATION:

THE NEXT GROWTH PHASE

The slowdown in private markets fundraising has filtered down to the fund administration industry. However despite the declining number of fundraisers, climbing demand for outsourcing, technology and cross-border expansion are set to keep the industry on an upward curve, writes *Nicholas Neveling*

The fund administration industry has come a long way in the past two decades.

Twenty years ago, most of the fund administration platforms that are now an established part of the private markets ecosystem would have been small divisions within banks, law firms or accountancy networks.

A combination of regulation, retirement and succession planning, however, saw these larger organisations divest their fund administration business and lay the foundations for the independent fund administration industry of today.

Fast forward from those first divestitures, and the fund administration industry has evolved into a sizeable and distinct sub-sector within financial services. As specialist service providers to private markets clients, fund administrators have been in pole position to ride the growth that the wider alternative assets industry has enjoyed over the past decade. Analysis from Preqin in Bain & Co's 2024 Global Private Equity Report revealed that global AUM in private markets more than tripled from $4trn in 2013 to $14.5trn in Q2 2023.

The next phase

The impact of the fundraising slowdown in private markets over the past 12 months has been felt by fund administrators.

"With the challenging market environment, new fund launches and IPOs have been in shorter supply, leading to slower organic growth for fund administration players," says Richard Hughes, group head of the commercial office at fund administrator JTC.

Ocorian's head of European business development - fund services, Richard Hansford, agrees: "The slowdown in new funds has driven up competition for new business. The pricing for new fund launches in particular is probably the most competitive that I have seen in my 20 years of being in the industry."

With fund administrators no longer able to simply ride the growth for new fund formation, the industry is now moving into the next phase of its development.

JTC's Hughes says that in the next decade and beyond, fund administrators will have to demonstrate, "superior service, scale, jurisdictional coverage and added value through technology and auxiliary services," to remain relevant and sustain growth trajectories.

Exciting opportunities ahead

But while fundraising headwinds have presented challenges for fund administration business models, the long-term outlook for industry revenue growth remains positive.

"It is important to remember that private markets fund structures have fund lives of between 10 and 15 years, so there is a large stock of existing funds that fund administrators continue to service," says Oliver Wyman partner Tom Williams, who has advised on a number of fund administration M&A transactions. "The market has experienced a huge amount of growth over recent years simply by virtue of the number of new funds being raised. That has slowed down during the last 18 months, but the slowdown has not really had an impact on overall AUA at this point.

"The stock of underlying assets and number of funds that need to be administered are still growing. We anticipate that future growth may be slower than in the past, but still see a very positive long-term outlook of the industry."

Indeed, it is no coincidence that private equity sponsors have remained actively on the lookout for investment opportunities in the fund administration space – validating the industry's resilience and solid long-term growth fundamentals.

1/5

Year-on-year private capital fundraising fell by a fifth in 2023, according to research by Bain & Co and Preqin

"Fund administrators have very high levels of recurring revenue. The structures require administration for a long period of time. Changing service provider has high friction costs. Once a client sets up with a provider, they tend to remain with that provider," says Flor Kassai, a partner at Inflexion Private Equity, which has backed Ocorian.

"When you combine the characteristics of recurring revenues, and the sticky nature of the revenues, it means that as an investor you are effectively investing behind a long-term annuity stream. Capex is relatively low, so most Ebitda converts into free cash which results in attractive asset-light businesses with healthy margins."

These attributes continue to characterise the industry and attract investment. In March, in one of the biggest buyouts of 2024 so far, Cinven acquired a majority stake in fund administrator Alter Domus from Permira in a deal valuing the company at €4.9bn.

Other notable deals in the space include Astorg securing a €1.3bn continuation fund in partnership with AlpInvest and Goldman Sachs Asset Management's Vintage Funds to support fund administration portfolio company IQ-EQ.

> Future growth will be driven by achieving scale through strong jurisdictional coverage, continual investment in technological innovation and provision of auxiliary solutions such as governance services
>
> **RICHARD HUGHES**
> **JTC**

Consolidation play

Consolidation deals have also continued apace despite wider market slowdowns, with Apex Group's £1.5bn acquisition of Sanne Group being a standout consolidation transaction to close in the last 24 months.

Even though the industry has been through a period of steady consolidation during the last decade, its spin-out roots mean that it remains fragmented, with a long tail of potential consolidation targets still in play.

"The fund administration industry remains fragmented, more so in some markets than others," JTC's Hughes affirms.

There is also the fact that the fund management market is going through a phase of consolidation, and this often leads to a review of operating models and the outsourcing of functions like fund administration to specialist third parties.

Consolidation strategies, however, have become more sophisticated, with the emphasis shifting from simply accelerating the buildout of AUA to building out jurisdictional coverage and capability.

"The fragmented nature of the industry has provided an attractive M&A runway for fund administrators and investors, but M&A is not just about building volume, it is also about growing with clients and becoming a multi-jurisdictional one-stop shop service provider that can provide the same level of service across multiple markets," Inflexion's Kassai says.

US fund services provider Gen II Fund Services, for example, acquired European counterpart Crestbridge in July 2023 in a deal to expand jurisdictional reach, while Alter Domus's acquisitions of Boston-based IPS Fund Services in 2020 and Chicago-based Cortland Capital Market Services back in 2018 have expanded its North American footprint.

Organic growth

In addition to expansion via acquisition, the industry also continues to benefit from encouraging organic growth opportunities. Aside from organic growth in line with new fund closes, fund administrators also continue to see growth in demand for outsourced fund services.

"There is still a large amount of fund administration done in-house – this should benefit the fund administration sector as more of this work is outsourced to specialist providers over time," Kassai says.

Multiple factors have driven the increase in outsourcing.

The regulatory and reporting demands that come with administering a fund have intensified, putting more demand on back-office teams and driving managers to seek more support from third-party vendors with the scale to handle growing regulatory and reporting workloads.

"The world of fund regulation is going to get more complicated in the years ahead; what could emerge is almost a regionalisation of fund law, with points of difference emerging between the US, UK and Europe," Ocorian's Hansford says. "The way that fund regulation is becoming more complicated and fragmented will drive up demand for third-party expertise and support."

Hiring and retaining talent in the main offshore and onshore fund jurisdictions has become increasingly difficult, while aligning with the latest technology and cybersecurity trends has also become challenging for GPs that want to focus resources and capital expenditure on sourcing and executing deals rather than back-office infrastructure.

"Over time what you see is an ongoing shift towards third-party fund administrators and it is particularly evident in the number of new funds that are administered by third parties – the majority of new funds are ultimately administered by third parties," Oliver Wyman's Williams says. "We see that penetration growing, and that means that the growth of the fund administration revenue pool is growing faster than the number of funds or the assets they serve because of this penetration dynamic."

Ocorian's Hansford sees opportunities to grow by broadening service offerings too: "We see administrators moving to expand service offerings beyond pure fund administration businesses into areas such as compliance and even legal, placement and valuation services. There is an opportunity to expand services across the value chain."

The rise of tech-enabled fund administration

Advances in technology also present fund administrators with growth levers.

"Fund administrators are increasingly leveraging technology across their businesses and service lines to enhance operational efficiency, improve service delivery, and drive profitability," JTC's Hughes says. "This is happening across several areas such as: automation and robotics, cloud computing, data analytics and business intelligence, artificial intelligence and machine learning, blockchain and distributed ledger technology, cybersecurity and data protection."

Staying ahead, however, requires significant investment into technology, which is driving a bifurcation in the industry between fund administrators who have the scale and financial firepower to make big outlays in technology, and smaller, sub-scale administrators that do not have the balance sheets to sink huge sums of capex into technology platforms.

"The industry overall is still quite people-intensive, and technology presents a big opportunity going forward, but there is a long way to go," Williams says. "You see wide disparities across the industry between some players that are still quite manual and others that are using different specialised technology solutions for different sub-verticals."

Bifurcation between fund administrators is not limited to technology either, with points of difference also emerging in other areas as the industry matures.

General levels of service provision have moved firmly into the spotlight for clients, who have stepped back to assess operational models and cost bases as fundraising and deal activity has cooled.

A delta has opened between high-quality service providers and fund administrators that have expanded rapidly through M&A, but have not integrated those deals. This has had an adverse impact on the quality of service provision.

"Today, with the overall slowdown in fundraising, there is a gap opening up between the really good providers and the ones that have done a lot of M&A, but have not taken the time and put in the investment required to integrate those businesses, which has negatively impacted the quality of their service provision," Kassai says. "Groups that invested in integration, systems, and ensuring service consistency across jurisdictions have seen good growth from clients switching provider – you wouldn't have seen that 10 years ago."

Indeed, as the industry continues to mature, manager expectations of their fund service providers will be higher, which will benefit some providers but challenge others.

"The winners have been those fund administrators that can demonstrate superior service, scale, jurisdictional coverage and added value through technology and auxiliary services," JTC's Hughes says.

"Future growth will be driven by achieving scale through strong jurisdictional coverage, continual investment in technological innovation and provision of auxiliary solutions such as governance services. It is also crucial to stay ahead of regulatory developments and support fund managers in adapting to these changes."

Fund administration may still be a relatively young industry, but it is having to grow up fast. ◆

The OVERVIEW

A SNEAK PEEK INTO *THE DRAWDOWN*'S TOP NEWS FOR FUND ADMINISTRATORS

Five minutes with... Kasun De Silva

The Drawdown's reporter *Silvia Saccardi* spoke to *Kasun De Silva*, chief operating officer of Swiss venture debt firm Bootstrap Europe, about his journey in the private equity industry thus far and his ambitions for the future

Check out the full story on **the-drawdown.com**, but here is a snippet from the discussion...

TDD: You have been in the private equity industry since 2008 when you joined Augentius (now part of IQ-EQ) as a client services accountant. What drew you to PE?
After university, I began my career at PwC in sector-agnostic accounting and tax advisory services, before joining Augentius a year and a half later. The industry became interesting once I got into the nuts and bolts of it there. I found it such a tangible asset class – private equity is often somewhere in a brand's story.

I joined Augentius when it was experiencing a fast-paced period of growth. Years later, I can see what an impact that had on me. Now, when I work with fund admins as a client, I can empathise with them. ◆

APEX OPENS SAUDI ARABIA OFFICE

In May, *The Drawdown*'s Matthias Plötz reported on the unveiling of Apex Group's new office in Riyadh, the Kingdom of Saudi Arabia, which is set to provide a full range of financial services, including managing, advisory and operating.

The company has five offices in the Middle East and 220 total headcount in the region. The Riyadh office is set to have the largest team, who will administer Islamic funds, private equity funds, venture capital, real estate and property level accounting, as well as equities, commodity, FX and derivatives.

Christiane El-Habre (pictured), Apex Group's regional managing director – Middle East, said of the new office opening: "The Kingdom is one of the fastest-growing global economies, and its stable economic conditions make it an attractive jurisdiction to conduct business."

Turn to *page 30* to read Apex's Bruce Jackson, chief of digital asset funds and business at Apex Group, discuss the value of private asset fund tokenisation.

Aztec creates AIFM service in Luxembourg

Fund administrator Aztec Group launched its AIFM services in Luxembourg. *The Drawdown*'s Silvia Saccardi reported in May that the offering aims to help alternative investment managers with the marketing, compliance, risk management, regulatory reporting and portfolio management of their funds.

Aztec said it can now behave as the sole outsourcing partner for European GPs, as it already offers a complete set of corporate, depositary, tax and regulatory services.

The fund administrator administers more than €600bn worth of assets across the Channel Islands, Luxembourg, Ireland, the US and the UK, in asset classes including private equity, venture capital, private credit, real estate, fund-of-funds and infrastructure. ◆

A new episode of Top of the Ops is live!

The popular Top of the Ops podcast returns, with the latest episode discussing a topic that impacts not only fund administrators, but private equity as an industry: talent attraction and retention.

The Drawdown speaks to Kerry Heaton, chief people officer at Hg, about how her firm is adapting its offer to younger generations and assessing the long-term viability of the apprenticeship model in PE. The discussion also explores how GPs are working hard to create the right culture for their employees.

Scan the QR code to listen to the full Top of the Ops podcast series

PARTNER CONTENT

The EXPERT

THE TRENDS THAT CANNOT BE IGNORED

Michael Johnson from Gen II outlines private equity's process, technology and talent trends that should be front and centre

THE RETAILISATION OF PRIVATE EQUITY

An emerging trend that holds significant promise for GPs is the retailisation of the private equity space. For asset managers, this means an expanded potential customer base and increased capital inflows.

The retailisation of the asset class is not only a benefit for managers, but private investors for whom investing in private equity has historically had a very high barrier to entry. It also presents an opportunity for fund administrators, who help set up and manage new fund structures designed for private investor audiences. Fund administrators will need to help their asset management clients cater to the compliance and reporting requirements specific to private investors, ensuring transparency and regular communication within fund structure rules.

In Europe, the retailisation of the asset class is facilitated by regulatory vehicles such as the European Long-Term Investment Fund (ELTIF) and the UK LTAF (LTAF). Both schemes offer a regulatory framework designed to encourage long-term investments in the economy by enabling fund managers to offer investment opportunities to a broader range of investors, primarily those in defined contribution pension schemes. While this unlocks significant new capital, it remains to be seen if defined benefit pension schemes can also be unlocked.

This initiative opens up a new avenue for UK and US-based GPs to tap into a more extensive investor base across Europe. By providing private investors access to asset classes traditionally reserved for institutional or high-net-worth individuals, structures such as ELTIFs and LTAFs not only democratise investments in infrastructure, real estate, and unlisted companies but also contribute to the diversification of funding sources for these sectors.

Recent updates to ELTIF regulation – so-called ELTIF 2.0 – provides managers with more flexibility when marketing to both retail and institutional investors, improving access to long-term assets. Similarly, in the US the SEC expanded the accredited investor definition, allowing more individuals to participate in private market funds.

This opening of private markets coincides with transformations in the secondaries market; a sector which now offers improved liquidity options for private equity and other alternative investments. Enhanced liquidity facilitates quicker exits and more dynamic investment strategies, essential for maintaining market fluidity and appealing to a broader range of investors, including those involved in ELTIFs. However, it remains to be seen as to what cost the increased liquidity will have on financial performance for funds that have been resolutely "patient capital".

The question is: who will be the winners from the retailisation trend? It is early days but the current winners would likely be those with known public brands and previous experience at facing pension schemes or private investors. Outside of our sector, most midmarket fund managers are little-known and so would struggle to create demand without significant investment in marketing, but in time could benefit once the initial wave has taken place.

TECHNOLOGICAL ADVANCEMENTS DRIVING INDUSTRY EVOLUTION

As the backbone of fund management, technology is integral to the modernisation of both asset management and fund administration. With the significant role of digitisation, spurred on during the Covid and post-Covid years, fund administrators are increasingly leveraging technology to streamline operations. The right fund accounting software can drastically reduce manual tasks by automating processes, standardising data and simplifying reporting. These tools are crucial not only for internal efficiency but also for ensuring accuracy and timely submission of financial reports that investment managers, investors, and regulators rely on to make informed decisions. While this transformation has largely taken place within fund administration businesses, the focus is now on helping midmarket GPs who may not yet have completely scaled benefit from the same technological efficiencies their larger competitors are benefiting from.

Technology is promising to boost investment growth in private equity, perhaps supporting the retailisation of the asset class. For example, in 2023 the UK's Financial Conduct Authority (FCA) approved the development of fund tokenisation, which is expected to be phased into existing regulatory frameworks. Tokenisation refers to converting rights to an asset into a digital token on a blockchain, a process that can streamline various aspects of financial transactions, including those involved in setting up or selling an ELTIF.

This move by the FCA aims to enhance operational efficiency, transparency and global competitiveness by automating key processes such as transaction settlements and record-keeping. It also promises greater data transparency, which could revolutionise investor relations and fund governance by providing better access to investment data and simplifying voting processes.

By digitising these assets, the administrative burden and the associated costs can be reduced. For example, the blockchain can enhance the efficiency of KYC processes by providing a transparent and immutable record of transactions and investor identities. Through blockchain and the proper implementation of smart contracts, asset managers and fund administrators can gain access to a secure and unalterable record of all transaction parties' identities and the origins of their capital. Needless to say, this verification takes place in less than a second, meaning millions of daily transactions between individuals in a larger, private investor base are easily supported.

PROCESS INNOVATION TO SMOOTH OPERATIONS AND COMPLIANCE

GPs are increasingly open to outsourcing, driven by heightened regulatory demands, rising operational costs and a greater need for transparency. Many fund managers are turning to third-party administrators, so they can focus on their core proposition and their investment strategies, while efficiently navigating shifting regulatory landscapes globally, including compliance with complex frameworks.

Since the financial crisis, regulatory frameworks have become stricter, with directives such as the Alternative Investment Fund Managers Directive emphasising compliance, transparency, and information sharing. Fund administrators play a crucial role in ensuring adherence to these evolving standards, which is vital for the successful management and expansion of funds under regulations like ELTIF and LTAF.

The operational processes within fund management are also evolving, with many GPs adopting a hybrid outsourcing model. This model blends in-house management with external expertise, enabling firms to maintain control over critical functions while leveraging the specialised skills of outsourced providers.

While outsourcing offers clear benefits, it is not advisable to outsource every aspect of a business. We frequently engage in discussions with GPs who are considering what systems and operations they should retain in-house versus those they should outsource. They are also deliberating whether to invest in developing certain systems from scratch. This decision-making is important for optimising operational and fund performance while maintaining control over key business functions.

THE HUMAN ELEMENT

While technology, regulation and process innovation play critical roles, talent should never be understated. The future of private equity will ultimately depend on the industry's ability to attract, develop and retain skilled professionals, especially during volatile markets.

Hiring has become markedly more competitive as the so-called "war for talent'" rages on, an issue shared by many CFOs and COOs we speak to. Talent management has become, and will continue to be, a top priority - second only to asset growth. GPs will therefore need to continue to improve job incentives, including offering equity stakes to non-traditional roles, in order to retain talent.

GPs will face decisions on the place of hybrid work models in their business, which has provided flexibility but diluted company culture, as face-to-face interactions decrease. Despite challenges, such flexibility is crucial for competitiveness in recruitment, balancing the development of firm culture with meeting modern workforce expectations.

HOT TAKE

WHY IS THERE SUCH A HIGH CHURN RATE IN FUND ADMINISTRATION?

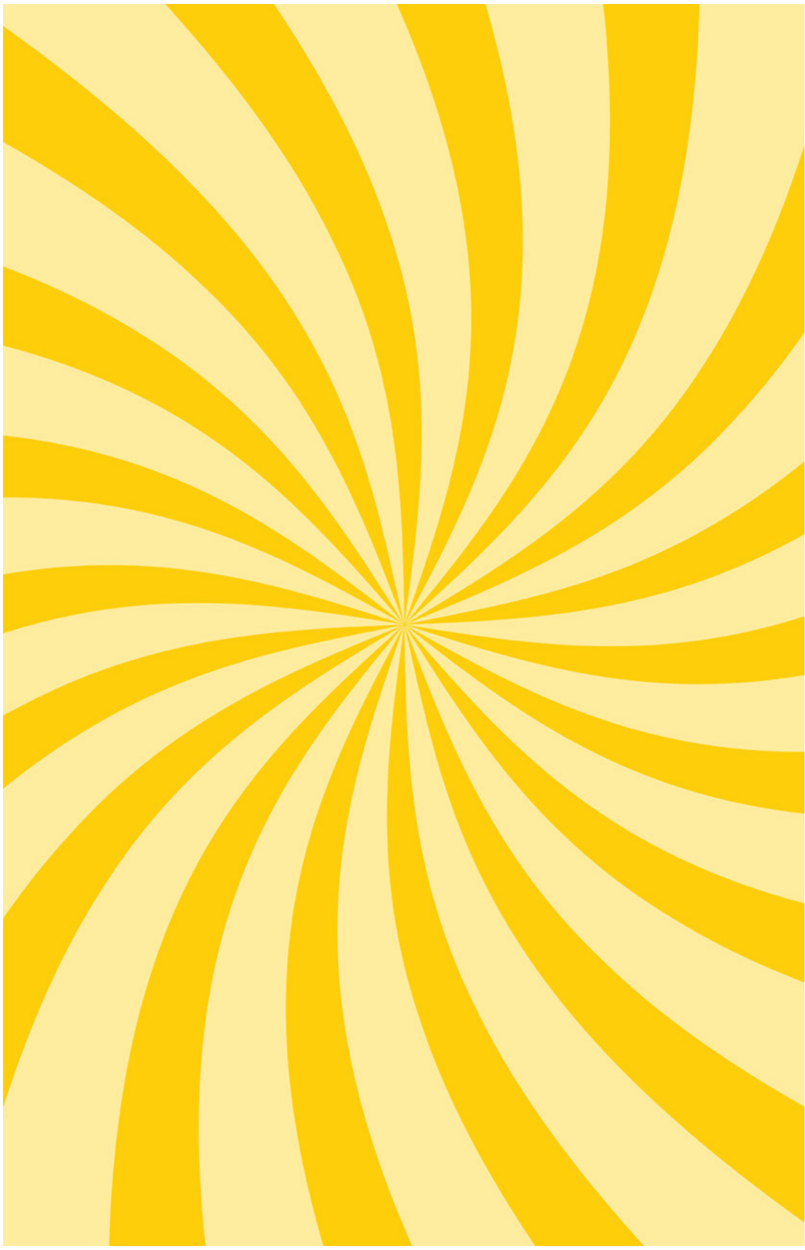
Aidan O'Flanagan, group head of funds at Highvern, investigates the high turnover and transition rates evident in the sector

Large churn rates in the fund administration sector are often pointed to by various market sources. From my own experience, since setting up Highvern's fund administration business in early 2018, almost half (43%) of our clients have been transitioned from 15 different administrators, excluding clients that did not transition their vintage structures and now use us on new funds going forward. I aim to explore the reasons behind this phenomenon, drawing upon the experience I've gained during my time in the industry; turning hindsight into insight.

Cause and effect

Post-financial crisis growth in buyout purchase price multiples can be largely attributed to the macroeconomic conditions. Corporates have generally grown through acquisition as it can be more challenging to achieve organic growth and meet investors' increasing expectations.

Since the financial crisis, fund admins have become a new sub-sector for PE investing. Consequently, there has been fierce competition between PE and corporate buyers in bidding for fund administration companies, which has resulted in historically high implied multiples. The significant M&A activity in the sector resulted in growth and margin pressures for fund administrators, whether they were backed by private equity or by a public listed company, and often to the detriment of client and employee focus.



This M&A activity largely occurred during a time of unprecedented low interest rates. With interest rates increasing during the past few years, these historically high implied multiples are under pressure. So, ask yourself, do you see fund administrators purchased at such multiples selling at higher multiples in a few years' time? If not, what value enhancing programme will they have to undertake to compensate for this?

Help or hindrance?

Unsurprisingly, service levels are the main cause for switching administrators. Typically, such asset managers will have experienced service issues for a prolonged period of time, and they are willing to take that pain either because it has not yet spilled over to their investors, or they are too busy dealing with their core business. They are concerned about investor perception and switching fund administrators will be time-consuming and complex.

In my experience to date with transitions there has been no noise from investors, and while switching admin is certainly time-consuming, the work involved mostly falls upon the incoming fund administrator who should project manage the process. The reality is that not switching can be more disruptive than staying put.

Look for a steer

Effective insight capability is only possible when you understand what you know and what you do not. The experience of working with a fund administrator, even if not overly positive, will have given the asset manager greater insight to ensure the selection of any new administrator has a positive impact on their operations. For those asset managers that are new to choosing a fund administrator, take the time to understand the landscape and reach out to operational leaders in your industry for a steer. ◆

THE PERSONAL TOUCH

Highvern's *Aidan O'Flanagan* outlines everything you need to know to select the right service provider for your business

We are seeing more tech-driven fund administrators entering the market alongside the 'traditional' service model. What should GPs keep in mind when choosing a fund administrator?
Aidan O'Flanagan: For private capital markets, 'tech-driven' sounds a little impersonal to me – not too dissimilar to revenue and margin-driven. Despite all the noise in the market around technology and AI, private capital funds are typically non-standardised and do not conform to a factory line model. I would always focus on a people-driven fund administrator that deploys innovation and technology to enable and support those people.

GPs regularly voice concerns about churn in the fund administration industry and, related to that, low service levels. How can they best vet a potential service provider for this?
Try to get a handle on the culture of the organisation now and how it might look in the future. At a basic level, query the staff turnover rates – being specific to the office(s) that will be administering your structures and excluding non-client facing support functions. Consider the ownership structure: has it grown mainly through acquisitions or organically through greenfields?

GPs should also look at the rate of acquisitions. The more acquisitions, the more diluted the culture becomes, and conflicts arise. Analyse where in the investment lifecycle the provider is and how many times they have flipped ownership. The more times the ownership changes, the more stretched that business becomes as each subsequent owner seeks to eke out value. Staff are the key asset of any fund administrator and sweating such assets inevitably leads to staff turnover.

Fund administrators have increasingly launched dedicated service lines to specific fund vehicles. To what extent should this offering be considered when choosing a fund administrator?
Fund administration is largely the same for each private capital strategy. It can help to have a team with some experience in the asset class, but as the services are so similar most fund administration staff can cover each asset class. The only private capital asset class where I think a dedicated service line really makes sense is in relation to certain debt fund strategies, where a potential wider scope of services and systems are required.

In reality, I think the creation of these dedicated service lines is more for the purposes of marketing outwardly to attract clients. I have also seen it being used as a way of positioning the business for a potential sale.

Boutique firm or large, consolidated fund admin?
I'm going to steal a phrase from one of my favourite investment professionals: "Aidan, nothing beautiful is truly scalable". So, for me it has to be boutique with substance. My views on this are slightly biased, albeit this has been gained from insight through my experience of outsourcing to large, consolidated fund admins and bank-owned fund admins when I was an investment manager, and then working within a large, consolidated fund admin.

My rationale for setting up a greenfield fund admin business was to specifically address these service issues in the market and to be in a good position to capitalise on further pressures on fund admins once interest rates started to increase.

Fundamentally, many fund administrators offer the same product. What should be considered as deciding factors when choosing a provider?
Client and staff satisfaction levels – this tells you all you need to know. Everything else such as technology, culture and processes speak to this. Key areas to look at include: staff and client retention levels, client and investor complaints, how many new clients have been referred through existing clients and client references. I would recommend reaching out to the various CFO/COO networks in private markets; it is a relatively small market and they can help guide you. ◆

SUPPORTING GROWTH

How can fund administrators address GP pain points and ensure they are reliable partners amid challenging market conditions?

The fund administration sector is having to evolve in response to long-standing criticisms. Not only are fund managers growing tired of manual processes and poor client service, but surveys across the market reveal a reluctance to make the changes required to ensure better practice and performance. But is the market starting to turn a corner?

Managers outsource to fund administrators so that they can focus on core activities; notably fundraising and generating peak returns for their investors. The need for a reliable third-party is only increasing, particularly against a backdrop of increased regulation in the wider private equity market and greater scrutiny from LPs in a tight fundraising environment.

Technology is viewed as both the catalyst for change and a solution to many of the pain points faced by GPs, yet surveys published as recently as last year suggest the industry may still be stuck in its ways. According to Gen II's 'Fund Administration Technology: Private Equity's New Differentiator' 2023 report, despite 48% of institutional investors claiming to be "a lot" more likely to invest with a fund sponsor who uses automation in fund administration, almost a quarter (22%) of GP respondents claimed that they do not want the risks involved in changing the types of technology in their fund administration.

This creates an opportunity for third parties to shoulder some of the burden of technological change. In The Drawdown's latest overview of the market, tech adoption among fund administrators is evident, with market leaders using a mixture of proprietary and third-party solutions to optimise processes.

The market may still be a work in progress, but our overview of the fund administration landscape shows that the market knows what it needs to do to optimise the outsource model and is less reluctant to change than it once was. The ability to adapt in the current market is no longer negotiable. ◆

$500bn+ AUA

	AUA (total)	AUA PE	No. of funds/managers	Locations	Acquisitions	Ownership
Alter Domus	$2.5trn	$770bn	6,330 funds under administration	39 offices in 23 jurisdictions across North America, Europe and APAC	**2023** Solvas; **2021** Strata Fund Solutions, Investors Economic Assurance, Beechbrook Capital's AIFM; **2020** Credit-Vision, IPS Fund Services; **2017** Carta Fund Services, Cortland Capital Market Services, Luxembourg Fund Partners	**2017** Permira
Apex	$3.1trn	$1,185bn	1,958	50 countries (serviced from 42 regulated jurisdictions)	**2023** ALFI Partners, Pacific Fund Systems, BACSIL (Bank of America Irish Depositary), Boutique Collective Investments and Boutique Investment Partners, Mainspring Fund Services, MJ Hudson, IP Fund Managers Guernsey Ltd (IPFMG), Watermark Consulting, Axess Tax Retransform IP Management Company (South Africa) Edmond de Rothschild (Third-Party Asset Servicing Business in Luxembourg); **2022** Sanne Group, BEST Alternative Advisory Services, ZAS Malta, Context365, FundAdminChain, FTS, MMC Limited, Maitland; **2021** BRL Trust, Investimentos, Senasen (Profilir); **2020** GFin Corporate Services, Banco Modal (fund admin); **2019** Broadscope, Atlantic Fund Services, Beacon, Throgmorton, Link (CPCS); **2018** Custom House, Ipes, MM Warburgh; **2017** Deutsche Bank Alternative Fund Services, Equinox	Genstar, TA Associates, Mubadala Investment Company, Carlyle
SEI Fund Services	$1.4trn	$508bn	3,192	15 offices across Europe, APAC, Africa, Canada and North America	**2021** Finomial, Novus Partners; **2017** Archway Technology Partners	Listed; largest shareholders include Vanguard, BlackRock and Loomis Sayles & Company
Aztec Group	€600bn	N/A	450+ funds, 4,500+ entities	Guernsey, Jersey, Luxembourg, Southampton, London, Philadelphia, New York, Kilkenny and Dublin	N/A	Owner managed and independent
BNP Paribas	$2,724bn	$830bn	2,850 for private capital (9,208 overall)	15 locations across the UK, Europe, Americas, APAC, Oceania	Organic growth	European institutional investors: 37.7%; non-European institutional: 32.5%; BlackRock: 6.9%; retail shareholders: 5.9%; Belgium State (through SFPI): 5.5%; Amundi: 5.4%; Employees: 5%; Luxembourg: 1.1%
The Citco Group of Companies	$2trn	Over $700bn private markets commitments AUA	N/A	50+ offices across Americas, Europe, Middle East and Africa, APAC	N/A	Majority independently-owned
CSC	$841bn ($306bn not including hedge fund	$193bn	4,000+ funds/948 fund managers	70+ locations across Americas, EMEA, APAC	**2022** CSC acquired Intertrust Group; **2021** CSC acquired PEF Services	100% privately-held since founding in 1899
Gen II	$1trn	$1trn	300	New York – global headquarters; Boca Raton, FL; Boston, MA; Dallas, TX; Denver, CO; Morristown, NJ; San Francisco, CA; Stanford, CT; Vancouver, Canada; Dublin, Ireland; Howald, Luxembourg; Kirchberg, Luxembourg; London, UK; Southampton, UK; St Helier, Jersey	**2024** Crestbridge Fund Services; **2022** Update Capital Portal; **2021** StonePine Accounting Services; **2019** Quilvest Luxembourg Services	PE minority owners (General Atlantic, HG, HIS-Markit, 2020)
IQ-EQ	$750bn	$364bn	1,229	25 offices across Europe, Americas, APAC, UAE, and Africa (now including UAE)	**2023** ComplianceAsia and Lymon; **2022** JGM Fund services, Laven Compliance; **2021** Greyline Partners, Constellation Advisers LLC, Davy Global Fund Management; **2020** Blue River Partners, Conseil Expertise & Synthese; **2019** Peru & Partners; **2019** rebrands to IQ-EQ – combining SGG, First Names Group, Augentius, Iyer Practice and Viacert; **2018** First Names Group, Augentius	Astorg (€1.3bn follow-on investment, 2022)
MUFG Investor Services	$1.06trn	$634bn	2,630 funds	17 locations worldwide	**2019** MUFG Investor Services acquired select divisions of Maitland's fund administration business **2016** MUFG Investor Services acquired Neuberger Berman's private equity fund administration business, Capital Analytics; **2016** MUFG Investor Services acquired Rydex Fund Services, a 1940 Act mutual fund administration business, from Guggenheim Investments; **2015** MUFG Investor Services acquired UBS Asset Management's Alternative Fund Services business; **2014** MUFG Investor Services acquired Meridian Fund Services Group	A wholly-owned subsidiary of Mitsubishi UFJ Financial Group

Client strategy	Services	Tech	Team size
We provide solutions for asset managers, asset owners, banks, and credit unions across segments including private equity, private debt and real assets	Fund administration, AIFM services, depositary services, corporate services, private equity solutions, private debt solutions, real assets solutions, strategic co-sourcing and outsourcing	Systems include Investran, EFront and Yardi, and proprietary technology such as digital workflow applications for fund administration, financial statement data extraction and validation (Digitize), and our front-office portfolio workflow platform (Gateway).	5,000
A single source solution with the capability to service all requirements across the client spectrum	Fund and investor services, capital raising, corporate services, banking and treasury services, ManCo, depositary, custody	Apex Tempo collaboration platform, Apex Connect, Apex Tocan digital investor onboarding, ESG portal, owner of PFS PAXUS, Connect 365 and Fund Admin chain Third-party partnerships: EFront, Allvue, Inveniam, Investran, Yardi, Board Intelligence, Fund Rexs, ManTra, mFund, Advent Geneva and PureFunds	1,300
Asset managers, private bank, independent trust companies, family offices, insurance companies	Fund accounting, fund administration, middle-office outsourcing, investor servicing, reporting, regulatory and compliance, depository, custody, tax, treasury trustee, data management, distribution, ETF trade order, shareholder, loan admin	Proprietary technology offering including SEI trade, Investor Insight platform, manager dashboard, end client reporting, investor dashboard, treasury cash management	5,000
Private equity, venture capital, real estate, infrastructure, private credit, institutional investors	Fund services, corporate services, depositary services, AIFM services, tax and regulatory services, ESG services	Proprietary tech: Aztec Verify, Aztec Connect, Lantern; Third-party: EFront, Investment Café, Board Intelligence, ViewPoint	2,000
BNP Paribas acts as a fully integrated service provider to Private Capital Asset Managers (GPs). On behalf of its clients, it can also leverage its investment and distribution platform and its asset management expertise across all private capital asset classes, with a consistent ESG approach in roles and services	Depositary, cash processing, financing, fund administration, middle-office, investor services reporting	Invested in EFront Invest platform through a strategic partnership with BlackRock Solutions, CapLink Private which was developed with AssetMetrix	880 staff across 15 locations
Asset owners, alternative asset managers, banking clients, investors, corporate and financial institutions	Fund administration, banking, direct lending and capital advisory, loan servicing solutions, middle-office solutions, tax and regs, corporate secretarial and management, entity incorporation merger liquidation, registered office/agent, global entity portfolio management, corporate accounting and bookkeeping	Proprietary tech: Citco One, Citco Waterfall, CitcoConnect, Citco Collaboration Platform, Citco Data Services	N/A
Private equity, private debt, real estate, infrastructure, hedge funds, fund-of-funds, multinationals, corporations, private clients	Fund administration, shadow accounting, AIFM management company, AIFMD depositary, SPV management, middle-office outsourcing, regulatory reporting, treasury management, loan administration, loan agency, collateral and security agent, trustee services, escrow services, independent directors, entity formations and incorporations, corporate secretary, domiciliation, tax compliance services, global payroll services, global subsidiary management, executive compensation services, UCC solutions, business license, transactional filings, domain security, domain management, online brand protection	Proprietary, end-to-end global fund administration and entity management technology supported by industry leading third-party platforms. Proprietary applications for trade reconciliation, collateral management, economic allocations, AML/KYC, and investor onboarding	8,000
Buyout, fund-of-funds, credit, real estate, infrastructure/energy, venture, growth equity	Fund administrative and accounting services, treasury services, GP services, investor services, management company, regulatory/compliance, registrar and transfer agency, depositary, ManCo, corporate governance, domiciliation, tax services	Proprietary	1,700
Private equity, venture capital, real estate, private debt, infrastructure, hedge funds, hybrid funds, digital assets, open-ended funds, single and multi-family offices	Accounting and administration, AIFM and depositary services, asset management, asset servicing, capital markets, cash services, ESG, investor services, outsourcing, regulatory and compliance services, tax and audit support services, technology services	Core administration technology: FIS Private Capital Suite (formerly Investran), Allvue, Paxus, Yardi, Enfusion Onboarding, workflow and reporting tools (including proprietary platforms): AltConnect, Box, Board Intelligence, Client Portal, IQ-EQ ESG Services, IQ-EQ Connect, IQ-EQ Cosmos, IQ-EQ Data Services, IQ-EQ Navigator, FIS Data Exchange, GVue, MaxComplyTM, Qashqade	5,500+
Hedge funds, fund-of-funds, private equity, real assets, private debt, real estate, and infrastructure	Fund administration, asset servicing, business process outsourcing, fund financing, banking, securities lending, custody, foreign exchange overlay, payment solutions, corporate and regulatory services	We leverage a blend of proprietary and industry leading technology	2,449

$500bn+ AUA

	AUA (total)	AUA PE	No. of funds/managers	Locations	Acquisitions	Ownership
Northern Trust	$845bn (alternative AUA)	$285bn (PE, RE, infrastructure); $218bn (PE only)	928 (PE, RE, infrastructure); 498 (PE only)/160+ managers	26 locations across North America, Europe and APAC	**2021** Equity stake in Essentia Analytics, Ltd; **2021** Parilux Investment Technology; **2018** Bex LLC; **2018** Agreement with Citadel to bring Omnium technology in-house; **2017** UBS Asset Management's fund administration business in Luxembourg and Switzerland; **2016** Aviate Global; **2011** Omnium; **2011** Bank of Ireland Securities Services; **2005** Barings FSG in Guernsey	Listed on Nasdaq
SS&C	$3.58trn	$854bn (private markets)	6,570 (including alternative and registered funds)	90+ offices across 35 countries across North America, EMEA and APAC	Sixty-five since inception in 1986. Most recently, SS&C completed the acquisition of Iress' Managed Funds Administration business in 2023. Some of the most notable fund services acquisitions include: **2022** Blue Prism Group, CFO Fund Services, Tier 1, Mineralware; **2018** Eze Software, DST Systems, Intralinks; 2017 CommonWealth Fund Services; **2016** Conifer Financial Services, Wells Fargo Fund Services; **2015** Citi Alternative Investor Services, Advent Software **2012** GlobeOp	Independently-owned, with 85.33% institutional shareholders, 13.25% insiders
TMF	$225bn	Not disclosed	Not disclosed	125 offices across 86 jurisdictions, covering 92% of world GDP and 95% of FDI inflow	**2023** Goodbody Fund Management	CVC, 2017 (plus follow-on investment in 2022, with Aidia as co-investors)
Universal Investment	€1,015bn	€103bn	128	Ireland, Luxemburg, Germany, UK, France, Poland	**2022** EFA – European Fund Administration SA; **2020** Metzler's Irish fund management company	Montagu Private Equity (minority) CPP Investments, 2022

$50-500bn AUA

	AUA (total)	AUA PE	No. of funds/managers	Locations	Acquisitions	Ownership
JTC	$335bn	N/A	503	Cayman Islands, Guernsey, Ireland, Jersey, Luxembourg, South Africa, UK, US, Singapore, Netherlands and Mauritius	For JTC Group: **2024** First Republic Trust; **2023** Blackheath Capital Management, South Dakota Trust Company; **2022** New York Private Trust Company	Listed
Langham Hall	$180bn	N/A	500+	New York, Singapore, London, Hong Kong, Luxembourg, Jersey, Guernsey	N/A	Privately owned
Linnovate Partners	$130bn	Not disclosed	600+ (funds under administration)	10 offices: Hong Kong, Singapore, Beijing, Chengdu, Shanghai, Shenzhen, Kuala Lumpur, London, San Francisco, New York	Not disclosed	Privately owned
Khepri	£2bn	£1bn (including VC)	20 funds/14 managers	UK	Acquired Nestor Consulting UK Limited and Kin Company Secretarial Limited in Q1 2024. Both company secretarial businesses so not directly linked to fund administration	62% owned by management and staff
Ocorian	$270bn	Not disclosed	Not disclosed	20+ offices across Europe, APAC, Americas and Africa	**2023** Bovill, A Pass; **2021** Trust Corporation International; **2020** Nordic Trustee; **2019** Merged with Estera; **2018** MAS International	**2016** Inflexion

Client strategy	Services	Tech	Team size
Private equity direct funds, private equity fund-of-funds, private equity, private debt funds, special situations, venture capital, natural resources for partnership structures, companies and feeder funds, joint ventures and management companies, co-investment structures, carried interest vehicles, listed vehicles and trusts	Support solutions across fund launch, fundraising, investment, divestment and fund closure, including fund administration, investor support, reporting and extended group services such as global custody, safe-keeping and fund analytics, specialist depositary services in five EMEA domiciles, banking and treasury and subscription lines of credit (credit services subject to additional due diligence based on the relevant legal and regulatory framework)	Onboarding process via Fenergo, software focused on client lifecycle management (CLM), net asset value (NAV) workflow communications via Appian process automation	440+ focused global operations staff
Hedge funds, private market funds, credit funds, real asset/infrastructure funds, real estate funds, fund-of-funds, hybrid funds, registered funds (including mutual funds, ETFs, closed-ended funds, CITs and more), family offices, retail alternatives	Fund accounting, fund administration, middle-office services, compliance (CCO), creative services, distribution services, legal administration, tax administration, transfer agency, series trust solutions, attribution, regulatory, risk and compliance, trading solutions, analytics reporting, investor reporting, investor services, data management, VDR	Proprietary accounting and processing platforms, straight-through processing, data and analytical solutions supported by intelligent automation, client and investor portals	27,000
Real estate, private equity, private debt, infrastructure, venture capital	Accounting and tax, capital market services, fund services, global entity management, payroll and HR, private wealth and family office services	TMF Kraios, TMF Horizon, TMF Gateway (AML/KYC on/offboarding), FIS Investran, Kyriba, Enate, Anaplan	10,000+
Alternative asset managers, hedge funds, securities asset managers, asset owners (pension funds, insurers, banks, trusts, churches etc)	AIFM, ManCo, fund administration, active distribution, TA, middle-office, front-office, digital assets, securitisation	Investran, Xentis, proprietary	1,700

Client strategy	Services	Tech	Team size
Funds, corporate, private client, private office	Accounting and financial reporting, AIFM solutions, depositary, domiciliation, directorship and management, employer solutions, virtual chief sustainability officer, executive financial services, fund and corporate administration, implementation and migration, insurance dedicated funds, listing, management company, operational due diligence, registrar services, regulatory and investor reporting, SPACs, transfer agency and investor services, ESG/sustainability services	JTC operates a variety of systems including its virtual chief sustainability officer service, Investran, a partnership with Qashqade and a client investor portal, Puritas and MeshID	1,700 (JTC Group)
Private equity, real estate, debt, infrastructure	Fund administration and accounting, depositary, Annex IV, AIFM, appointed representative, operator, register of overseas entities, regulatory hosting	Not disclosed	800+
Asset managers, family offices, insititutional investors, fund-of-funds	Fund administration, investor relations, portfolio monitoring, reporting, regulatory compliance, consulting	RAISE - Linnovate Partners' own technology platform	300+
VC, RE, PE and debt	Fund administration, AR regulatory hosting, AIFM, company secretary and compliance consulting	All third-party technology, Investran for fund administration, Cascade for onboarding, AML and risk screening of investors	30
Funds, corporate, capital markets, private clients, regulatory and compliance, treasury services	Establishment and launch of investment structures, fund administration, investor services, fund accounting, AIFM, depositary, provision of company secretaries, fund SPVs, ESG reporting, fund directorship services	EFront, Trustwave, iManage, Board Intelligence, NCC Group, Outpost24, RiskScreen, Goji – digital investor onboarding, Canoe – OCR/NLP tech, Treety – ESG reporting, Nomentia – treasury and payments platform, Yooz – OCR/NLP tech	1,800+

$50-500bn AUA

	AUA (total)	AUA PE	No. of funds/managers	Locations	Acquisitions	Ownership
Petra Funds Group	$200bn	$195bn	60 managers	New York, Amsterdam, Boston, Los Angeles, London	N/A	Private, majority owned by Charlesbank, remaining owned by the four managing partners and one passive minority investor
Suntera Global	$125bn	N/A	N/A	The Bahamas, Cayman Islands, Guernsey, Hong Kong, Isle of Man, Jersey, Luxembourg, UK, US	**2023** Carey	**2019** Palatine
Vistra	$395bn	$217bn	4,000 structures	50+ markets	**2023** merger with Tricor complete (launched as a unified Vistra brand in 2024); **2022** MAS France; **2017** Optegra; **2011** Herald Funds Services Limited	EQT

<$50bn AUA

	AUA (total)	AUA PE	No. of funds/managers	Locations	Acquisitions	Ownership
Altum Group	$37bn	Not disclosed	Not disclosed	Jersey, Luxembourg, UK, Ireland, South Africa	Link Fund Solutions (Luxembourg) SA	Majority management and employee owned, in October 2022 Altum partnered with Tenzing who acquired a minority stake in the business
Corvus	<$5bn	<$5bn	Not disclosed	UK and Jersey	N/A	Owner managed
Highvern	$5.7bn	$4.7bn	74/51	Six offices across Cayman Islands, Guernsey, Ireland, Jersey, Switzerland and the UK	N/A	Owner managed
Imperium Fund Services	£2.59bn (based on commitments)	N/A	Not disclosed	Guernsey	N/A	Management owned
Oak Group	£20bn	Not disclosed	Not disclosed	Guernsey, Isle of Man, Jersey, Mauritius, Luxembourg	**2019** International Administration Group	Privately owned
Zedra	£17bn	N/A	N/A	28 offices across the Americas, APAC and Europe	**2024** LJ Fiduciary; **2022** Atlas Fund Services, Axelia Partners; **2021** Fund and corporate services arm of Banque Internationale à Luxembourg	Corsair Capital (2019) and minority investment British Columbia Investment Management Corporation (2022)
Ogier	$10.4bn	$10.1bn	30 managers	UK, Jersey, Luxembourg, Cayman Islands, BVI, Hong Kong, Singapore	N/A	Privately owned
Palmer* **New to market as of May 2023*	Not disclosed	Not disclosed	Not disclosed	UK, Jersey, Luxembourg, Spain	N/A	Marwyn Value Investors Limited have made an investment of £8m in Palmer

Client strategy	Services	Tech	Team size
Private equity, credit, venture capital	Fund administration, credit operations, launch advisory, staff augmentation, compliance ESG	Allvue, FIS Investran, FIS Investran DX, FIS VPM, Sage Intacct	180
Fund services including fund administration, loan administration and agency, secondary trading/ financing, accounting and financial reporting, corporate governance, regulatory compliance, investor services and tax services. We also provide corporate, private office and private wealth administration, accounting and governance services	Fund administration, loan administration and agency, secondary trading/ financing, accounting and financial reporting, corporate governance, regulatory compliance, investor services, tax services	PFS Paxus, Investran, specialist accounting software	550
Corporate, funds, capital markets, private clients	AIFM ManCo, directorship, fund administration, fund formation, KYC/AML, SPV set-up and administration, investor services, M&A carve-out, regulatory compliance, total entity management, board and committee support, company secretarial, financial statements and reporting, fund accounting, statutory compliance, VFunds, acquistion and divestments, entity restructuring, liquidations and strike-offs	Proprietary technology: VFunds	9,000+ experts

Client strategy	Services	Tech	Team size
Private equity, venture capital, capital markets, real estate, private debt and family office	Fund administration, corporate administration, fund structuring, loan agency, regulatory compliance, accounting, financial reporting, trustee services, fund services and AIFM services	Allvue, Microsoft Mimecast 365, Tessian, Docusign, NavOne, Caseware, KYC360, Board Intelligence	180
Provides services to businesses operating in the closed-ended fund and asset management industries. The focus for our administrative services is UK- and US-based new and emerging managers, venture capital managers and lower- to middle-market private equity and real asset managers	Closed-ended fund administration, corporate services, legal and operational advisory support (including manager establishment and operations, hosted capital raising, regulatory assistance, ESG consultancy/ reporting and advice on and negotiation of GP debt and capital call facilities)	Fully cloud-based (Microsoft) and partner with TrustQuay Online, KYC360, PEARonline and Worldfavor	<10
Fund and corporate administration, and private wealth services. Key focus is on midsized and emerging managers in private capital, and for large managers our focus is on their smaller, niche strategies whether that be an emerging asset class, deal-by-deal, co-investments, feeders, or SPVs	Fund transitions, fund launch and establishment, fund administration, fund accounting and reporting, investor services and portal, live client portal, directors and officers, compliance and regulatory reporting, SPVs, substance, non-EU AIFM/ManCo support	Allvue, TrustQuay NavOne	55 (fund admin; c.150 (Highvern Group)
Private equity and venture capital fund administration	Establishment, central administration, financial reporting and investor services	Not disclosed	24
Private client, corporate, funds	Establishment and regulatory approval, investor services, compliance services, financial reporting, company secretarial, corporate governance, listed fund services, cash management	Allvue, BankClarity, Cygnetise, Docusign, RiskScreen, Virtual Boardroom, Viewpoint	200+
Private wealth, corporate, pensions and incentives, funds	Establishment and administration, governance and secretarial, accounting and financial reporting, transfer agency and investor services, fund tax and regulatory reporting, ManCo, ESG reporting, share incentives, escrow	Recent partnerships include Cascata, Clausematch, TrustQuay, RiskScreen	1,000+
Private equity, venture capital, real estate, private credit and hedge	Fund accounting and financial reporting, Registrar and Transfer Agency (RTA), investor onboarding, AEOI services for FATCA and CRS compliance, financial statement preparation services and audit support, fund compliance, governance services, sustainable investment consulting	FIS Investran, FIS DX Portal, Temenos Multifonds	40 (fund admin only)
Private equity, venture capital, real assets, private credit and mezzanine	Fund launch support, fund administration, accounting and reporting, SPV administration, loan agency, data services	Palmer offers its own capabilities which include API connectivity, data warehouse sharing, direct system access, investor portal, integrations and proprietary data marts	20+

The SNAPSHOT

30

THE NUMBER OF FIRMS INCLUDED IN OUR MARKET OVERVIEW DATA

3

THE NUMBER OF NEW ENTRANTS INCLUDED IN OUR OVERVIEW OF THE FUND ADMIN LANDSCAPE

2nd

ITERATION OF *THE DRAWDOWN*'S FUND ADMIN LIST

$3.58trn

THE LARGEST TOTAL AUA RECORDED IN OUR MARKET TABLE

12

THE NUMBER OF MONTHS THE NEWEST FUND ADMINISTRATOR IN OUR DATA HAS BEEN OPERATING

The EXPERT

OPTIMISING THE NEW FOR THE NOW

MUFG Investor Services' chief commercial officer *Joseph Latini* discusses how preparation and execution are key to success in new global alternative markets

What are the key components driving the transformation of the global alternatives industry?

Joseph Latini: The key word here is "new"- new capital, new investors, new technology and new regulations. The alternatives industry faced significant challenges during the last few years, including rising interest rates, inflation and global geopolitics. All of those factors led to declines in deal value, deal counts, exit value, and fundraising.

Market conditions have eased somewhat, with new capital and investors poised to enter the market. Funds collectively raised $145.3bn on their final closes for 2023, a 19% increase on the same period last year, according to Preqin. Industry studies indicate there is some $3.9trn in alternatives capital ready to be invested. The increase in high net-worth investors seeking diversification in the alternatives market is expected to introduce an additional $500bn to $1trn in fresh capital in the coming years.

New technology, including cloud-based systems and automated platforms, will be required to effectively manage the flood of new capital and investors — and the volume of data being produced — for back-, middle- and front-office functions. Technology also will play a crucial role to ensure that fund managers and their partners comply with a host of new regulations focusing on suitability, disclosure and transparency across global jurisdictions.

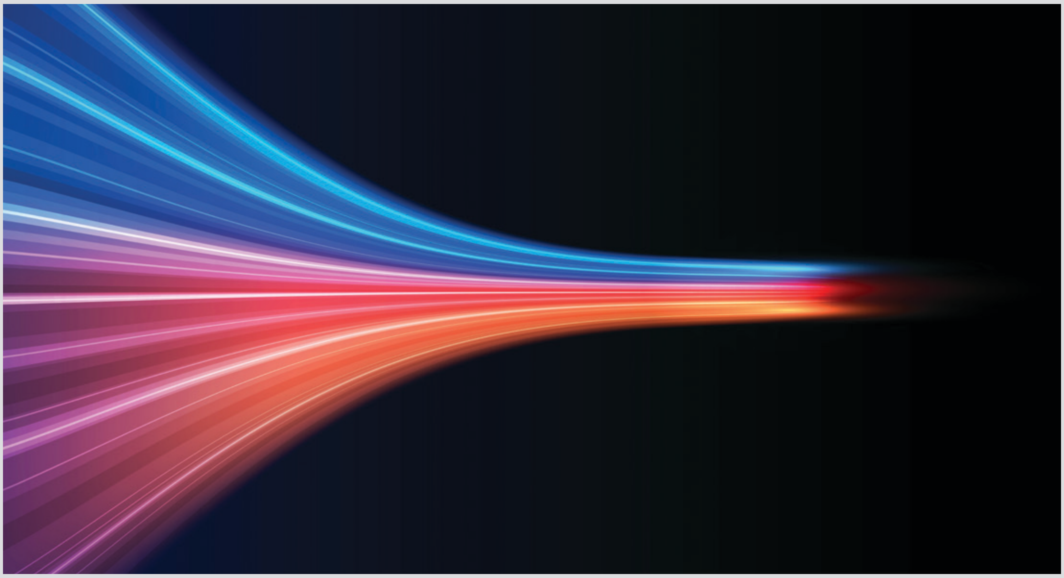
What are the main operational challenges facing fund managers and their service partners currently?

Latini: For many fund managers, it is time to re-examine and re-engineer their operating models or identify specific functions that will be outsourced. They need to ensure that the teams, systems, processes and technology are in place to accommodate the new alternatives ecosystem.

The challenges can range from client onboarding, distribution, asset operations and traditional fund accounting to new data management tools, investor notices and reporting.

In some cases, we are working with fund managers on discrete projects or we will have our teams work within their systems. As that partnership builds, and we develop a greater working knowledge of their business, we can create new tools to meet their needs and offer increased insight for improving their processes.

How can newer technology, such as AI, help with the industry's main operational challenges? What still needs to be addressed?



Latini: Streamlining data management and processing will be critical to meet increased disclosure expectations. In the past, we have seen fund managers rely on Excel spreadsheets for maintaining and reporting information. Now they must implement secure, automated systems to process data and create accessible, "golden sources" to meet multi-jurisdictional disclosure requirements and reporting needs for investors.

To accomplish that goal, fund managers will rely on partners that can interpret new regulations and build platforms with standardised reporting fields that can be harmonised with multi-jurisdictional requirements. These common data platforms provide great flexibility by processing information about clients, investors, funds, portfolios and transactions, then translating that information into a standard syntax and flowing it into a secure "data lake" with highly controlled access. This process helps to eliminate inconsistencies and provides a clear audit trail that can be used for management and regulatory reporting requirements, as well as analytics for investment strategies and trends.

For example, a client is using our platform to comply with AIFMD Annex IV reporting requirements in 11 European Union jurisdictions by submitting verified information in the proper fields and format for each at the same time.

Artificial intelligence holds incredible potential for the industry in areas such as, but not limited to, client data, investment analytics, distribution and marketing. But we are in very early days with AI, and our industry needs to establish clear guardrails for governing its use as regulators will be moving toward their own rules for AI.

What does it take for outsourcing firms to stand out in the current market?

Latini: No one should want to be considered an "outsourcing firm". The best firms want to be thought of as a "trusted partner" that knows the business and has a long track-record of providing exceptional client service and innovative solutions.

As the alternatives industry evolves, fund managers must decide whether they want to expand with full-time staff for back-, middle- or front-office functions, or use partners who will manage those same tasks less expensively and more efficiently. Increasingly, managers want a single, trusted partner with a breadth of offerings to address their needs.

The best firms know that exceptional client service means creating a superior experience that builds loyal, long-standing relationships, rather than solving individual problems. It means being a partner that will execute flawlessly every day, that can leverage its own state-of-the-art technology, and has a global scope to monitor the market and regulatory environment.

With that type of partner, fund managers can invest their often limited resources in driving new growth and increasing revenue. The idea is, "let us focus on what we do best, and you focus on what you do best."

What are the key considerations for fund managers to consider in light of new disclosure and transparency regulations demanded by regulators?

Latini: Preparation is key to successfully navigating the wave of new regulations. Disclosure and transparency regulations are at the top of the regulatory list now, but it seems clear that regulators also will be moving toward explicit rules governing artificial intelligence solutions.

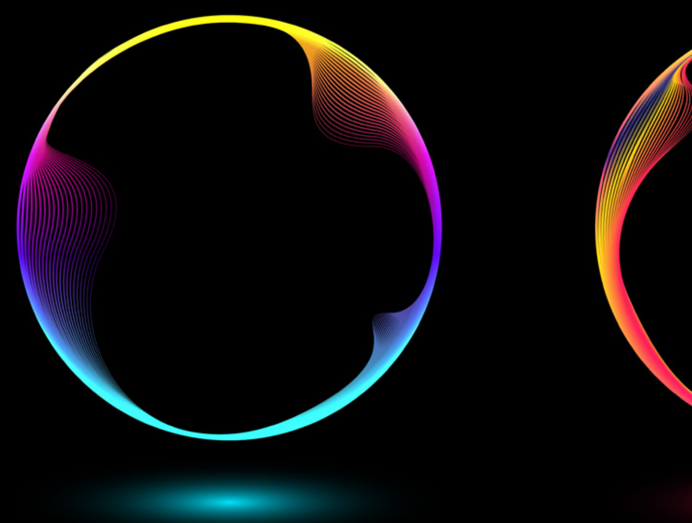
I have already mentioned the opportunities and challenges stemming from the influx of new capital and investors from the retail markets. Regulators want to ensure that fund managers are properly prepared to handle the capital, and that those investors — who are used to receiving detailed information about pricing, expenses and distribution — have a clear understanding about the benefits and risks of alternative investments.

As a result, fund managers must provide more information faster than ever before. We are seeing increased outsourcing for monitoring regulatory and disclosure reporting requirements, including investor terms, fund expenses and fees.

Industry trade groups have challenged some proposed regulations in the UK and US, and sought greater input on rules. The important point here is that fund managers do not need to begin additional reporting before rules take effect, but need to be ready to move quickly when they do. ◆

"Streamlining data management and processing will be critical to meet increased disclosure expectations

Joseph Latini, MUFG Investor Services



Losing groun

The fund administration industry faces a shortage of talent and tech, but is there still time to turn it around? *Orlando Crowcroft* reports

> You hear people say they are applying AI but when you really dig in, they are not doing much of anything
>
> **STEPHEN COATS**
>
> **Petra Funds Group**

At a time when everyone is talking about whether artificial intelligence is going to make us all redundant, it is not AI keeping fund managers up at night, it is humans. "We do not have enough accountants, and we do not have enough people training to be accountants," says Stephen Coats at Petra Funds Group in New York. "Looking forward 10 years, we have a problem."

Statistics released by the US industry body American Institute of Certified Public Accountants, known as AICPA, recently revealed that the number of people sitting the CPA exam has been falling steadily over the past decade, from over 100,000 in 2015 to under 80,000 today. It is being called the 'great accountant shortage' and is being mirrored in Europe.

The shortage is hitting the fund administration sector at a time when they need number-crunchers more than ever. Across Europe and the US, the regulatory burden on companies and individuals is growing and retail investors are increasingly entering the private equity space, equating to a lot more work for fund administrators.

"In the US, we are on the precipice of the retail revolution, where private equity is largely going to become a retail product," says Coats. "Instead of funds with 10 investments and 100 investors, retail funds are going to be more like 500 investments and 45,000 investors. In terms of workload and regulatory burden, it becomes a volume issue."

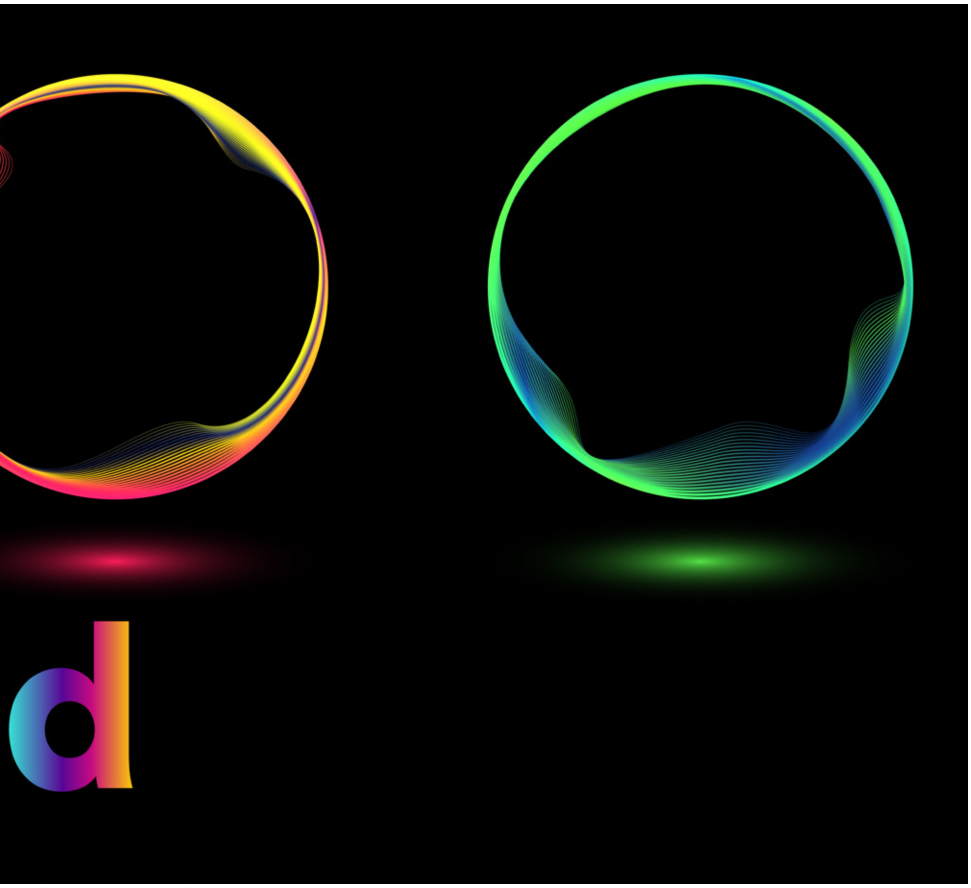
AI will undoubtedly play a role in meeting this demand, says Georges Archibald, chief regional officer at Apex Group, as well as innovations such as optical character recognition and related ingestion and extraction technologies. As will blockchain, he believes.

"It will lead to a more error-free and efficient service, and also allow for value-added strategic coverage and growth planning," he says.

Others are not so bullish. Coats says the impact of such technologies on the fund administration sector as yet is negligible: "You hear people say they are applying AI but when you really dig in, they are not doing much of anything."

Part of the issue is that, like other areas of finance, private equity and private credit have always been human-facing, he adds, with fund managers taking into account the differing personalities of the CFOs and CEOs. "You are going to need a human interface," he says.

When it comes to tech, it has also been slow. The Future Focus Report by software company TrustQuay is a survey compiled of corporate services providers, trust and fund administrators, wealth managers, private banks and family offices. The 2023 iteration of the report revealed



> There is enormous wastage, lack of efficiencies, high costs and manual processes that lead to errors

CHARLOTTE CRUICKSHANK
Ocorian

that just one in three of the firms surveyed had started their digitalisation journey, while 82% said that technical innovation needed to accelerate. In the wider financial sector, total tech spend is between six and 12%, but in fund administration it is between 3% and 6%, TrustQuay's research found. A majority (87%) had also not fully automated workflow processes, manual inputs or data checks.

Boots on the ground

Charlotte Cruickshank, global head of fund solutions at Ocorian, says one factor is the amount of M&A that the industry has seen in recent years.

"After deals, companies have to start again because they are probably using different systems and have different processes, which means deciding on a new platform," she says. "That then means bringing everyone onto the same platform, which is not easy. Some companies have even given up on the process as the size of these businesses continues to increase and the workload becomes unmanageable."

A second factor is that over the years fund administrators have heavily customised their platforms to deliver on specific requirements for clients. To unwind those platforms now and introduce new technological developments is a significant and complex job.

"The impact on business and on clients is huge. There is enormous wastage, lack of efficiencies, high costs and manual processes that lead to errors," Cruickshank adds. "This in turn leads to major dissatisfaction and is why we have seen so many migrations to us in recent years. Clients vote with their feet."

Those that are getting it right are those that are investing in both the tech and the people qualified to use it effectively, says Archibald. Digitised client experiences and engagement models should include accelerating valuation periods for less liquid strategies and the creation of wallet opportunities for fund managers.

"Some providers do not have the initiative and ultimately haven't invested into the expertise needed to deliver this differentiated digital experience," he says.

But it is not all about tech. Ram Chandrasekar, global head of fund solutions at CSC, agrees about the importance of humans in the loop, especially for firms wanting to operate in multiple jurisdictions and across markets with very different regulatory systems. To really crack jurisdictions that may not be your traditional markets, he says, boots on the ground is key.

"Firms with the right mix of a skilled, stable workforce and scalable, innovative technology will be well positioned for long-term success," he says.

Given the accountancy shortage and relatively high rates of attrition across the industry – as high as 20% by some estimates – once you find the right people, retaining them is key.

Chandrasekar cites upskilling and reskilling as paramount when retaining staff and recruiting new employees, as well as workforce development programmes. Longer term, the industry needs to better engage with governments, universities and colleges and industry groups to make sure the next generation has the skills it needs to enter a career in private markets.

"The EU is facing a skills gap, particularly in the tech sector, and the UK's exit from the EU has only further complicated matters from a talent mobility standpoint, but there are still plenty of opportunities and talent in the region," he says.

"Firms can access it by creating a welcoming work environment, leveraging their international networks, and fostering the right skills in the next generations of employees."

Coats cautions that other fund administrators are far from being your competitors in the war for talent, noting that the biggest rivals when it comes to hiring are actually clients. He therefore has a simpler solution: "You have to become a destination from a career growth perspective – and you have to pay people more money."

He adds: "We find that a team of five with 10 years of experience is a lot better than a team of 15 with two years of experience apiece. It is a differentiated team that works for us – and that keeps our attrition low and our quality high." ◆

The EXPERT

PRIVATE EQUITY'S DATA TRANSFORMATION JOURNEY

The ability to access timely, accurate and granular data in an automated fashion is critical to creating an efficient and scalable operating model, says *Tim Harvey*, Citco's head of private equity and private credit in North America

Where is the private equity industry currently in terms of its willingness and ability to leverage the power of data?
Tim Harvey: We have certainly seen a huge amount of progress, particularly during the past few years. There is seldom a conversation had with either an existing or prospective client, where harnessing data is not one of the top three topics of discussion. Private equity firms are looking to improve the timeliness and accuracy of data, the granularity of data and their ability to access and analyse that data in a more effective way, particularly as they continue to scale their operations.

As a fund administrator, we have a role to play in supporting them on this journey, helping them leverage the power of their own data, whilst also enhancing their dataset with our own.

In order to do that, we need to be able to collate the data and deliver the curated datasets into the client's infrastructure. We also need to be able to validate the data, and to access it efficiently, which is where automation comes in.

How do you solve this challenge of access to the data in the first place?
Harvey: As fund administrators, we need access to the client's bank accounts in an automated fashion, to help with cash reconciliations, for example. That is the easy part. But the reality is that there is still a lot of paper – or at least pdfs – involved in private equity today. Deal docs are a prime example; it remains a very manual world,but the industry is starting to experiment with automation in this regard. Citco, for example, has recently rolled out Citco Document Intelligence (CDI). CDI is the first 'AI plus human' platform to offer fund managers and allocators a fully-managed document management service by combining AI and fund reporting experts. This AI plus human platform is able to identify particular terms, and pull relevant numbers from documentation, with a human there to fulfil the function of data validation.

Is it inevitable that the human touch will continue to be required in private equity's digital transformation journey?
Harvey: While automation and digital tools can streamline many components of the operational workflow, the human touch remains essential for interpretation and strategic decision-making. There are certain processes that are inherently manual and certain interactions with our clients that will always benefit from the human touch. Is email the most efficient communication tool for calling

£10m? Probably not. In circumstances such as that we would use our Citco Collaboration Platform; effectively a workflow tool that is replacing the use of email.

How transformative do you believe AI will be across private equity back- and middle-office functions, overall?

Harvey: CDI represents the perfect use case for AI in many respects. Document management remains a painful process with no full-service solutions across the document universe. Right now, the burden to manage this problem is left to investment managers that must rely on manual workflows and a patchwork of limited technology. Using the combination of AI techniques combined with subject matter experts to intelligently process the thousands – and often tens of thousands – of documents our clients receive annually.

CDI solves these problems by using a proprietary, scalable, AI-enabled application. Additionally the ability to use AI to go through a lengthy document, pulling out the pertinent details, rather than having a human being laboriously work their way through 300 pages, clearly creates efficiency gains. Citco has deployed its proprietary Citco Text Intelligence over its loan platform to auto-index agent notices and documents into a document indexing system that can then be searched by transaction, client/lender, borrower or fund. Having this type of utility at our fingertips mitigates the game of hide and seek as well as allowing differentiation to our document retention policies on electronic mail versus supporting documentation.

Indexing of documents is another interesting area. It is great that we now have access to all of this information in a centralised inbox, but how do we then index that information so that it is directed to the right place? For example, where a manager has multiple funds in play, each executing multiple investments, how can we use AI to identify that a particular document relates to a particular fund and a particular transaction within that fund?

What role can data transformation play in supporting investor communication, as LPs continue to demand increasingly granular information and as regulatory oversight intensifies?

Harvey: From our client's perspective, the investors in their funds are the most important cog in the wheel and so they absolutely prioritise ensuring that those investors are getting the right level of service. As a result, this is one area where human involvement is definitely key. It is therefore extremely unlikely that we will ever respond to an emailed investor enquiry with a ChatGPT response. The nuances of investor requests mean that they will require human involvement combined with the power of AI tools.

To enhance the investor experience, we are able to use automation tools to give our teams faster and better access to the data in order to respond to those queries. That is certainly a part of the digital transformation journey.

To what extent is the drive to digitalise increasing the use of outsourcing?

Harvey: This is a crucial factor in many of our client's decisions to outsource. They are looking to build a more efficient operating model and they want access to scalable tools and expertise in order to do so. It also comes down to the bottom line. Engaging a third-party admin is generally cheaper than trying to develop the necessary resources to do the same work in-house. That therefore directly impacts the performance of a private equity firm's funds. GPs are focused on managing expense ratios and outsourcing is a compelling way to do that. In short, outsourcing allows firms to focus on the most value accretive activities where their real expertise lies. But as the more cost-effective model, it also has a direct link to returns. ◆

"From our client's perspective, the investors in their funds are the most important cog in the wheel and so they absolutely prioritise ensuring that those investors are getting the right level of service

Tim Harvey, Citco

The COLUMN

A SUSTAINABLE FUND BY ANY OTHER NAME

Bruce Jackson, chief of digital asset funds and business at Apex Group, discusses the value of private asset fund tokenisation

Within a relatively short period of time, we will be able to look at our smartphones to track personal investments in regulated, liquid, private debt funds, private equity funds, real estate funds, infrastructure funds, ILS funds and hedge funds, alongside traditional equity, debt securities and crypto investments.

This will be a very successful outcome of private asset fund tokenisation.

The distribution and administration of these tokenised private asset funds is an exercise in defining an operating model that uses blockchain as the ledger for regulated distribution, operations and transfer agency services.

Our defined process starts with the belief that blockchain is just a ledger, and tokenised fund units are just a share class, but that successful administration and distribution of tokenised fund units requires a tightly orchestrated, technology-driven framework.

This underlying operating model for each fund starts with digital onboarding, and streamlining the AML/KYC process for client subscription, enabling reliance between service providers through secure data sharing. Digital onboarding requires a fully digital path, winding through digital asset custody, digital banking, on/off ramp to fiat banking, digital administration

and transfer agency services, culminating in chain-agnostic digital asset security trading, all powered by smart contract technology.

Structurally, the digital share class of the fund captures every administrative action and future workflow of the fund administration and transfer agency process within the smart contract, which is the tokenisation technology that drives the automation of this administration function.

Underlying this is the DLT registry or blockchain enabling this automation. The regulation of the administration of a tokenised fund is focused on this registry and the investor process. Our goal is to give the regulator comfort that we can manage the subscription, onboarding, administration and transfer agency of the fund using this DLT registry as the book of record.

"Comfort" is an interesting term. We determined that it was necessary to have detailed workflows and aligned testing documentation included within our corporate risk appetite that was available to the regulator for viewing, and for each future action item to be executed for the digital share class by its smart contract.

Regulated blockchain registry for securities is still an area of great uncertainty for regulators. Apex wanted to support an on-chain issuance of a private asset fund directly into each individual digital client wallet of a regulated securities dealer, with regulatory approval.

> "The tokenisation of private asset funds will enable individual investors to directly access the higher return, lower volatility track-records of alternative asset managers

A case example

In February, we jointly announced, with Sygnum Bank and Hamilton Lane, the issuance of a new DLT share class of Hamilton Lane's $3.6bn GPA Fund. These new DLT shares are exclusively available to Sygnum clients with a minimum investment of CHF1,000. All buyers are in fact accredited, but this lower entry point empowers a broader, more diverse group of investors with direct access to private markets, while retaining the full advantages of the fund's traditional shares. Previously, subscribers to the fund were limited partners.

This digital issuance was completed in Luxembourg, supervised by the Commission de Surveillance du Secteur Financier (CSSF). As they do not define a tailored tokenisation framework for funds, corporate and securities law constraints are involved. Funds generally issue units in registered form, so we proposed that a tech neutral interpretation of corporate law for unit shareholder registers would enable the use of DLT for their maintenance.

The CSSF had dealt with projects entailing the use of DLT in the asset management industry, and had participated in a white paper examining this, indicating a positive attitude toward similar initiatives. In addition, this regulatory setup leveraged partnership with local players, meeting the CSSF obligations concerning record keeping and transfer agency services in Luxembourg.

Continuing the digital chain

Private asset management firms are extremely excited about the prospect of transactions like this, distributing their funds in tokenised form, for several reasons. Their short-term goal may be to sell their product into a new distribution channel and increase assets under management. Longer-term, they wish to experience increased liquidity, transparency and improved efficiencies of settlement, operations and administration.

In addition to democratising the distribution, creating a blockchain-based digital share class of a fund enables collateralisation of the underlying fund. A money market fund, for example, does not tokenise to increase liquidity. They are creating digital, interest-bearing collateral, for specific use cases.

The next step in this digital chain will be the licensing the exchange of chain-agnostic, order-matching digital asset securities. The technology to power this exists, but the regulatory challenge remains. Legislation clearly differentiating between crypto assets and securities must precede operational regulation, and regions that have developed their legislation to this extent will host the most prolific exchanges.

Ultimately, the tokenisation of private asset funds will enable individual investors to directly access the higher return, lower volatility track-records of alternative asset managers, without paying high repackaging intermediary fees.

Blockchain technology will lead to efficiency, and fee compression, across the financial services industry. Embracing this change proactively is a good strategy. ◆

The EXPERT

ELEVATING EXPECTATIONS

CSC's *Ram Chandrasekar* suggests that alternative fund managers should demand more from their fund administrators

In today's alternative investments market, fund managers face myriad challenges ranging from asset class complexities to shifting investor demands – all of which increase operational burdens. Even in the face of this environment, fund managers cannot stand still and are pursuing aggressive growth strategies.

In a CSC survey conducted in 2023, 90% of fund managers say they plan to expand geographical coverage either "significantly" or "somewhat" in the next 24 months to achieve growth goals. At the same time, nearly 97% say they will diversify into new asset classes. Amid these mounting complexities, the role of fund administrators becomes paramount to allow managers to meet challenges and pursue growth.

As managers strive to capitalise on opportunities, they encounter a multitude of operational challenges that require expertise and innovative solutions. These challenges can be solved by building a trusted partnership with a stable fund administrator that provides global, comprehensive solutions. It is imperative for fund managers to demand more from these partners to enable them to achieve their growth goals.

New and complex investment strategies

General Partners often move to new asset classes to attract investors. This is a growth strategy that comes with a cost. A private equity fund focused on real estate cannot successfully move into private debt without specialised knowledge around valuations, risk and liquidity management, investor relations, and regulatory and compliance demands, to name a few. They need a fund administrator with the technical proficiency and technology to handle diverse asset classes.

Moreover, fund managers should expect their administrator to provide additional services to facilitate operations with a new asset class. In the example above, a manager moving into private debt can benefit from vertically integrated solutions from a capital markets team, providing loan agency and administration across jurisdictions.

Fund operations should not hinder managers from moving into new asset classes. If a manager sees a new investment opportunity with a different liquidity profile from their usual investments, their fund administrator should have the expertise and technology to provide relevant solutions.

Evolving regulatory landscape

As global regulations continue to evolve and tighten, alternative fund managers are under increasing pressure to ensure compliance while also expanding into new regions. Whether it involves navigating tax implications, managing currency exposures, or complying with local regulations, administrators must possess international expertise and a global network of partners. Fund managers should expect administrators to offer comprehensive cross-border servicing, including accounting by regional standards, tax reporting and regulatory compliance across diverse jurisdictions.

Alternative fund managers should expect their administrators to not only keep abreast of regulatory updates aimed specifically at alternative fund managers, but also at broader regulatory changes. Both the Corporate Transparency Act in the US and the

Unshell Directive in the EU are recent examples of business regulations that a fund manager should be able to trust their administrator to handle.

Managers are continually adding to their entity portfolios. Multiple entities in multiple jurisdictions create challenges around annual returns, tax deadlines, and reporting deadlines. The result is an increased need for a top-down view of an entire entity portfolio, alongside information about deadlines and compliance responsibilities.

A fund administrator should be able to provide entity solutions and compliance in any jurisdiction, supported by centralised entity management technology so fund managers can monitor their entities anywhere in the world.

Technology and transparency

Technology is a strategic priority across the alternative funds industry, but selecting, implementing, and maintaining the right systems is far from straightforward. Traditional service providers are in the business of selling single solutions rather than creating ecosystems. That often leaves firms managing multiple partners and a disconnected technology stack.

To see real benefits, managers need advanced data management solutions and systems that integrate and communicate. They need a data lake or centralised repository approach that makes information accessible, configurable, and usable, regardless of platform or recipient. That is not realistically achievable when working with multiple service providers siloed by asset class, jurisdiction or service.

Fund administrators should invest in innovative technology platforms capable of handling complex asset classes, integrating with client systems, and delivering real-time data analytics. Moreover, administrators should offer customisable reporting dashboards tailored to the specific needs of each fund, providing transparency and visibility into portfolio performance, risk exposure and liquidity metrics. By demanding innovative technology solutions from administrators, fund managers stay ahead of the curve.

Finally, fund administrators should not only invest heavily in their own cybersecurity, they should also provide support to fund managers and their portfolio companies. Recent phishing hacks of alternative fund managers underscore the need for domain security and anti-phishing protection in the alternative fund ecosystem. If fund managers expect to leverage their administrator's technology stack and entrust confidential data to them, they should expect the administrator to offer domain security and fraud protection services.

Strategic partnership and staff augmentation

Beyond their traditional outsourcing roles, fund administrators have the potential to become strategic partners to alternative fund managers. They can offer value-added services such as benchmarking analysis, middle-office support, and market intelligence. In addition, developing a deeper partnership with a trusted fund administrator offers fund managers the option of streamlining the back-office through co-sourcing or staff augmentation, shifting their middle- and back-office from a fixed to a variable cost model.

In this model, an administrator sends their employees into client offices to learn their systems and processes. The same people then work as an extension of the manager's in-house team, dedicated entirely to that client. This level of familiarity allows the outsourced resource to play a full part in complex private market fund administration. It also allows the fund manager to leverage the technology and continuing education programs provided by the administrator.

Alternative fund managers should seek administrators who are proactive in offering such services, demonstrating a comprehensive understanding of their business needs and investment objectives.

A 'can-do' attitude

With holistic support from administrators, fund managers can focus on their core competencies, driving sustainable long-term growth without worrying about the middle- and back-office holding them back. Alternative fund managers must hold their administrators to higher standards, expecting excellence across regulatory compliance, asset classes, reporting transparency, unified global operating models and technology. ◆

> **Fund administrators should invest in innovative technology platforms capable of handling complex asset classes, integrating with client systems, and delivering real-time data analytics**
>
> *Ram Chandrasekar, CSC*

Consolidation, changing regulatory requirements and emerging investment trends are shaking up the private markets, but can fund administrators convert these upheavals into opportunities? *Beth Brearley* reports

The private equity space has seen a spate of consolidation in recent years, with $8.2bn transacted across ten deals in 2022, marking a record year of merger activity between PE firms in terms of deal value, according to PitchBook. The deals continued into 2023, with PitchBook reporting ten deals worth $2.5bn had taken place by September. As private equity firms continue to pursue diversified investment strategies, M&A activity is set to continue. Indeed, in EY's *Private Equity Pulse* research, published in Q4 2023, investors agreed that consolidation across GPs will increase in 2024, scoring it an average of 6.38 out of a possible 10.

However, there is a reason 'messy and awkward' is used as a malapropism for M&A in some quarters: the disruption takeovers can cause due to restructuring and attrition. But in the words of the philosopher Sun Tzu, "victory comes from finding opportunities in problems". So, are service providers identifying opportunities amongst the market consolidation?

For Ocorian, this is certainly the case. According to Charlotte Cruickshank, global head of fund onboarding and solutions, Ocorian has overseen the migration of 64 existing funds in the past few years and has a further 25 in the pipeline this year on the back of mandates won from firms involved in M&A.

"Currently, huge opportunities are being created," Cruickshank says. "In the short term, these mergers can be a distraction for the firms as they try to bring everything together and client service levels flop. Many people move on when companies come together but people are a critical part of the services. We are seeing a lot of disruption to service levels but that creates opportunities for smaller boutique providers who have everybody working the same way."

Innovate to build

With M&A often driven by big institutional players seeking to diversify into other private market verticals, larger shops frequently have fragmented service provider networks at the fund level and a fragmented internal operating model across multiple business divisions, Citco's head of business development Niall Fagan asserts, identifying such situations as "transformational opportunities".

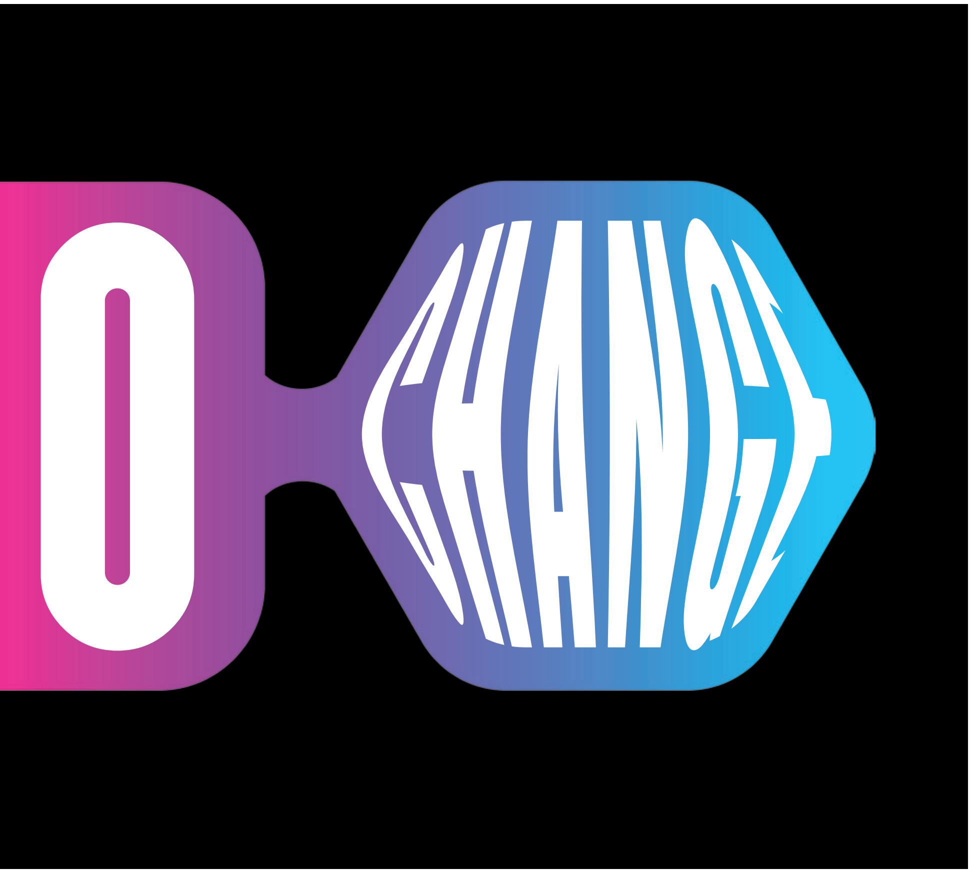
"This is when firms want to consolidate the service provider landscape they have engaged and move towards the appointment of global strategic partners that can scale, manage complexity, leverage technology, and reduce costs," he says. "We are a shop with scale and consistency; not many of our peers can support those types of opportunities."

Both global giants and smaller boutique service providers will need to innovate to build market share in the fast-changing private equity sector, suggests Marshall Saffer, managing director, fund solutions at CSC, citing the example of proprietary technology solutions that can be easily integrated into clients' existing systems.

Another driver of fund administration outsourcing is the changing regulatory requirements of different jurisdictions. Saffer points out that navigating cross-border regulatory complexity has become an increasingly time-consuming and costly process for GPs, adding, "there is every sign it will continue to drive their growing appetite for outsourcing fund administration to third-party specialists".

"We are finding there is a growing preference for providers combining extensive global reach with local market teams demonstrating first-hand knowledge of each jurisdiction's regulations and customs," he says. "We have continually invested in expanding our geographic footprint and are now operating in over 140 jurisdictions worldwide."

Universal Investment takes a similar stance, operating as a Super ManCo and fund services provider in Luxembourg, Ireland, and Germany. Area head sales and fund distribution Marcus Kuntz says this means Universal Investment can support clients looking to enter new markets with domestic regulatory complexities, "allowing them to focus on their core competence of generating alpha".



Treading on new ground

TMF's head of global solutions Daniel Max points out fund administrators are stepping in where banks may have trod.

"Although the big banks are able to support their clients in this space, boutique service providers – thanks to their leaner structure – have got the skill and the ability to spin up the teams in all these locations and are able to operate and better assist against an increasingly complicated regulatory environment."

> We are finding there is a growing preference for providers combining extensive global reach with local market teams demonstrating first-hand knowledge of each jurisdiction's regulations and custom
>
> **MARSHALL SAFFER**
> **CSC**

The key for JTC in supporting clients from a regulatory perspective has been to stay close to the regulatory bodies across the locations in which its clients and their investors are active, says Melanie Herbert, regional head of UK and Ireland, institutional client services, at JTC.

"We are contributing proactively to thought leadership and are plugged into the trade and industry bodies so that we are not just tuned in to what is going on at the current time but are ahead of the game and therefore able to support our client to plan ahead," Herbert says.

"Supporting clients through regulatory change is seen as a significant value-add for fund administrators who can and do provide this. Rather than just identifying challenges, such as AIFMD II or the SFDR, for instance, and passing information on to clients, we can add value in terms of helping clients understand those issues and adapt their operating models accordingly for the longer-term."

However, while incoming regulation creates huge opportunities for fund administrators who can roll out new services, Ocorian's Cruickshank is cognisant of the pressure on fund administrators to keep abreast of the changing regulatory landscapes.

"We must make sure we understand the regulation – a lot of it is new. We have to find and bring in people with relevant experience to be able to deliver these services – and there is always a lag on that side. So, while there are opportunities there are also risks."

Another way regulation is supporting the growth of fund service providers is through new frameworks such as ELTIF 2.0 in the EU, which have opened up private markets to retail investors and provided new distribution channels for GPs.

CSC's Saffer explains: "This is a tremendous growth opportunity for fund managers, and administrators need to adapt for the increased volume of investors, various liquidity profiles and evolving regulations.

"Administrators that already have expertise and technology purpose-built to support multiple strategies and fund types – open- and closed-end – will be well positioned to deliver the flexible solutions required for innovative fund structures."

Universal Investment's Kuntz agrees: "Universal Investment is already fuelling our clients' success through retail solutions for alternative investments. Advanced fund administrators play a crucial role in facilitating the expansion and evolution of private markets into more accessible investment opportunities." ◆

PARTNER CONTENT

The EXPERT

THE FUTURE OF FUND ADMINISTRATION IS NOW

Vistra's *Caroline Baker* and *Rosemary McCollin* discuss how proliferating reporting requirements and emerging technologies are creating progress, and frictions, in the private equity sector

What are some of the main challenges currently facing private equity firms?

Rosemary McCollin: 2023 was a difficult year in terms of fundraising. Some of our largest institutional clients had a slow response to fundraising for new funds and additional phases for existing funds. Sky-high valuations meant there was not much capital being pushed back to investors as it was locked- up in assets that hadn't reached the valuation point managers thought they would, so were unwilling to disburse from them.

It was even tougher for the start ups we deal with. We try to support both large-scale managers that have multiple SPVs or funds, but we also work with start up managers and venture capitalists. Last year, funds that had a high probability of launching became deal-by-deal opportunities instead; club deals and one-offs, which we are happy to support. Everyone is hoping for more activity this year. We have started to see it pick up, but the numbers are comparable to 2020, not 2021 or 2022. So, fundraising remains a problem for the industry.

Caroline Baker: Those investors that are deploying capital are being more selective, which is benefiting some of the larger and more established fund managers to the detriment of the start ups. That is partly because investors are looking for more data and higher returns; they're making sure they can get all the information they need to make informed decisions. It has been challenging for both the larger and smaller fund managers to provide that additional level of data to potential investors.

What are the potential implications of enhanced reporting requirements on private equity firms?

McCollin: The recent enhanced reporting requirements in the US stipulate that if you have any side letters you must inform the other investors, and that is pulling back the curtain in a process whereby certain investors received different benefits if they were willing to make a specific investment.

If those requirements start to migrate from the US out to other markets – such as Luxembourg, Singapore and the EEC – it is going to move funds in the private asset space towards KIIDs and PRIIPs and long-only institutional style reporting and disclosures on funds. This could be seen as a benefit because again, it moves towards greater transparency and the retailisation of the private asset space, but it does put a higher obligation on the fund managers.

Baker: A new investor base is coming into private assets. The reporting obligations for that type of investor are different and when you are reaching out to higher net worth individuals, you have to structure the fund in a different way than if you were just bringing in long-term, institutional capital. More of the alternative investment managers are looking at that retail spectrum of investors and are becoming less institutional. The shifts happening now will allow private equity to become a more mainstream asset in a couple of years.

I am a big fan of automated AML technology and KYC software for investor onboarding

Rosemary McCollin, Vistra

McCollin: It is also going to be about educating investors in what the funds can and cannot do; the risk profiles and the anticipated procedures they will go through. It is a very different environment for them.

How can refining operations support firms' future growth?

Baker: As we look at what the future holds for private equity, one of the things we have identified is making sure your operations are structured so you can roll-up data relatively easily, both from the fund level as well as the SPV level. We will see even more structured reporting, and making sure you have got a handle on your fund from the investment all the way up to the investor is going to be very important.

It may mean streamlining and not going into 15 different jurisdictions because of the need to really focus on what will bring the most value and what will be easiest to manage. It may also mean streamlining your investor base and asking yourselves who is going to be supportive through the lifecycle of a particular fund. But for certain firms it may also require a widening of their investor base. Fund managers should consider their core goals and what they want to achieve, in a future world where they need to be more streamlined and data-heavy and set out what they are going to focus on.

McCollin: The private asset space is specialised; it is long-term, deeper investments into potentially riskier assets. So, you must have a clear strategy and sometimes that means jettisoning strategies and parts of your firm that do not make sense; especially when we have seen a year like 2023. Many firms realised they cannot focus on value creation, and they cannot sell anything, so they switched to doing due diligence on all their entities.

What do firms need to know about outsourcing their operations?

Baker: In Asia, everybody outsources and that has always been the method. The private assets industry is much newer in Asia, so when it was started outsourcing was how it was done. Whereas in North America, many fund managers have their operations in-house, with only 50% outsourcing certain elements, and a much lower percentage use a fully outsourced model.

There are a few reasons for this. There is a perception that it is going to cost more, and there are concerns regarding control over their data and their operations team. If they decide to do a capital call, they know they can put pressure on an individual staff member to stay late and get that capital call out, whereas they fear they would not be able to do that with fund administrators.

When it comes to control over data, this is where our industry as administrators has significantly evolved. We can push fund managers to better levels of data than they can collect on their own. Service providers these days are not just doing accounting, they are capturing data at a global level. When you choose the right administrator, you are pushing the development cost of significant IT systems to somebody else and benefiting from a company that has global scale to invest.

When we talk about staff being able to respond to tasks quickly, more service providers are now integrated teams with the fund manager, which is a shift we have seen in the last five years.

How are emerging technologies affecting PE firms?

Baker: Data analytics firms such as Snowflake are becoming more important, particularly among larger fund managers who are pulling different information from multiple sources. It is an area we have seen evolve quickly over the past year.

McCollin: I am a big fan of automated AML technology and KYC software for investor onboarding. Many multi-fund platforms have been using this software for years and now most administrators have a digital subscription option, where investors can use an app to fill out their details in conjunction with a subscription document and it will spit out a list of the completed AML .

This is a far better self-serve process than investors having to go through a checklist and supply what they think is the right document. It will enable more investors to be onboarded in a quicker, more efficient way. Automated app-based engagement with investors is where the industry is heading. ◆

> We will see even more structured reporting, and making sure you have got a handle on your fund from the investment all the way up to the investor is going to be very important
>
> *Caroline Baker, Vistra*

Caroline Baker is managing director, global fund operations, and Rosemary McCollin is head of funds commercial, Europe, UK and US at Vistra

3... 2... 1... LIFT-OUTS!

Could back office lift-outs take off in Europe as an alternative to traditional outsourcing?

By Jon Whiteaker

US-based fund administrator Petra Funds is becoming a specialist in an alternative solution for back office management, which while still rare in Europe could become more attractive to GPs seeking to cut costs while retaining institutional knowledge.

Speaking recently to *The Drawdown*, Stephen Coats and Paul Winters, managing partners at Petra, said they had recently completed 'lift-outs' of a team of 15 back office staff from one GP and a separate deal for a team of three.

Lift-outs involve a fund administrator hiring back office staff directly from a GP at the same time as taking on that firm as a client. The GPs former in-house team is now its dedicated resource working within its outsourced fund administrator.

A GP is able to lose the headcount cost while retaining the team, with the work they are doing now chargeable to the fund rather than paid for from the management fee. "Lift-outs can allow the GP to spend relatively more of the management fee on investment staff, which should be far more accretive for the GP and LPs than maintaining a small accounting firm within the GP," says Winters.

For Petra, the strategy is a very effective way of scaling its business through the addition of experienced professionals.

"You don't need 25-50 people on your back office team doing everything, you just need a solid core of high-value professionals and we can take the rest of the team," says Coats. "You get the co-sourcing model along with individuals who have institutional knowledge about your firm."

Coats is one of the founders of Petra, which itself was formed through the lift-out of a team from Riverstone Holdings in 2021. Notable lift-outs completed by Petra since then include Denham Capital in 2022, where Winters had been partner, general counsel and chief commercial officer.

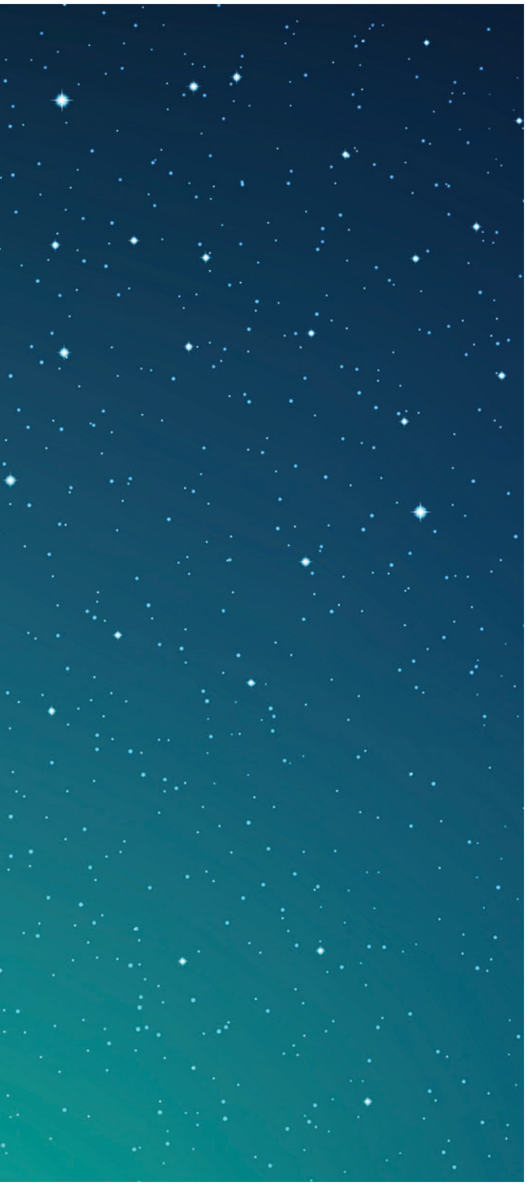
> You get the co-sourcing model along with individuals who have institutional knowledge about your firm
>
> **STEPHEN COATS**
> **Petra**

While other large fund administrators, such as Gen II, have also completed a number of lift-outs, Petra is notable for its significant appetite for acquiring back office teams. Coats and Winters claim they could complete three to four lift-outs of "comfortable size" each year.

"The Petra deal itself is interesting because what it has done has highlighted to asset managers that they can create value from their back offices and access the benefits of outsourcing," says Martin Schnaier, CEO of recently launched fund administrator Palmer. "It creates a double financial benefit for the manager in that the fund is bearing those costs now and it has realised deal value from that back office team."

Uncharted territories

Though Petra has a team in London, led by former Riverstone European general counsel and head of ESG Charlie Chipchase, it is yet to



complete a lift-out in Europe. There are significant differences from the US market that make lift-outs far rarer this side of the Atlantic.

One major difference is market penetration of fund administrators. While nearly all GPs in Europe have some relationship with a fund admin due to regulatory requirements, Coats estimates that is true for only about 40% of US firms.

"The service in the US is not a regulated service with an independence or oversight role," says James Ireland, CFO of Palmer. "What they are largely doing is just outsourced accounting services."

Fund admin relationships tend to be sticky and complicated to detach from, particularly in Europe where they are underpinned by a spider's web of jurisdictions and substance rule requirements. This makes moving servicing providers, let alone completing a lift-out, far trickier.

"In five years' time, it may be a lonely spot in any jurisdiction to be the CEO of a PE firm that has a fully insourced accounting team"

PAUL WINTERS
Petra Funds Group

Schnaier says that he definitely sees these deals becoming more common in Europe, however, while fundraising remains difficult and firms look for ways to trim costs.

"We have already seen large asset managers shedding roles, even without outsourcing," Schnaier says. "There is that pressure, without doubt."

Jan Grüter, a partner in Addleshaw Goddard's private funds group, also sees opportunities for more of these deals in Europe, and argues that economies of scale should mean it is ultimately cheaper to provide these services through the administrator than in-house.

"It's not necessarily a one-for-one lift-out of the expense from the firm to the fund, as actually it is spread out across several other funds," says Grüter.

Successful flight separations

To make these deals work, both the employees being lifted out and the LPs being charged have to be happy about the arrangement.

Despite only recently launching, Palmer has "already been approached by a number of people talking about these kinds of opportunities", according to Schnaier.

Schnaier, Ireland and fellow Palmer founders James Bermingham, Jason Bingham and Phil Godley were all previously executives of Sanne, which completed lift-outs of its own before it was acquired by Apex Group in 2022.

A lift-out can be very painful to untangle and Schnaier warns: "You have to be very sure, when you take that step, that you have picked the right partners. There has to be cultural alignment."

If a main part of the appeal of a lift-out is retaining institutional knowledge, the admin has to work hard to keep those individuals happy. The culture of working for a fund manager versus a large corporate administrator can be very different and Coats acknowledges that for the individuals being lifted out, it has to feel like a step up rather than step back in their career.

"Our base model is that the benefits and compensation offered by Petra have to be the same or better than the private equity firm they came from," Coats says. "Our measure of success is that the quality of work is better, the employees are happier and we don't lose any of the team."

Keeping LPs happier may be trickier though. Grüter describes lift-outs as "a neat way of passing on the cost", but adds: "I think LPs will start scrutinising that a bit more, as they are very focused on fund expenses right now."

Grüter advises both GPs and LPs, and notes that the former are looking at various ways of passing costs onto the latter. This includes allocating some personnel costs, including legal and compliance, as a fund expense. He cautions however that a lot of LPs don't like that and could also question the value of lift-outs.

"LPs want to know that you have the internal staff to know what is actually going on in the fund and not become completely reliant on a single administrator, losing the oversight and ability to take that back if needed," Grüter says.

For Petra Funds' Winters though, lift-outs are a consequence of the maturity of the market, with GPs assessing internal structures and needing to find efficiencies to address the frictions that have built up in the back office during the last decade or so.

"In five years' time, it may be a lonely spot in any jurisdiction to be the CEO of a PE firm that has a fully insourced accounting team," says Winters. "Whether firms get there through traditional outsourcing, co-sourcing or lift-outs, I think the rates of adoption will be pretty comparable in both the US and Europe, because the writing is on the wall that the model is changing." ◆

The EXPERT

A SUPPORTIVE FUNCTION

Regulation, fundraising trends and increasingly bespoke investor requirements are placing unprecedented demands on the operations of fund managers. Fund services partners will play a crucial role in helping these firms to adapt and evolve, according to Alter Domus' *Alexander Traub*

As the private equity industry has grown and matured, so have the operational, regulatory and reporting demands on the asset class. This has been particularly challenging for those managers with leaner back-office teams, who have had to focus resources on the core business of finding and backing great businesses and management teams.

This model, which has served managers so well for so long, is now pushing against its limits.

On the regulatory front, US managers are bracing for the implementation of new SEC rules that will oblige managers to produce audit and quarterly performance reports and provide more detailed disclosure on fund expenses. In Europe, meanwhile, managers are readying for the rollout of the next version of the AIFMD II in 2026, which will add to compliance disclosure and reporting requirements.

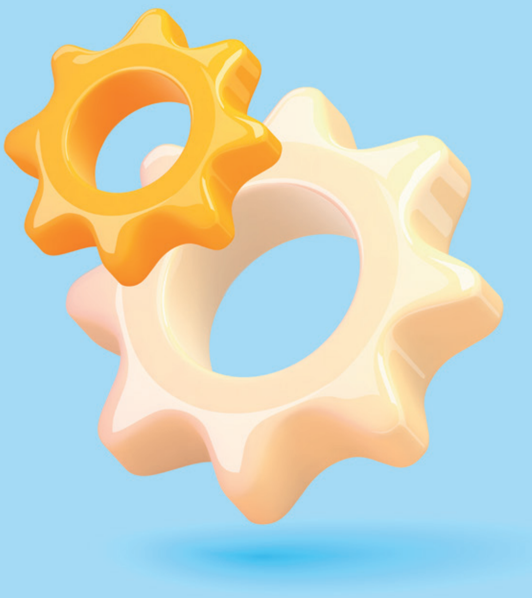
In addition to a higher volume of regulatory disclosure, managers are also navigating the complexities of working with an increasingly international and diverse investor base and the accompanying increase in requests for bespoke, tailored investor reporting.

For managers with the scale to invest in large back-office infrastructure adapting to higher disclosure and reporting volumes has been manageable. For other managers, however, existing operating models simply cannot ramp in the same way.

Fund administrators: key partners for long-term success

As private equity evolves, regulation increases and investors become more sophisticated, certain fund services providers are emerging as key partners in the midmarket and will have a crucial role to play in the sector's long-term success.

Rather than facing a scenario where €10-15m of capital expenditure has to be ploughed into upgrading the back-office capacity – at the expense of the core front-office functions of deal sourcing and execution – smaller managers can turn to fund administration partners



to support their back-office obligations and free-up resources to focus on transactions and value creation.

Fund administrators, working with hundreds of managers across multiple jurisdictions, have the economies of scale and operational synergies to invest in fund accounting and reporting, regulatory expertise and technology platforms at levels that would be impossible for a single manager trying to carry the load in isolation.

Outsourcing back-office functions to regulatory and reporting experts, who have the technology and human capital to handle more complex and intense workflows, gives managers the comfort that their obligations to investors and regulators are being addressed by expert service providers that know the market and have the muscle to scale-up capacity to meet intensifying back-office demands.

Enhancing technology capability is an example of how fund administrators are adding value for clients. In addition to opening access to best-of-breed industry software offerings and realistic price points, fund services partners also have the size and resources to build and maintain proprietary technology that can help clients to operate more efficiently.

Alter Domus' Digital Workflows Application, which uses AI and automation technology to handle the increasing volume and complexity of reporting and transaction flow, for example, is available to clients and can help managers to secure significant operational efficiencies.

Opportunities emerge from challenges

Partnering with a fund services provider to boost back-office bandwidth is not only a defensive play for managers.

Harnessing a fund administrator's service capability can help to unlock new sources of liquidity and new investor bases.

With liquidity for example, a slowdown in exit volumes in the face of higher interest rates has seen managers explore continuation fund vehicles as an alternative exit route to secondary buyouts, as well as trade sales and IPOs, to realise distributions for investors.

Fund administrators can help managers to undertake continuation fund deals more frequently and in higher volumes. In addition to complex deal execution and organisation, continuation fund vehicles also require ongoing administration and reporting. Fund administrators can scale-up support to assist managers, as continuation fund deals are secured without placing the additional demand of back-offices.

The back-office heft of a fund services partner also opens up pathways into non-institutional investor bases.

The administrative demands of raising capital from individual investors – typically through private wealth feeder funds, or semi-liquid funds and open-ended structures, such as Europe's emerging ELTIF regime – can be a non-starter for managers with small back-office teams.

These structures require more regular reporting of portfolio NAV and the capacity to provide liquidity for capped redemptions during fixed windows. Client onboarding and compliance volumes also ramp up significantly when capital is raised from large numbers of non-institutional clients rather than the limited groups of institutional investors that are the norm in closed-ended private equity funds.

Managers can turn to fund administrators that are already operating at scale to digest the additional know-your-client, cashflow monitoring and reporting workflows that come with raising capital from non-institutional channels.

Partners for the long-term

Shifts in what investors and regulators expect from private equity managers, the types of investors managers are raising capital from, and the exit pathways available in a more sophisticated market, are reshaping how the asset class is thinking about its back-office requirements.

This transformation is particularly challenging for smaller players, but through long-term partnerships with fund administration experts, managers can share the administrative load of operating in a more mature industry and stay focused on what they do best. ◆

> **Shifts in what investors and regulators expect from private equity managers, the types of investors managers are raising capital from, and the exit pathways available in a more sophisticated market, are reshaping how the asset class is thinking about its back-office requirements**
>
> *Alexander Traub, Alter Domus*

The PROFILES

Introducing *The Drawdown*'s FUND ADMINISTRATOR PROFILES

The fund administration market has seen unprecedented consolidation at a time when the demands of its business have only increased. Innovation in fund structuring, growing LP demands and the implementation of AI-powered technology systems are all putting pressure on outsourced service providers, with clients demanding higher service quality.

The largest market players are responding to these challenges with new products and services, while there is also a swathe of new market entrants trying to disrupt long-established ways of providing fund administration.

It can be challenging for GPs to keep up with the pace of change, but it is key to keep their network of fund administrators up to date, in order to partner with the right provider for their business.

In conjunction with the release of the *Fund Admin Report*, *The Drawdown* is mapping out the universe of fund administrators to help GPs navigate this rapidly evolving space.

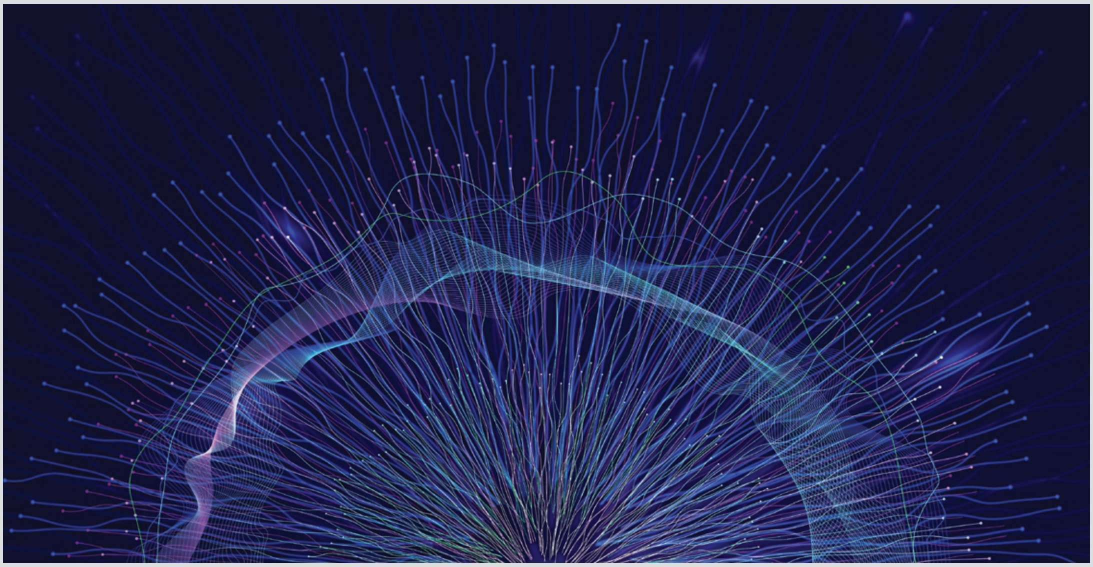
Scan the QR code below to visit our directory and explore the providers already on the system, including a number of in-depth profiles with functionality summaries, client breakdowns and testimonials, our latest coverage on each provider, and more. ◆

PARTNER CONTENT

The EXPERT

PUSH AND PULL

Nicola Le Brocq, director - funds and corporate at Jersey Finance, discusses the importance of fostering an ecosystem fit for the future



International Finance Centres (IFCs) have always needed to be both adaptable in the face of change and forward-looking to drive innovation.

With the advent of a new era shaped by digitalisation, this has never been truer. Many IFCs are having their mettle put to the test, with managers and investors alike looking for the backing of the right ecosystem to enable them to see their ambitions flourish.

Similarly, fund and corporate service providers are also having to up their game and future-proof their offering by bolstering their teams and enhancing their technological abilities. The rise of tokenisation has, for instance, led to law firms establishing digital funds groups and administrators creating digital leads – or innovation committees – to meet the demands of a growing number of managers exploring opportunities in the virtual assets space.

Meanwhile, the increased accessibility of private funds to high-net-worth investors, traditionally the reserve of institutional players, has opened a significant trend towards democratisation – dubbed 'retailisation' – and is reshaping the capital-raising landscape.

It is an exciting time, but it is not without its challenges. IFCs that have earned a reputation for high-quality provision of fund and corporate services, like Jersey, need to work increasingly hard to establish the right regulatory framework to protect investors while not inhibiting innovation.

A regulatory sweet spot

From a jurisdictional perspective, the challenge for fund services jurisdictions has always been to stay relevant; those which fail to evolve and push the boundaries will simply regress.

Jersey has long sought to adopt a forward-thinking approach. A few decades ago, as financial centres within the EU began to move into the same retail area under the UCITS directive, Jersey's fund offering gradually – but very deliberately – shifted towards alternative funds for institutional and expert investors.

This prompted the successful introduction of Jersey's Expert Fund Regime in 2004, which helped position Jersey strongly within the alternative investment funds market and provided a platform on which to build Jersey's reputation.

This ultimately developed into a full spectrum of fund solutions, from highly-regulated, widely offered retail funds, to lighter touch options for smaller groups of sophisticated or institutional investors, all backed up by highly experienced fund administration and corporate services capabilities.

Just over five years ago, the Jersey Private Fund (JPF) was introduced, offering up to 50 professional investors an efficient, cost-effective vehicle with lighter-touch regulatory requirements. To date, more than 690 JPFs have been launched, with managers attracted by the versatility of the structure and the speed with which they can be established, allowing them to go to market in a cost and time efficient way.

More recently, the launch of a Jersey Limited Liability Company in 2023 has helped expand Jersey's existing comprehensive suite of private fund vehicles, adding a new structure intended to be familiar to US private equity, venture capital and other alternative fund professionals.

The picture overall is one of proactive innovation, designed to support the long-term ambitions of a financial services jurisdiction focused on alternative fund service excellence.

The rise of tokenisation

Of course, the one concept that looks set to completely transform the cross-border private assets space is tokenisation.

As the virtual asset landscape evolves, the requirement for robust regulatory frameworks will be crucial and jurisdictions will need to be well versed on the challenges if they are to offer an ecosystem that facilitates opportunity while being structurally sound. Jersey has taken a collaborative approach with its financial services industry, together with the Government of Jersey and the Jersey Financial Services Commission (JFSC), in order to set itself apart.

From the start, Jersey decided it would treat virtual assets as it would any other asset class and it was this approach that led to Jersey regulating the world's first Bitcoin fund in 2017. Following this milestone, the island also became the first jurisdiction to apply an AML control framework for virtual currency exchanges and to formulate ICO guidance in 2018.

Six years on and the JFSC's Innovation Hub is now leading the simplification and updating of this guidance. This guidance is set out in two tranches: the first focused on digital assets capital-raising and the second on the tokenisation of real-world assets which will provide a high-level framework of the regulators' approach to applications where an existing asset has been tokenised.

Such an approach puts the jurisdiction's innovative edge and its core market competencies on a converging path with this flexible and pragmatic response to virtual asset regulation, already attracting leading players in the industry.

Securitisation

One recent example of this can be seen in Bank Frick's choice of Jersey for the launch of its platform providing the securitisation of virtual assets and the issuance of Actively Managed Certificates (AMCs) to professional investors.

It is an example which highlights the way in which Jersey's well-established service provider capability and proportionate environment is creating new and exciting opportunities in the virtual assets space.

Securitisation typically involves the ownership of a pool of assets where notes are issued as opposed to shares. Crucially, it is not regarded as a fund or an alternative investment fund under the AIFMD definition, which means that in Jersey, they are regulated only for AML purposes and are not subject to withholding tax.

Furthermore, while those buying notes or AMCs must be sophisticated investors, these can be held by authorised participants – such as banks – on behalf of their retail customers, paving the way for the retailisation and democratisation of virtual assets.

Other forms of securitisation, such as Collateral Loan Obligations and Collateral Debt Obligations, are also offering opportunities as a gateway to Europe for US markets, with more than 300 securitisation structures of this type registered in Jersey, including a number migrating from other IFCs.

This has created a distinct selling point for Jersey with other IFC regimes either proving too costly and regulatorily burdensome, or by reputationally being unable to meet the requisite high international standards, for instance when it comes to greylisting.

The rise of virtual assets is undoubtedly set to continue to reshape the funds industry over the coming 12 months, in terms of thinking, expertise and infrastructure. It is something that is explored in more detail in Jersey Finance's recently published report – 'The Evolution of Virtual Assets' – which highlights the role of fund domiciles in the growth and success of the sector.

In a world where market forces continue to pull the global fund administration industry in all directions, there remains plenty of scope to push the envelope too. Jersey's positioning as politically and fiscally stable with a minimal change outlook from a regulatory, legal or economic perspective, combined with its world-class digital infrastructure and track-record in strategic innovation, should stand it – and its sizeable fund and corporate administration community – in good stead. ◆

As the virtual asset landscape evolves, the requirement for robust regulatory frameworks will be crucial

Nicola Le Brocq, Jersey Finance

IN ASSOCIATION WITH

Jersey Finance
Delivering Insight • Driving Innovation

The ROUNDUP

NEWSFLASH!

A snapshot of *The Drawdown*'s leading coverage of the fund administration industry

Aduro Advisers, a fund admin for the PE and VC industries, received a strategic growth investment from Vitruvian Partners in May.

Aduro's leadership team and existing shareholder PPC Enterprises will retain a "significant" investment in Aduro going forward.

Founded in 2012, the Denver-housed fund admin administers more than $120bn in assets, according to Aduro, and has grown this AUA by more than 150% since 2020, it said.

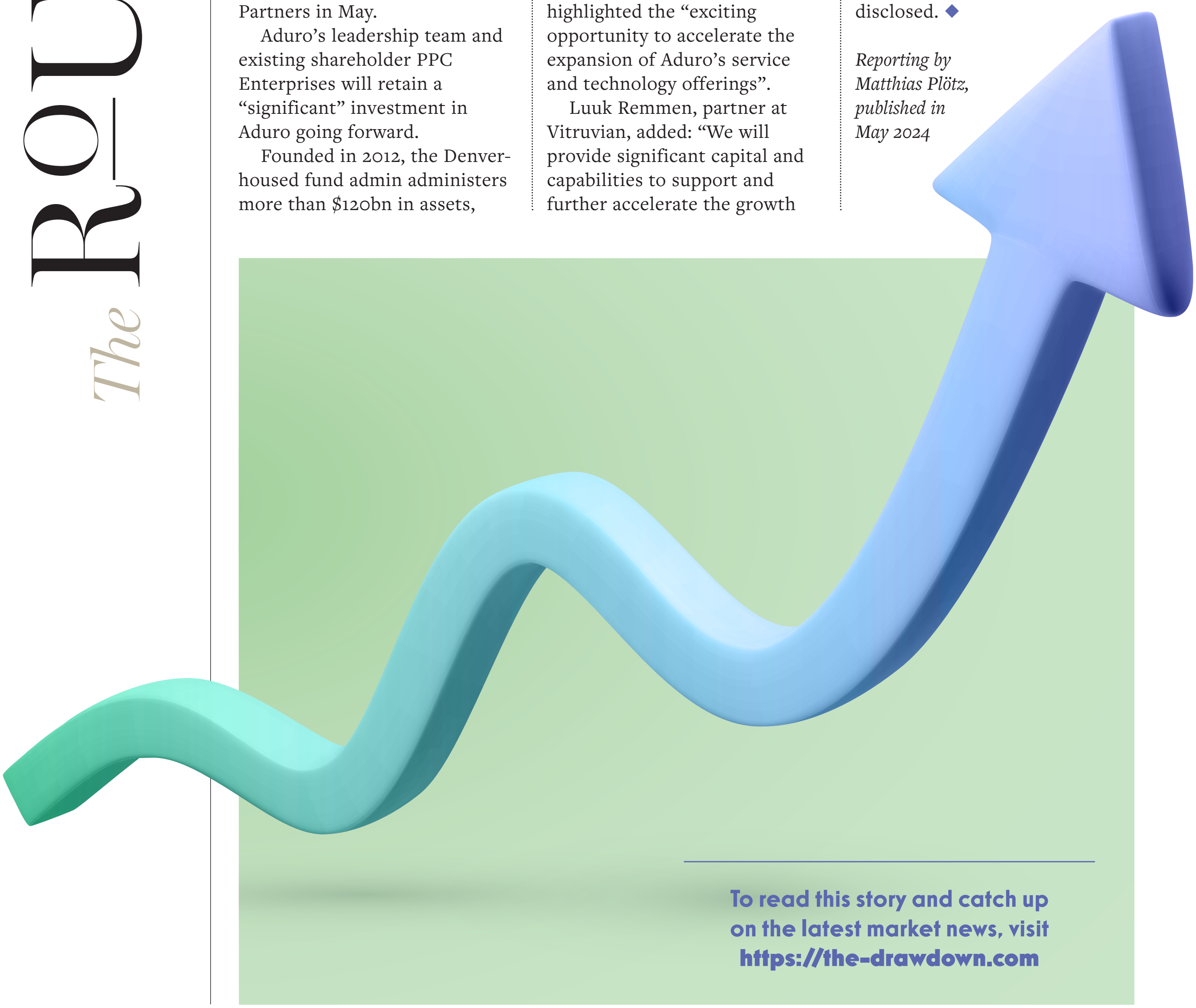
The fresh funds are set to support the fund admin's long-term strategic growth.

Braughm Ricke, founder and CEO of the company, highlighted the "exciting opportunity to accelerate the expansion of Aduro's service and technology offerings".

Luuk Remmen, partner at Vitruvian, added: "We will provide significant capital and capabilities to support and further accelerate the growth and acquisition aspirations of Aduro."

Aduro was advised by Jefferies on financials and Covington & Burlington on legal matters. Kirkland & Ellis counselled Vitruvian. Terms of the transaction were not disclosed. ◆

Reporting by Matthias Plötz, published in May 2024



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PARTNER CONTENT

The EXPERT

THE CHANGING SHAPE OF THE FUND ADMINISTRATION LANDSCAPE

Consolidation in the fund administration industry is enabling boutique players to provide bespoke services to smaller firms, say Ogier Global's *David Fowler* and *David Harvey*

How is the fund administration landscape evolving?
David Fowler: Whilst outsourcing has been common in Europe for some time, during the past five years we have seen a marked increase in outsourcing in the US and Asia. This trend is likely to persist as regulation continues to proliferate; most notably the new Securities and Exchange Commission (SEC) reporting requirements due to come into effect in the US in 2025.

There has also been significant consolidation during the past three to five years, resulting in a number of very large providers within the marketplace. Those large providers are ideally suited to servicing large capital asset managers, but they don't necessarily have the people or processes to service smaller firms. We are therefore seeing both existing and new boutique fund administrators taking advantage of the opportunity to provide bespoke services to this client set.

How are administrators leveraging technology today and what are some of the opportunities and challenges this is presenting?
Fowler: The asset management industry has been relatively slow in taking up new technologies when compared to the banking sector, as an example, which embraced fintech much earlier on.

That is now changing, and the way fund administrators are leveraging technology has become a top priority for managers.

At a basic level that means fund accounting and administration systems, and corporate secretarial processes and systems.

Managers are also focusing more heavily on the data that fund administrators hold on their behalf, and the ways in which they can access that data, analysing and utilising it for optimal benefit.

Additionally, administrators are now adopting AI to streamline repetitive tasks internally, freeing professionals to provide higher added value, and externally, offering clients AI technology to manage data and queries efficiently, reducing traditional email-based communication.

David Harvey: Technology is now at the forefront in request for proposals (RFPs) we receive, previously ranking much lower in priority.

In particular, managers want to understand how technology can be used to improve the investor experience, from onboarding through to ongoing communication; AI can definitely help in that process. These are exciting times for the industry.

How are talent shortages impacting service culture and how are fund administrators addressing those concerns?
Fowler: The pandemic may have heightened the talent issue, as it has in other sectors, but attracting

Administrators will increasingly be viewed as partners, not just vendors.
David Fowler, Ogier Global

and retaining talent is a challenge that has been around in this industry for some time. We believe that tech can be very useful in this regard.

The younger generation are interested in technology and how it can be utilised, so they are looking for employers with an innovative culture and a willingness to listen to ideas.

The culture of the organisation generally is also very important, including a flexible working policy. This is something that Ogier Global places a lot of emphasis on.

Harvey: I would add that we are very focused on ensuring tech training throughout the business.

It is important that individuals across all ranks know how to use our systems and that they are involved in making improvements. After all, they are the ones that are using the technology day-in and day-out.

Fowler: Historically, technology required a great deal of institutional knowledge but fund administrators, and particularly smaller fund administrators, now recognise the importance of making tech as user-friendly as possible. That mitigates the risk of institutional knowledge leaving the business because new starters can pick up the tech very quickly.

What are the big trends that are impacting GPs' administration needs today?

Fowler: Regulation is clearly impacting fund managers' needs in terms of the reporting requirements in different jurisdictions globally.

It is not just fund administration books and accounts that are being outsourced today, ESG functions and regulatory compliance are as well.

We are also seeing a lot more demand for outsourcing from investors themselves. Investors expect to see that independent, third-party review process in place, and that is driving GPs to bring in outside administrators as well.

Cost is, of course, another consideration. We are clearly in the midst of a relatively tough economic environment, so managers are looking at where costs can be taken off the balance sheet through outsourcing.

Finally, I would say that rather than simply providing back-office support, administrators are now being asked to take on traditional middle-office functions such as compliance and portfolio monitoring.

Are there any other ways in which you expect to see the fund manager/fund administrator relationship evolving going forward?

Fowler: Administrators will increasingly be viewed as partners, not just vendors. Managers expect their administrators to have detailed knowledge of their structures and their ways of doing business.

They also expect administrators to be proactive, rather than reactive, providing advice around regulatory changes and the best practice they are seeing in the market, for example. This is no longer simply an instruction-based relationship.

In addition, clients are not only looking to understand our tech capabilities and people strategy as it exists today, they want to know what our roadmap is for the next three to five years with a view to forging long-term relationships.

They are also interested in understanding the culture of the administrator and whether or not it aligns with their own. Again, this is to ensure a long-term partnership can develop.

Harvey: I have been working in this industry for almost 15 years and historically the focus was very much on service provision. Now, I completely agree, it has become a partnership.

Managers are interested in what we are doing with other clients, given the complex and evolving regulatory landscape. They are keen to forge long-term relationships with administrators that have the right people, systems and innovative ways of working, leveraging their knowledge and experience in navigating those challenges. ◆

"Technology is now at the forefront in request for proposals (RFPs) we receive, previously ranking much lower in priority.

David Harvey, Ogier Global

The OUTRO

Thank you for reading

THE FUND ADMIN REPORT

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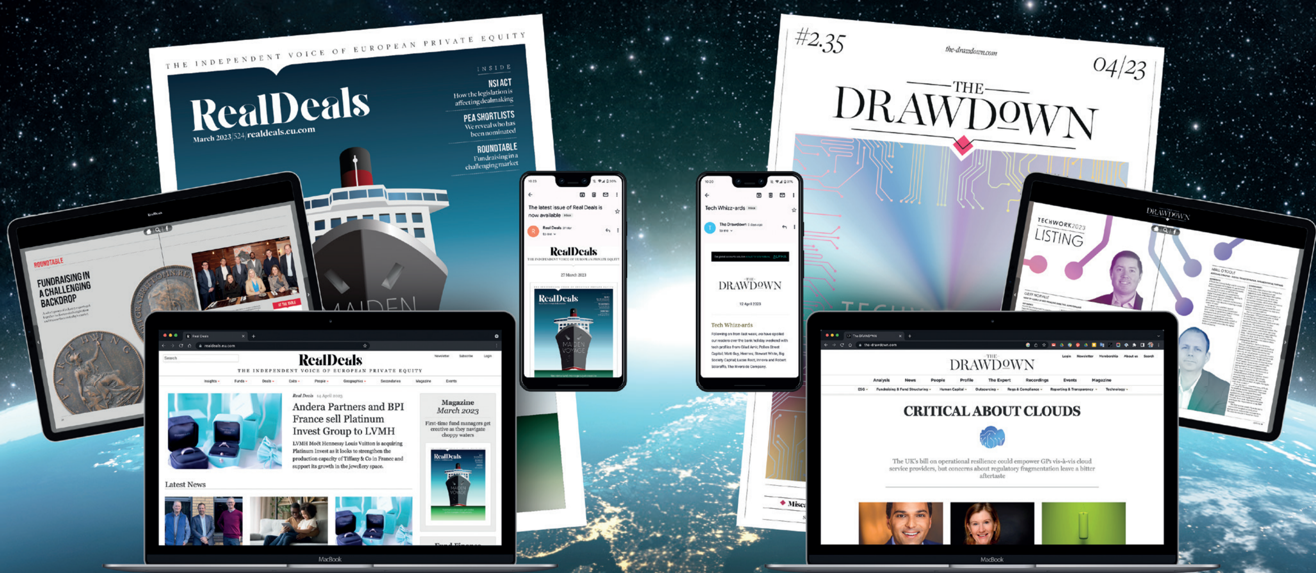

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