THE FUTURE OF FUND ADMINISTRATION

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Growth in the Alternatives Industry

Fund administration for alternatives will continue to be a growth opportunity for service providers, with projections pointing to ongoing market expansion. Preqin estimates that by 2023, global assets will reach US$14 trillion[1].

This growth will be powered by several factors. First, we believe institutional investors will increase their allocations to alternatives products, particularly among pension funds, insurance companies and sovereign wealth funds.

Second, we expect increasing appetite for direct private deals as investors look to diversify their portfolios. Third, asset managers will continue to innovate in terms of new products and strategies to capture alpha for their investors through private markets.

Asset managers will also see demand from investors when it comes to fee transparency and customization.

We will see management fee pressure tighten, and thus a need to reduce operational costs. To provide additional alpha transparency, pressure on incentive fees is not likely to ease up.

These growth factors and fee trends will further crystalize the business case for outsourcing functions across the front, middle and back office for both asset managers and investors.

What Does This Mean for Fund Administration?

For fund administrators, there will be additional opportunities to provide enhanced offerings in the front office and more streamlined services for the middle and back offices at scale.

Asset managers and their investors will continue to look for administrators who act as strategic partners and can provide services at scale, yet allow for specific customization through technology. We believe asset managers and their limited partners (LPs) will be focused on:

Streamlined communication: An integrated approach to the communication flow between fund administrators, asset managers, investors and other interested third parties will be essential.

Asset managers can no longer afford to carry the cost of separate investment, accounting or performance books of record to manage and reconcile. Technology plays a key role here in providing

1 Preqin -The Future of Alternatives, October 2018

each interested party with a consolidated view that is relevant for them.

Data transparency: Asset managers are also looking to their service providers for data transparency along with self-service reporting capabilities that allow them to quickly customize their data reviews, performance and analytics. Technology plays a crucial role in delivering this ability as well. The economic downturn associated with COVID-19 has emphasized the need for smarter technology built into workflows across the investment lifecycle – from investment simulation to LP and regulatory reporting.

Value-added services: With regulatory and data privacy concerns, as well as the cost to maintain a desk, investment and maintenance of trading systems can be cost prohibitive. Managers are looking to service providers for solutions that enhance trading efficiency and access to liquidity, help them comply with regulation such as the uncleared margin rules (UMR) and optimize treasury tools. This is specifically a potential issue for emergent managers who, as a start-up company, often need to leverage the scale of an experienced provider.

Technology and innovation: Continued innovation through new technologies such as increasing use of artificial intelligence to streamline processes, and blockchain to improve recordkeeping. These technologies are becoming part of the industry's DNA, making them a critical capability for service providers.

New markets: Asset managers are looking beyond North America to drive growth. This means they need service providers with global reach and local expertise to enable a smooth entry.

Catering to business complexities: Another important aspect is the ability of the provider to service increasingly complex demands, including:

- Hybrids – Alternatives portfolios available to registered investors and the United States '40 Act funds
- Investor transparency – Investors want to be able to view their positions and portfolio across all alternative investment vehicles as well as registered products
- Increased regulation – Providing additional services to help managers comply with evolving regulatory reporting requirements across the globe.

The New Normal

As 2020 begins to settle into a 'new normal' in the wake of the global COVID-19 crisis and the Black Lives Matter movement, we believe the industry will also look to administrators who support:

- Environmental sustainability: We believe that asset managers and investors will continue to focus on adding Environmental, Social and Governance (ESG) metrics into their risk frameworks and ensure that their administration partners are focusing on ESG within their firms. Corporate responsibility must be a focus for all publicly traded and privately held companies as organizations globally rally together to support their communities.
- Diversity: Administration partners should continue to focus on creating a diverse and inclusive workforce. The strength of a business is directly tied to the well-being of the communities in which they operate. With that in mind, asset managers will seek providers with diversity as part of their core culture to champion strong communities and values. This objective goes beyond race and encompasses disability, LGBTQ and gender equality parameters to name a few.

In closing, the fund administration future is bright with continued partnership evolving within the alternatives industry between administrators, asset managers and asset owners. Because we are truly stronger together.