The dawn of a new relationship dynamic between fund managers and their administrators

The past two years have seen wholesale changes in the strategies and mindsets of investment managers, who are now turning increasingly to outsourcing while re-imagining their relationship with administrators through an independent lens, according to Ken Fullerton, managing director and head of SS&C GlobeOp's Hedge Fund Services business.

How has the alternative investment management landscape changed since the start of the pandemic?
The biggest change that we've seen over the past 24 months has been increasing interest in outsourcing.

Fund managers are facing similar challenges to those we have all experienced: rising wage inflation, turnover, and increasing demands from investors and regulators.

Because of this, they continue to seek a more cost-effective solution to allow them to scale as they grow more effectively and expand their business into new products and asset classes.

In the last 12 months, we've seen this continued interest in areas they may not have contemplated previously.

Of course, you have the primary fund admin functions – like middle- and back-office, striking a NAV, particularly on the hedge fund side – but I think managers are now really looking at some of the areas where they are performing operational functions themselves.

These include some operations, treasury management, loan closing and regulatory compliance filings. They are questioning whether it makes sense to continue to invest in that type of infrastructure given the turnover and rising wage inflation.

Along with external factors like the pandemic and wage inflation, has a shift in their strategies and a focus on core competencies also accelerated the outsourcing trend?
It's a combination of everything. They have their core competencies, the obvious being asset manager risk management, which needs their attention, instead of focusing on operational infrastructure. As they continue to evolve and offer these new products, they will continue to review this.

You have some fund structures which are moving into the hybrid space through a combination of both hedge and private markets. If there are already different types of portfolios to manage in order to trade in a particular asset class, it's much easier for them to outsource to someone who has a proven capability instead of trying to invest in infrastructure to support that. When you couple that with - again - turnover, and the constant flux of infrastructure and state of performing, those services and functions become even more challenging and difficult.

SS&C and a lot of folks in this space have experienced similar types of challenges, but when you have the scale and breadth like SS&C does with multiple thousands of people focused on this particular space, it's much easier to handle and accommodate that type of turnover and wage inflation.

Would you say the relationship between alternative investment managers and service providers has become closer because of all these factors?
Managers are recognising there is an interdependence between themselves and their providers. Increasingly, we're seeing that they don't necessarily subscribe to that old style of 'client-vendor' relationship.

I think they view the provider as a partner and they recognise if the provider struggles or fails, then it is ultimately the managers' financial reputational risk at stake. Managers can't outsource the risk, so they have to make sure the providers they are using give the same level of attention to operational controls and risk management the managers themselves would adhere to.

How can technology help alternative investment managers get ahead?
The ability to attract and retain capital is very competitive. So, managers are looking at not only producing returns, but also providing timely, transparent reports to their investors to distinguish themselves.

It's crucial for providers to have the technology underpinning to service both existing and growth business. As they morph and evolve into different types of products, asset classes and fund structures, it allows them to rely more upon their providers and do what they do best.

We've seen a metamorphosis in last 24-36 months with managers reinventing themselves to attract and retain investor capital, which they need to do.

What benefits has AI technology brought through the launch of your GoCentral fund administration platform?
When I think of what GoCentral does, it's really a consolidation of a lot of the vectors, and, after all, NAV is a culmination of a whole bunch of activities.

I think what managers are looking at – and this goes back to that independence – is what are the patterns, the trends, the exceptions and breaks that they have? What's causing them and what's the resolution?

As they contemplate and consider outsourcing more and more functions - bespoke or not - that dependence becomes even greater, and the ability to leverage AI concepts and principles within GoCentral is extremely important as they have this ability to view those discrepancies and anomalies, whether that be around P&L, operational breaks, corporate actions or daily P&L swings.

What was the thesis behind GoCentral?
We've looked at it through two lenses. One was: how do we leverage the AI concepts and principles to make our jobs perhaps a little easier and bring to the forefront those type of exceptions and anomalies that that we encounter on a daily basis and bring it to the manager?

The other was business process reengineering. If we did 10 steps before the NAV, are those 10 steps still the most optimal and important? There are some things we can even just eliminate and other things we could improve in terms of the timings of the production of those steps. That was really the combination as we looked at GoCentral.

Why is transparency into the administration process becoming more important?
Ultimately, managers realise they are an integral part of the administration process, they're intertwined. The work that we do on their behalf will be around KYC, AML, operational processes such as collateral management, the NAV production process, and P&L.

They realise they're on the hook too. They've recognised the importance of understanding the composition of the NAV, and the composition of P&L. As we endeavour to enhance our capabilities around GoCentral, it is important for us to not only create a more efficient, streamlined process, but also improve transparency at various levels to the fund managers. That's to the CFO at a high level, and also the product controllers and various operational personnel as we drill down into those details and impacts.

Managers realise you can outsource the function, but you can't outsource the risk, because they're accountable to investors.

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