FEATURE:
VIRTUAL ROUNDTABLE
ON REAL ESTATE REPORTING TRENDS

GLOBAL:
RECOGNISING THE QUALITY IN GENDER EQUALITY

DEBT & CAPITAL MARKETS:
A RAPID RESPONSE TO DISTRESSED LOANS ACCELERATION
Dear readers,

The sheer scale of transformation since we last published Sensus has been breathtaking. But we have seen enormous resilience and a real ability to adapt, rising to the new challenges this new normal brings. At Alter Domus we moved our entire global operation to remote working within days. Our clients and readers too have equally remodelled their businesses, and we move in lockstep with them to support new ways of working, communicating and delivering operational efficiency.

This edition of Sensus reflects the professional world which we now all inhabit. We examine how companies seeking to move to ‘business as usual’ mode can best get there, while reflecting on areas such as the struggles of distressed loans and the unique pressures Covid-19 is putting on year end reporting. Our first virtual roundtable provided some invaluable insights into the real estate industry and the particular challenges it faces in relation to the virus and reporting. Some big technological trends are gathering pace in the alternatives industry. Will top players be more eager to embrace disruptive technology in a socially distanced world; will robotics and automation make a bigger breakthrough in a Covid world; will innovation grow from this crisis? We answer some of these questions in our special technology report. Through analyses, interviews and industry insights, Sensus aims to explore the issues that are important to you and your business.

I would like to take this opportunity to wish each and every one of you and your families well. We have all faced truly challenging times but look to the future with hope and a determination to build from where we are.

Doug Hart
Chief Executive Officer, Alter Domus
COVID-19 & PRIVATE EQUITY: INVESTOR EXPECTATIONS RISE IN GLOBAL LOCKDOWN

Against a background of unprecedented disruption, investor data demands have soared as COVID-19 has driven markets, economies and businesses into uncharted waters. Private equity managers are dealing with panicked investors seeking daily, or even hourly, portfolio performance information. So how are they coping with such a sharp rise in demand? Stuart Wood and Rhonda Casey, both Managing Directors at Alter Domus, examine the new landscape.

Not all private equity managers are equipped to handle this increased inquiry volume, let alone the complexity of managing their employees’ remote working capabilities while maintaining efficiency. Many smaller firms simply do not have the bench strength to shift staff responsibilities or the technology to meet current demand accurately and speedily. Some firms are straining their internal back offices to the maximum while dealing with the challenge of retaining cybersecurity requirements with a remote-access workforce. For those, not having the right people and technology in place can put the entire infrastructure at risk. Rhonda Casey, Managing Director, Private Equity explains, “Private equity firms are stretched thin as they try to help their portfolio companies stay afloat, get data, and reassure their LPs. They’re being pulled in too many different directions.”

NEW DEMANDS, NEW CHALLENGES

Many firms have Business Continuity Plans (BCP) to be activated in the event of unexpected and severely disruptive circumstances or risk. But COVID-19 has seen workforces around the world forced to work remotely which in itself poses a significant risk. While outsourcing back office activities has long been a key component of any continuation strategy, today, it can be critical. Why? Because the enormous additional pressure suddenly facing private equity back offices requires significant resources and effort to ensure everything is functioning efficiently and the business is well placed to meet increasing investor expectations. While no one knows how long the disruption from COVID-19 will last, managers are clear that time does not stand still when it comes to servicing their clients. Many are now relying on their outsourcing partners to help support them and their clients through this crisis. Alter Domus has seen no disruption in the company’s ability to service clients, even with new clients coming on board during this crisis.

“Risking the long-term relationship

Investors expect their managers to be fiduciaries of their investment under any and all circumstances, and how they respond to this daunting crisis may determine how the relationship develops in the long term. Should managers stumble through this crisis, unable to adapt to the many new demands and challenges, the relationship may be put at risk. Even in a pandemic, investors expect managers to provide good returns and demonstrate results. If anything interrupts the flow of information needed to make informed decisions, investors will lose confidence. Managers cannot expect investors to grant them leeway because of the crisis. Instead, they must continue to provide the level of professionalism and transparency investors expect while adhering to existing timelines.

“Private equity as a whole has been prepared for this sort of crisis and believes it can continue to provide the level of support and services to the market needed.”

Rhonda Casey
Managing Director

“You’ve worked hard to develop your relationships with your investors. Many institutional investors invest with a lot of different managers and will be comparing to see which managers were able to continue to provide data on a timely basis. Competition for investor attention continues to be fierce and firms that suffer disruptions will risk souring relationships, invite comparison and potentially provoke additional due diligence concerns if they can’t expertly handle this crisis.”

Stuart Wood
Managing Director

“The sole and only focus of our business is to make sure that there is no disruption in timely, efficient and accurate reporting to investors. We are using all of our resources and ability to ensure that’s happening from top to bottom.”

Rhonda Casey
Managing Director

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Managing Director
Asset-based lending (ABL) has become increasingly attractive to fund managers seeking investments in new areas of interest for investors. A recent Private Debt Investor survey showed that sixty nine percent of respondents planned on committing to investments in asset-based lending for the year ahead. David Traverso, Alter Domus Director, takes a look at the growing interest in this under-represented asset class and the benefits it brings.

While asset-based lending offers a range of important benefits for investors, many fund managers feel unable to commit to it as readily as they would like due to a range of administration hurdles they face. But these obstacles are not necessarily deal-breakers and managers can enjoy the benefits of asset-based lending without the operational and liquidity challenges that accompany it. Typically, lenders who have successfully tackled the administrative burden asset-based lending presents, find them among the most durable loans in their portfolios. They are revered by credit officers for their low loss rates, even during some of the most challenging credit cycles. By its nature, asset-based lending provides greater protection to lenders with the borrower’s assets used as collateral.

WHY ARE FUND MANAGERS SO KEEN ON ASSET-BASED LENDING?
Asset-based lending has quickly grown in popularity amongst investors. This rise in appeal is due in large part to the number of real benefits it provides.

1. It generates solid, low-risk returns
Since 2012, the ABL market has grown at an approximate 6.9% compounded annual rate. According to the Commercial Financial Association, yields for small, non-bank investors averaged 10% over a three-year period.

2. It provides investment protection
With loans backed by tangible collateral, ABL delivers protection. If something goes wrong with an asset-backed loan, the lender can collect whatever the collateral is, such as receivables, equipment or inventory.

3. ABL offers a differentiated source of yield
Significantly, ABL enables investors to diversity into a new, yield-generating area, increasing portfolio security. Credit officers have long viewed ABL as an area with some of the most durable loan assets available, notable for their low loss rate, even during turbulent market periods.

4. Fewer financial covenant obligations
It also requires fewer financial covenants than cash flow loan options, meaning borrowers are not as constrained with regard to financial flexibility.

OVERCOMING THE HURDLES, MEETING THE CHALLENGES
While the benefits are clear, there is no denying that asset-based lending presents a high barrier to entry, preventing some fund managers from entering the ABL arena. The expansive back-office commitment demands constant monitoring and contact with multiple parties on a daily basis such as servicing daily advance requests and review and validating and processing daily collateral information. This alone equates to dozens, if not hundreds, of highly-specialised professionals, infrastructure, and field-specific, sophisticated software. Aside from the formidable operational challenge, asset-backed lending also requires a high volume of lender liquidity. Lenders must maintain minimum liquidity levels to fund loan drawings. Other key hurdles for fund managers are size constraints and concentration risk. For funds that must adhere to concentration risk rules in relation to their investment portfolio, the risk is that a loan request may be too large for a lender to meet. The diversification brought on by asset-based loans can help fund managers avoid potential concentration limits.

DEBT & CAPITAL MARKETS
ASSET-BASED LENDING
INSIDE OUT

“By working with an ABL back-office specialist, funds can enjoy unfettered access to ABL investments and pass on a range of crucial benefits to their clients. We remove the substantial administrative functions that make ABL both a desirable and seemingly unreachable option for a lot of funds.”

David Traverso
Director

Alter Domus’ vast experience in providing ABL services has translated to efficient, specialist back-office management for both first-time and seasoned lenders. Among its end-to-end ABL service, Alter Domus manages collateral monitoring, loan servicing and cash management. By partnering with a dedicated back-office operations provider that already has the requisite ABL-specialist human resources, infrastructure, and software, fund managers are able to include ABL in client portfolios and enjoy the many benefits that it provides.
ACCELERATION

According to Bloomberg, in the two weeks ending March 19th, 2020, distressed debt in the US doubled to hit USD $1 trillion. Just one week later, it was close to USD $1 trillion. The staggering speed and scale of this acceleration is a powerful example of how COVID-19 has shaken financial markets, sending shockwaves through many of the world’s largest economies.

John Budyak, Managing Director, outlines the crisis facing this niche market. While the virus may have caught markets off guard, the financial fall-out from it is not unprecedented in recent history. Distressed debt soared in 2008 prior to the global financial crisis, with banks, credit unions, private equity funds, and even the FDIC requiring help to manage non-performing loans. At the time many organisations created dedicated special asset departments to deal with distressed loan portfolios, dissolving them when the economy recovered. As a result, what we are seeing today is a growing gap between the need for workouts and the necessary in-house expertise or capacity to plan and deliver them. This gap is being driven ever wider by the sheer speed with which the bottom fell out of markets as the virus rampaged across the globe. And, as the pandemic continues, it is expected that a growing number of highly leveraged borrowers will be forced into default.

While experts have been predicting the imminent end of our protracted, post-recession bull market for some time, their assumptions were based on historical business cycles. Today, with the startlingly abrupt standstill of societies and economies worldwide, the lessons of those business cycles are redundant. Where once we might have braced for a slowdown in cash flow, what has actually happened is a complete full stop. Businesses simply shut down overnight. But given the length of such a sustained period of economic growth and expansion, many lending institutions, credit funds, or banks may not have thought about a recession-like round of problem loans. Understandably, no one could have been expecting the tsunami of distressed debt they are now seeing.

RECESSION, RECOVERY, REPEAT

In the immediate aftermath of the global financial crash, between 2008 and 2014, any institution that originated distressed debt, purchased debt, or did both was stressed. However, in that scenario there was more time to develop and fully staff a special assets team as the credit problems grew. Typically, they engaged people who understood different industries, different types of collateral, and even different borrowers - cooperative in building some sort of resolution strategy or seeking to buy time or move assets around in an attempt to avoid fraudulent conveyance.

“In a more stable economic environment, it no longer made commercial sense to payroll such niche expertise when the work had been completed and the pipeline of distressed debt dried up.”

John Budyak
Managing Director

Once that recession ended and everything was litigated or worked out, those teams were disbanded. Any members of the team that were retained typically shifted their responsibilities to originating new loans or making other deals that could create paths to recovery. None were specialising in distress, particularly when it arrived overnight. With this history, and within the context of the overwhelming impact of COVID-19, it suggests that there may be a general lack of experience, agility, or capacity to meet the exceptional debt situation playing out. Lean staffing is the key reason that lending institutions facing debt turmoil are outsourcing their special asset needs. Increasingly they are seeking partner companies to develop appropriate workout strategies, mitigate reputational risk, and move rapidly to resolve tough issues.

AN EXPERT FIT FOR SUSTAINABLE SOLUTIONS

If you are considering partnering with a special assets servicing team, here are some things to look for:

- Broad workout experience, including expertise in restructuring, settlements, litigation, and liquidation services.
- Professionals who understand different types of loans, collateral, borrowers, and regulatory requirements, and can quickly grasp your capital situation.
- Problem solvers who can quickly assess risk and formulate options that will result in the best economic outcome.
- Ability to onboard clients within days.

“We have proactively and rapidly shifted the team’s priority back to special assets, scaling up to meet current demand. Our team delivers prompt, sustainable solutions that the borrower can perform on and you can live with.”

John Budyak
Managing Director

The Alter Domus special asset servicing team was established in 2008 as part of the broader credit services department. Unlike others it has never been dismantled. Skilled in managing distressed loans and assets, they have furthered their credit experience over the past five years in areas such as underwriting, covenant monitoring and credit reviews.
ARE WE ENTERING THE AGE OF INTEGRITY?

Since 2015, the Netherlands has been leading the way in driving up tax integrity standards, publishing guidance to help financial institutions establish the fiscal motives of their clients. Tax laws have been implemented to ensure tax integrity is a priority. The demand for greater tax integrity is growing around the world, and it looks set to grow stronger. Therese Wijnen, Country Executive Netherlands at Alter Domus, and Arnaud Booij, Partner and Lawyer at Booij Bikkers Advocaten discuss how both corporations and corporate service providers can best respond and adapt to this new way of thinking.

Corporate tax integrity and transparency are becoming key components to structuring funds and other financial dealings across the globe. It is no longer acceptable to set up business structures for the sole purpose of reducing tax burdens. And this is especially true in an era when Environmental, Social and Governance (ESG) investment initiatives are gaining traction around the world. For instance, the Cayman Islands recently announced that by 2023 it would publish the identities of those who own a company there in an effort to curb illegal tax evasion and tax avoidance. And even notorious tax havens like Switzerland have undergone reforms seeking greater compliance. In short, tax integrity requires more than good accountants.

Corporate service providers need to understand the concept of tax integrity and the spirit of tax law and begin having honest and transparent conversations with their clients.

Q: HOW WOULD YOU DEFINE TAX INTEGRITY?

Arnaud: I look at it from my Dutch legal perspective as well as how the Dutch National Bank is looking at corporate service providers or management service companies. In summary, it is the willingness to comply with the tax laws in all jurisdictions, and not to act against the spirit of those laws, nor against what is considered to be socially acceptable. But the most difficult part is that everybody has different ideas of what that is.

Therese: And sometimes you may do something you think is perfectly acceptable with regards to the tax law only to find out that it was not socially acceptable. And that complicates the discussions you are having with your clients.

The Takeaway: While there is no official definition for tax integrity, it can be defined as a willingness to adhere to both the spirit of the tax law and society’s unwritten rules when it comes to corporate tax structuring.

“What’s difficult is that what may not be acceptable in the Netherlands, may be entirely acceptable in Luxembourg or Malta, for instance.”

Arnaud Booij
Partner and Lawyer, Booij Bikkers Advocaten
**Q: WHY IS IT IMPORTANT FOR CORPORATE SERVICE PROVIDERS TO ENSURE HIGH LEVELS OF TAX INTEGRITY?**

**Arnaud:** The first reason corporate service providers should ensure tax integrity is to operate in line with their own values. Secondly, corporate service providers in the Netherlands are supervised by the Dutch Central Bank, and it is their duty to be gatekeepers whereby they have to perform and also be compliant. It all comes down to having a high level of understanding of your tax integrity rules, and what you expect from your clients with their tax integrity. Public policies help achieve this.

**Therese:** As gatekeepers, it is the job of corporate service providers to avoid being involved in tax fraud or money laundering. Not only does a clear tax integrity policy help avoid these risks, but it will guard the reputation of the financial industry and, as such, corporate service providers as a whole. Other gatekeepers such as banks are looking very closely at tax structures that might be on the edge of their integrity in the Netherlands and in other European countries. And that is why today’s corporate service providers are concerned that they only work with clients that share similar values to those set out in their tax integrity policy. And finally, the social aspects of tax avoidance are becoming increasingly evident, so having a clear and active tax integrity policy in place is an important element of an organisation’s reputation.

The Takeaway: Corporate service providers play an important role in maintaining tax integrity for their clients. They do this by being transparent about their tax policies and communicating those expectations to their clients. This open and honest way of doing business will help support corporate values and ensure tax integrity across the board.

**Q: WHAT ARE SOME OF THE WAYS THEY CAN IMPROVE THEIR TAX INTEGRITY?**

**Arnaud:** It is important to be transparent about your tax integrity policies. Ask yourself what kind of clients you want to work with and then align your tax integrity policy with your clients. And if you have a question about something, go to the tax authorities or an attorney and ask them how to comply. Listen to different opinions and then think about the risks but remember, what is allowed in one country may not be allowed in another. So, if money is going to a foreign country, you will need a lot of information to make an informed decision. The underlying question should always be, “What is the business reason for this?” If it is simply to reduce taxes, it is likely to be tax avoidance. Substance over form is the key.

**Therese:** In addition to this, I want to stress the importance of being transparent and having an open dialogue with clients. Each will form their own opinions, and it is critical that they are clear about them when it comes to how they want to approach tax integrity. When you accept new clients, you have to understand their appetite for risk and make sure it matches yours.

The Takeaway: Knowledge is power when it comes to tax integrity. It is important to understand the rules, and if you have questions, talk to the authorities to become better informed. It is also important to talk to clients to learn how they view tax integrity. Corporate service providers are most successful when they and their clients agree on these policies. Also, tax integrity looks at the “why” in structuring. For instance, a corporate structure that is set up for the sole purpose of reducing the tax burden, and that is why forward-thinking service providers are speaking openly to their clients and tax advisors about tax integrity.

**Q: CAN YOU PROVIDE AN EXAMPLE OF A CORPORATE SERVICE PROVIDER WITH HIGH LEVELS OF TAX INTEGRITY?**

**Arnaud:** All corporates service providers that are members of the Dutch trade association, Holland Questor, must have their own tax integrity policies and adhere to the tax integrity policy of the trade association. However, due to societal pressure and the pressure of the Dutch National Bank, corporate service providers that are not a part of trade associations should have tax integrity policies in place as well.

**Therese:** At Alter Domus we have a comprehensive tax integrity policy that we discuss when needed with our clients. And the idea is spreading rapidly. Currently, there are 100 countries that have agreed to an anti-avoidance tax rule, and we believe the number of countries will continue to grow.

The Takeaway: More and more corporate service providers are adopting high levels of tax integrity because of the changes in tax laws and societal demands. In the Netherlands, as well as other countries, it is no longer acceptable to set up a business structure for the sole purpose of reducing the tax burden, and that is why forward-thinking service providers are speaking openly to their clients and tax advisors about tax integrity.

**Q: ARE THESE DEVELOPMENTS ONLY OCCURRING IN THE NETHERLANDS OR IS THERE AN EXPECTED IMPACT ON THE REST OF THE REGULATED WORLD?**

**Arnaud:** Although the Netherlands is advanced with this, other countries are following suit. For instance, the EU and the rest of the world is starting to think about how tax integrity fits into their laws. It may take a few years for all companies to realise that they need to make their tax integrity policies public. The legislation is already there and companies are anticipating it and changing their structures. Before long, certain types of clients will not be welcome at most corporate service providers. They will go on to find another firm, but over time they will have difficulty finding a service provider who is willing to take the risk of working with them.

The Takeaway: Tax integrity is a worldwide issue, with the Netherlands at the forefront. But the rest of the world will soon catch up. That means corporates clients will soon begin to seek out corporate service providers, banks, tax advisors and other financial service providers that are clear about their tax integrity policies.

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BUSINESS AS USUAL
IN A BRAND-NEW WORLD

Against a background of ongoing uncertainty and unparalleled economic turbulence, it is more important than ever that outsourced service providers are positioned to deal with unexpected events, take care of ‘business as usual’ and stand ready to support new fund launches and new clients. Ross McCann, Head of Fund Services Ireland, believes service providers have proved their worth during the COVID-19 crisis.

RESILIENCE IS A CRITICAL METRIC
Scalability, resource flexibility, expertise and operating model efficiency are typically hailed as the main benefits to partnering with outsourced service providers. However, growing global risks in recent years such as cyber security and climate change have seen managers and regulators focus increasingly on the robustness of service providers’ Business Continuity Plans. The ISO 22301 Certification for Business Continuity Management is critical in helping service providers to assess and continually improve their business resilience.

Such certification also demonstrates to existing and potential clients that the business is strongly placed to minimise or avoid disruption if a significant event occurs. The current environment will only help to galvanise the opinion that one of the foremost criteria when evaluating third party providers should be the reliability and robustness of business continuity planning.

“Investment managers rely on providers to give them scalability but it must be robust. They should have reassurance that service providers can maintain delivery under the most challenging circumstances, and COVID-19 is making it readily apparent why this is critical. Those with the latest technology will be in a stronger position to maintain, or even enhance, delivery.”
Ross McCann
Head of Fund Services, Ireland

BUILDING NEW WORKING PRACTICES
The trend of flexible working, including working from home, has been growing in popularity as technology has advanced. Companies saw increasing demand from employees to better balance their home and work life. For those firms who embraced these evolving new working practices, in many ways this will have contributed to their business resilience in the current pandemic scenario. However, while the majority of Financial Services sector companies built ‘working from home’ into their Business Continuity Plans, they will not have envisaged the full-scale, prolonged scenario we see today. The sheer scale and depth of remote working required to keep businesses on track has required some real adjustments to plans and renewed thinking regarding continuity. For example, original short-term working solutions may have been ramped up in terms of both hardware and software, enabling employees to work in more comfortable and secure home office environments. The more comfortable, equipped and connected employees are, the easier it will be to conduct ‘business as usual.’

HUMAN RESOURCES RISE TO THE CHALLENGE
The Human Resources function is often overlooked when selecting service providers or considering the strength of their business resilience. But in a COVID-19 world, the importance of maintaining and growing headcount has become ever more apparent. In a sudden, enforced and long-term material change to ‘normal’ working conditions, service providers, more than ever, need flexibility in managing the human and social impact of COVID-19 on its employees. Strong HR teams will be the lynchpin in successfully bringing on board and supporting new staff, rising to the significant challenge of making them feel part of their organisation whilst not being physically there.

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What trends are investor relations professionals experiencing in real estate fund reporting? How are real estate investors' requirements changing under the cloud of Covid-19?

Stephane Campori, Director Real Estate at Alter Domus interviewed senior professionals at four leading real estate fund managers to seek their views on the changing landscape of real estate fund reporting—especially in light of the Covid-19 pandemic.

Q: AS A STARTING POINT TO OUR DISCUSSION, COULD YOU PLEASE HIGHLIGHT YOUR CURRENT INVESTOR REPORTING PROCESS?

Describing investor reporting practices at M7, Head of Investor Relations Nick Bradley explained, “We typically provide quarterly reporting, alongside any ad hoc requests and regular investor meetings. These have evolved in terms of format and content over the last ten years. We manage over 800 assets across the UK and Europe, with an average value of approximately EUR 5-6 million per asset. Our reporting must be informative, but not contain too much granular detail, especially as our group manages 34 different mandates, each with their own requirements.”

Sylvia Slaughter, Senior Director Fund Management at Gazeley, added, “The frequency and amount of information we report depends on the fund. Income funds are relatively stable, so quarterly reporting plus an annual report provides good transparency. Development funds, by nature, have more risk and variability, so reporting is more frequent. We still have the same quarterly reporting structure, but with more frequent communications in between.”

Lee Marshall, Head of Continental Europe at LaSalle Global Partner Solutions, highlighted, “As a fund-of-funds manager, it’s always a challenge balancing the timing of reporting with the level of detail. I think that’s why we’ve seen a bit of a move toward two-stage reporting, with managers delivering a flash report as close as possible to the valuation date—the key content being the NAV, with some commentary about what’s going on in the market, key transactions, etc. That is backed up at a later date with much more granular information, which may include more commentary, editorial, forecasts and more granular detail about individual aspects of each fund.”

According to James Howard, Global Head of Fund Finance at Savills Investment Management, “Whilst each product has slightly different reporting requirements, for most products, investor reporting is provided on a quarterly and annual basis. In terms of content, we utilise a global template that acts to standardise quarterly and annual reports to the extent possible.” Considering comprehensive reporting templates pre-empt questions from investors, Mr Howard added, “A lot of work goes into reporting, and investor feedback has been positive.”

INTERVIEWER: Stephane Campori Director, Real Estate

NICK BRADLEY, HEAD OF INVESTOR RELATIONS AT M7 REAL ESTATE

Nick Bradley works in Investor Relations and Fund Management. He is involved in reporting on the fund performance of M7 managed vehicles and plays a central role in managing investor relationships. M7 Real Estate is one of the leading specialists in the pan-European regional, multi-let real estate market with circa EUR 5 billion in AuM.

Sylvia Slaughter, Senior Director Fund Management at Gazeley

Sylvia Slaughter is currently the Senior Director – Fund Management with responsibility for business planning, fund performance, capital management, investor reporting and fund governance. She is also a member of the INREV Due Diligence Committee. Gazeley is part of GLP, a leading global investment manager in logistics infrastructure, finance and related technologies totalling USD 89 billion in AuM.

LEE MARSHALL, HEAD OF CONTINENTAL EUROPE AT LASALLE GLOBAL PARTNER SOLUTIONS

Lee Marshall is responsible for all aspects of investment management for continental European clients. Before joining LaSalle GPS in 2018, Lee held senior positions at Aviva and CBRE. LaSalle Global Partner Solutions offers investors global investment opportunities through a variety of investment vehicles including co-investments, joint ventures and secondaries.

JAMES HOWARD, GLOBAL HEAD OF FUND FINANCE AT SAVILLS INVESTMENT MANAGEMENT

James Howard is Global Head of Fund Finance and is responsible for the management of the Fund Finance teams across the Savills Investment Management group, overseeing the finance and operational functions of real estate investment structures within the business. Savills Investment Management is a global real estate investment manager with 100 employees across 17 offices managing EUR 20.7 billion of assets, providing investors with direct and indirect exposure to real estate.
**Q: AS TOP REAL ESTATE PLAYERS, WHAT TRENDS DO YOU SEE IN THE INDUSTRY FOR REPORTING TO INVESTORS?**

Mr Marshall noted a slight difference in the reporting requirements of larger investors, commenting, “We are seeing a movement in the industry for bigger investors to demand more granular information so they can more accurately do their own modelling. They often have in-house forecasts, in-house views of where market occupancy and rental levels will go – and they need the individual asset details to be able to model that out. As an investor, however, I wouldn’t want to lose the ability to invest with a manager who had a great track record and philosophy just because they didn’t have the capacity to provide all the information I requested.”

Mr Bradley observed, “We are seeing a trend towards quality over quantity of information within reporting. We need to provide a concise and transparent snapshot of what’s happening in the fund, ideally in a 1-4 page document. This ensures investors can take note of any metrics from a performance or valuation point of view that we believe are key to the success of the particular fund.”

Mr Howard added, “Each investor and product is slightly different, but the general trend has been towards investors requesting more specific information or better granularity, or towards them requesting information in their own format – which is often the same information we’ve already provided in our quarterly and annual reports. I think the solution to meeting these requests lies in technology and automation.”

Ms Slaughter highlighted the need to strike a balance between transparency and detail in reporting. “At the end of the day, investors want managers to be managing their investments – not spending time on accessing granular reporting details that may not add value or provide useful information. You must make a judgement call as to what is helpful to the investor, what is significant, and what is meaningful.”

**Q: HOW HAS THE COVID-19 PANDEMIC IMPACTED YOUR INVESTOR COMMUNICATION?**

Describing the recent impact of Covid-19 on investor communications at Gazelle, Ms Slaughter noted, “As a global company with significant operations in Asia, our European team had the benefit of seeing Asia go through the process first from January to April, and now the aftermath as they are emerging from the other side. We were able to see how that market reacted, what happened on the tenant side, what were the rental requests that happened (or didn’t happen), and how many sites closed down and for how long.”

“Going through this experience early on allowed us to prepare an FAQ. In early March, the global situation was still very fluid and changing every few days, so we were updating our FAQ very frequently and keeping in constant contact with our investors – it was a classic crisis communication management situation,” she explained.

Mr Bradley explained “As soon as the Covid-19 lockdown was announced, M7 focused on proactively managing each of our funds and mandates, with the aim to keep our senior lenders and investors as up to date as possible. In addition to the usual quarterly reporting, this means issuing shorter, interim reports every two weeks focused on rent collection and ultimately what M7 is doing to protect investor capital. These include the rent collection position, the debt position per fund and updating any changes to the asset management strategy when necessary. The core aim of these reports is to keep investors informed, whilst demonstrating a proactive approach during this uncertain period.”

At LaSalle GPS, Mr Marshall recalled, “When Covid-19 struck, we did some additional analysis with our underlying funds and service providers to see how they were doing. We wanted to ensure people could effectively work from home and continue to operate despite the limitations being put on all of us. The good news is that everyone seems to be able to continue to operate effectively.”

Mr Marshall continued, “With this information in hand, our next step was to reach out to clients. Jeff Jacobson, Global CEO of LaSalle Investment Management, hosted a conference call for all clients – enabling them to dial in and ask questions directly about our approach, what we saw as the risks, and the way forward for the business and for their investments.”

**Q: LOOKING TOWARDS THE LONG-TERM, WHAT IMPACT DO YOU EXPECT THE PANDEMIC TO HAVE ON INVESTOR REPORTING AND YOUR OWN OPERATIONS?**

Recounting Savills Investment Management’s experience, Mr Howard said, “Stress testing, liquidity and tenant solvency are issues that are being pushed to the forefront by Covid-19, all of which we have been testing with greater frequency during this pandemic. We have been proactive in sharing this information with investors and have been holding regular calls to update them on the assets and address any specific concerns they may have. This proactive approach has been greatly appreciated and provides an additional level of comfort. It is likely that investors’ focus on these areas will continue longer term.”

Mr Howard added, “We’ve been receiving a number of different investor queries, but we have sought to address responses to all investors within the same product to ensure that each investor is treated fairly and has access to the same information. It’s an ongoing process and there’s a lot of ad hoc communication at the moment.”

Ms Slaughter concurred, and added “Communicating with investors during this lockdown time is interesting – it forces us to innovate more. How can we communicate with investors without face-to-face meetings? Without physical property tours?”

She believes that out of this crisis, the industry will innovate. “Earlier this week, we were evaluating a new virtual property tour our team put together, and we realised this is probably going to become the new market standard. Even when things go back to normal and people can travel, this type of interactive, virtual experience is so much more interesting than a PDF asset book. It’s an innovative tool that will make investor communication better.”

Mr Bradley added, “Keeping our investors as informed as possible is our main aim in the current economic environment. We will continue to provide fortnightly reporting that will address key concerns raised by our investors and lenders. We will continue to adapt our reporting based on the needs of our investors to ensure all information they require is available.”

On his side, Mr Marshall predicted, “I’m not sure it will change ongoing reporting, but I do think it will change the content of the initial IMAs or LPAs, so it is more clearly spelled out how we will deal with these kinds of situations. If an underlying fund valuation has an uncertainty clause attached to it, there will be a clear procedure for fund managers to build that caveat into their valuation, or to have a different pricing mechanism, for example. Today, everyone has been working in the grey areas of the legal documentation, which allows the manager to have a degree of judgement with how they deal with force majeure or illiquid market situations. In the future, I think investors will want to know upfront exactly how managers will deal with these situations.”

He also expects BCP to become subject to enhanced due diligence on both fund managers and service providers going forward.
According to Mr Marshall, “LaSalle has been very active in this area. Up until now, we have provided an annual sustainability report to our investors, and we are currently building a sustainability component into our quarterly reporting. Our ESG specialist sits on the Board of GRESB, and we ask all funds to take part in the annual GRESB survey. We have identified a few areas in GRESB that we feel are particularly important, and we engage with fund managers on these points during reviews.”

Ms Slaughter commented, “We include sustainability as part of our quarterly and annual reporting, and also get ad hoc questions from investors. After the global financial crisis, there was a push from investors on sustainability – so the focus on building certificates and energy ratings has been quite strong since then. We have participated in GRESB benchmarking since 2013, which I think is the best barometer for the real estate industry.”

Q: SWITCHING TO FINANCIAL REPORTING, WHAT STANDARDS DO YOU FOLLOW?

“There’s a little bit of a mixture at LaSalle,” noted Mr Marshall. “Some of our clients will request IFRS because it keeps the valuations more in line with their wider portfolio. We’re comfortable with INREV NAV as well; particularly in some circumstances where adjustment from IFRS makes sense. Asset managers will usually have a reconciliation between IFRS and INREV NAV.”

Commenting on her experience at Gazeley, Ms Slaughter explained that IFRS was necessary for an international investor base. “The INREV Reporting Guidelines is not something our investors have asked for yet, but I would like to explore it to help minimise investors sending us too many specific templates. It is something, however, we need to collectively agree with our investor partners.”

Mr Bradley explained, “We prepare quarterly IFRS reporting which includes primary financial statements. In some cases we provide bespoke financial reporting to investors if requested. We also have some separate accounts who will ask us to provide an INREV NAV based on certain criteria.”

Mr Howard added, “The most common standard we report under is IFRS, which we use for our Luxembourg, UK and Singapore domiciled funds. We follow INREV guidelines for a number of our funds, but often have flexibility on which INREV adjustments are adopted.”

Q: TURNING TO THE OPERATIONAL SIDE OF INVESTOR REPORTING, HOW DO YOU PULL OUT YOUR DATA? WHAT TOOLS DO YOU USE?

“We have an investor relations team that is assigned to each product, and is responsible for pulling reports together and getting input from the respective teams: finance, asset management, fund management, research, and compliance,” explained Mr Howard. “It’s a time consuming process involving many areas of the business, however this is being continuously improved with the implementation of systems and automation where possible, further streamlining the process.”

Mr Bradley noted, “MT operates a suite of systems including Yardi and Coyote and its own bespoke Business Intelligence platform. The property database Coyote is central to MT’s operations and we use Yardi asset management and a ledger accounting system to transfer data electronically. These integrated systems remove the need for double keying and simplifies the business process, which is particularly important when reporting on 34 mandates across 14 different countries.”

“Investor reports are the responsibility of our fund management team,” points out Ms Slaughter. “We rely on a substantial amount of data from the finance team, and pull a lot of information from different parts of the business. Then it all goes into our own reporting template, and we try to standardize as much as we can.”

She added, “The review process is quite broad and involves the finance, treasury, compliance, risk management and legal teams.”

“On the operational side of things, we use W Desk as our reporting tool and Qualtrics as our data collection tool,” Mr Marshall shared. “The analysts within the team are responsible for Qualtrics data collection and translating that into a usable format. Then W Desk allows us to pull out appropriate data from that data set into client reports with a consistent template and format. We use a couple of different platforms, but it’s an ongoing project to develop our reporting and make it more streamlined and efficient.”

“The needs to benchmark performance and ensure transparency have long influenced investors’ reporting demands. Now with the arrival of Covid-19, their reporting and communication expectations have evolved further, as these four leading real estate fund managers have revealed.”

Stephane Campori
Director, Real Estate
At Alter Domus we are committed to creating a balanced, equal and diverse workforce. We see gender equality not simply as a debate about women in work, but as a fundamental economic issue underpinning thriving economies, organisations and societies. But true gender equality goes far beyond ‘fair play and equal pay.’

In one of the first studies to use economics as a metric, a 2017 report from the European Institute for Gender Equality measured the economic impact and benefits of greater gender equality. The report forecast that improved gender equality would lead to an increase in EU GDP per capita by 6.1 to 9.6 percent by 2050. Typically, when discussing gender equality, the most frequently used metric remains gender parity, comparing a particular indicator among women, such as average income, to the same indicator among men. Western Europe currently has the world’s highest gender parity rating at 76.7 percent followed by North America at 72.9 percent. South Asia, the Middle East and North Africa are at the lower end of the scale, with parity sitting between 60.5 and 66.1 percent. Gender parity is undoubtedly an important benchmark of progress but what these numbers show is that there is still much room for improvement around the globe.

Today, not a single country can claim to have achieved true gender equality.

WHAT DOES TRUE GENDER EQUALITY MEAN?

Examining rising equality trends and what might lie ahead, Joanne Ferris, Chief Human Resources Officer at Alter Domus reveals, “I am incredibly proud that Alter Domus have achieved a 50/50 gender balance across our global workforce of 2,400, but our efforts to drive greater equality do not end there. Gender is only one aspect of diversity and equality. And while it is to be welcomed that it is now seen as a clear pre-requisite for performance, company culture must go far beyond that. Organisations must strive to foster an environment where career development and work-life balance can be equally achieved, regardless of gender, age, ethnicity or family situation. True equality is based on a diverse and inclusive culture, not simply the number of women on the payroll.”

Sandra Legrand, Alter Domus Regional Executive Europe, believes that working to close the gender gap is the best way society can make progress towards a more equal world. She says: “Building inclusive workplaces where women can thrive is crucial to business, the economy, and society at large.”

EXECUTIVE FEMALE REPRESENTATION LEADS THE WAY

Over the last five years, the number of women in senior positions has seen C-suite representation grow from 17 to 21 percent. According to McKinsey & Company’s ‘Women in the Workforce 2019’ report, 44 percent of companies now have three or more women in their C-suite, up from 29 percent in 2015. Adding just one woman at a senior level can make a significant impact given the critical role top executives play in shaping the business and culture of their organisation. Looking beyond executive female representation, companies are increasingly taking progressive action to improve their gender diversity at all career levels. However, there is one anomaly in this trend of greater diversity at senior executive level: research from Mercer has shown that in the financial services industry as career level rises, female representation severely declines.

BREAKING DOWN INTERNAL BARRIERS

In an era of rapid change, organisations that prioritise a diverse and inclusive internal culture will be best placed to solve the problems of the future. Well-executed efforts to hire and promote a more diverse range of candidates and create a strong internal culture reinforce one another. The more diverse the workforce, the more inclusive the culture will naturally become. Research has shown that when a company’s culture feels both fair and inclusive, women and other under-represented groups are more likely to thrive.

Three of the seven members of Alter Domus’ Group Executive Board are women. With 43% representation at GEB level, Alter Domus is leading by example. A strong female presence in leadership roles can have a positive trickle-down effect on diversity at all levels of the organisation.”

Jessica Mead
Group General Counsel

“Alter Domus supports diversity in its many forms with a truly international talent pool made up of 65 different nationalities. We understand that gender diversity and cultural diversity go hand in hand in creating a better world.”

Joanne Ferris
Chief Human Resources Officer
A NEW PERSPECTIVE
FROM PANDEMIC TO
GLOBAL

While all sectors of the global economy are under severe pressure, businesses large and small are slowly emerging to take their first tentative steps towards a new type of normal. There is no doubt that the challenges ahead are daunting with the true scale and impact of the COVID-19 crisis perhaps not emerging for some years. But what is clear is that the type of recovery we see will vary between industries, asset classes, countries and companies. Doug Hart, CEO of Alter Domus reflects on his firm’s response and takes a look at the long-term picture for private debt funds.

As the crisis began to unfold in China our offices in the Asia-Pacific region offered a real, up close view of the startling impact of this novel disease. Those offices were hit by the effects, both the illness and the implications for business, some 90 days earlier than our US and European bases. We moved quickly to adapt and equip our staff for long-term remote working. Robust and secure IT solutions were implemented; reliable remote access was established, and we strengthened our internal communications systems and processes. The insight we gained helped us learn lessons as COVID-19 quickly spread around the globe. Yet even us, with first-hand experience, could simply not anticipate that over 90 percent of our staff would be working remotely and European borders would shut down. US decisions would be taken by independent states while the 30 international jurisdictions where we operate would adopt slightly different responses.

We examined the deep implications for our products, services, capabilities and clients right across our global presence. Most of our clients are multi-sector and it seems sectoral recoveries may diverge significantly. Energy and manufacturing are both under severe strain yet their recovery trajectories look very different. While clearly a highly complex process based on comprehensive analysis, it did show that our core infrastructure is stronger than we thought. What it also showed is that the fall-out from the closure of large parts of the economy in many countries is creating both challenges and opportunities for private debt funds.

CAN PRIVATE DEBT RIDE TO THE RESCUE?
Just as sectors and societies will respond differently to this crisis, some recovering faster than others, so too will asset classes. Private debt funds in particular find themselves in an interesting place. While there is no doubt that fundraising dropped sharply in 2020, significant amounts of capital have been raised in the last few years and many private debt funds have considerable sums still to deploy. A recent Proskauer survey of 112 private credit clients found that 97 percent of respondents would be prepared to provide additional capital to existing borrowers while 86 percent are seeking new lending opportunities. While there was no significant drop in deployment in the early part of 2020, it is too early to spot any emerging trends in the current crisis. However, we can say that private debt funds are a highly flexible and robust lending source, offering quick and creative solutions to the many unprecedented challenges borrowers may now face.

In the immediate aftermath of the global financial crash, private debt firms did a phenomenal job of driving deeper into the market, taking the first steps on the road to becoming a significant force in the lending arena. And in recent years, the private debt market has enjoyed a period of significant growth and now has the infrastructure firmly in place to execute deals in turbulent times. Today, a strong capital base and established networks, alongside an ecosystem of lawyers and due diligence providers, ensures the industry is perfectly placed to pivot towards the many new opportunities tomorrow will bring.

FINDING THE ROAD TO RECOVERY
At Alter Domus we have strived to work towards and support our clients in building a ‘business as usual’ approach. Our clients are resilient and may emerge from this crisis stronger than before. However, nobody can discount the enormous levels of disruption and ongoing uncertainty we all face. We have applied the same approach to the continued rollout of our rebranding exercise which started in 2018 following our merger with Cortland Capital Markets business. This year, after originally connecting our two businesses with a ‘tight touch’, we are now ready to move to the next level which will see all teams working under the Alter Domus brand by the end of 2020. While the Cortland brand is firmly established in the debt capital markets, it has less of a presence in other asset classes within the alternatives space. This phased rebranding allows us to leverage Cortland’s name and niche expertise, while bringing all our capabilities under one roof. Clients from across different segments can tap into our extensive range of capabilities helping them consolidate the number of service providers needed.

What’s next? We will continue to provide unwavering professional support to our clients as they seek ways to adjust and adapt to evolving business demands and unexpected new challenges.

“We are already working with some clients on new fund launches and I think what we will see for some time to come is the larger, proven firms looking to raise bigger funds, while fewer new managers emerge.”
Doug Hart
Chief Executive Officer

And, as businesses and economies begin to move forward, we will continue to analyse and understand the unique threats, and opportunities each client, region or asset class may face.

“While it is not clear what rapid changes may lie ahead, nor what form they may take, it is clear that private debt is in the right space to meet a surge in demand for flexible and creative solutions that will inevitably flow from a global crisis of this magnitude.”

Doug Hart
Chief Executive Officer
YEAR-END REPORTING TESTED TO THE LIMIT: HOW DID YOU DO?

Every year, CFOs reflecting on year-end reporting think of things that could be done better. Inevitably practical issues arise, along with flaws in workflows and processes. Completing the year end is a process that depends on immaculate preparation, planning and communication.

But this year was different. Out of the blue, COVID-19 posed severe challenges. Working from home, staff had to quickly get technology in place, and work as a team despite not being in the office. Hard enough if everyone is in the same time zone, but even more difficult for those firms with people across multiple time zones.

More than ever, it is a year when strong underlying technology, processes and service partner staff and experience matter. That makes it a good time for CFOs to review how their administrators performed and to reflect on planning and partnerships for 2021. The five questions we suggest CFOs ask themselves are:

1. WAS THE ADMINISTRATOR HELPFUL IN SUPPORTING THE AUDIT WITH “INFO PACKS”? DID IT CHARGE EXTRA?

Administrators play a vital role in supporting the audit. Notably, “info packs” containing the additional information needed to support and complete a fund’s accounts can be extensive; they are often used not only by the auditors but by fund controllers to facilitate their review of the numbers and can contain a mix of both supporting legal documentation and schedules detailing calculations. General partners (GPs) are making more requests for additional services that would previously have been performed in-house. These include attending GP board meetings and assisting with year-end board papers.

While administrators always seek to support the audit, they are more likely to meet expectations if all support required is included in pre-scope deliverables and well-defined administrator service level agreements. Planning for them from the outset minimizes the risk of due date overshoots and errors arising from rushed responses to ad-hoc queries. It also means there is no danger of extra fees needing to be applied.

2. WERE THE YEAR-END NET ASSET VALUES (NAVs) PRODUCED ACCURATELY AND ON TIME?

Calculating NAVs is the acid test of the year end. Generally speaking, NAVs are accurate and on time, but there is inevitably some back and forth in the first year of an administrator’s appointment as both parties reach a common understanding of the methodology and contents of calculations. What’s more, if a fund holds private investments, a “final” NAV cannot usually be calculated immediately after the year end, as it takes time to finalise valuations and for the fund’s GP to approve them.

However, good advance planning minimizes delays and the risks of inaccuracy. This includes confirming the calculations to be made, knowing what assets/liabilities must be recognised and receiving all bank statements. Then a ‘close to final’ draft can be prepared as early as possible, often including a first cut of valuations even if they need to be adjusted later.

3. WERE THERE DETAILED AUDIT TRAILS SHOWING HOW THE NUMBERS WERE CALCULATED AND CONFIRMING THEIR ACCURACY?

Supporting the numbers through audit trails is important. The level of detail can be significant if, for example, a real estate fund has a number of underlying special purpose vehicles holding individual buildings. Links have to be included to sources of information, such as legal documents. Again, clearly defining and agreeing what is needed up front avoids problems later.

4. WERE THERE CLEAR PROCESSES OR WAS IT AN “EXCEL MISH-MASH”?

Poor project planning inevitably leads to a stressful year end, putting pressure on GPs’ finance and administration departments. By contrast, a robust plan helps the audit to run smoothly. It’s important to have a mutual understanding of the key stakeholders and contacts, information flows and due dates, as well as the GP’s requirements regarding the form and content of “info packs” and reconciliations. Ideally, if there are interim quarterly audits then templates can be set up in advance and an approach to communications agreed. Even the best made plans experience the odd surprise, but thinking ahead helps to make the audit process painless.

5. DID THE YEAR-END CONSUME MUCH OF THE CFO’S TIME?

Year-ends always take some of the CFO’s time and 2019 had the additional challenge of the pandemic, even if it is a 2020 event. While the administrator can take care of 80 percent of the audit process, the client’s finance team has responsibility for areas such as the valuations that will be reported. However, experienced administrators can help finance teams by applying their sector expertise to explain those tricky areas that auditors usually like to scrutinise.

This year-end was performed under extremely difficult circumstances that will inevitably have led to more challenges than normal. But as CFOs ask themselves what could be done better, the broad lessons are likely to be the same as ever.

A smooth year-end takes meticulous preparation, a robust project plan, and clear communication on what data is required in advance. Often, this equals to a strong partnership with an experienced administrator with knowledgeable staff and integrated technology and data.
While the alternative investment arena has enjoyed a period of strong and sustained growth with some asset classes soaring to record-breaking heights in 2019, there are challenges ahead. Increasing regulatory demands and growing market pressures are seeing investment managers review their technology strategies and investment agendas. The landscape is changing and finding the right route forward is essential. So, what comes next for a sector buoyed by success and basking in strong investor interest?

Research conducted by Alter Domus helps us to understand the challenges, the trends and the technology of an industry on the edge of significant change.

Earlier this year, we asked twenty-nine alternative investment managers to identify the challenges and operational issues they see their firms and industry facing in the coming years. One common factor emerged from their answers: many of the hurdles they see relate to data management, processes and controls. Investor expectations are growing, regulatory requirements and compliance commitments are increasingly rigorous, and greater operational efficiency is needed to protect shrinking margins. Real challenges are on the horizon and managers must select the right tools and capabilities to address them.

What also became clear is that the respondents fell into two camps when asking themselves ‘what comes next’? Some firms are seeking stabilisation, consolidating their position and adopting a ‘steady as she goes’ approach. Others, however, are targeting growth by harnessing new technologies to surge ahead of the crowd. While both approaches are aiming for differing outcomes, each carries inherent risks, and opportunities.

Our respondents identified and rated key challenges across the different layers of their operating model. When measured against a scale of importance, itself segmented into a preference for stability or growth, analysis shows that an overwhelming majority of managers (70%) prefer stability to growth. High priority challenges include tax and regulatory compliance, talent retention, inadequate skill sets and the collection, reporting and analysis of portfolio data. In short, data-related and process-related operations took the top spot. While IT and technology did not rate highly, a number of technology-related challenges are embedded within data management. We examine two categories of technology that can help investment managers achieve their business goals, whether they be stability or growth.

TRANSFORMATIVE TECHNOLOGIES FOR STABILISATION

The rapid growth of the alternative investment industry with the resulting increase in data volume and demands is driving a need to stabilise existing operations by prioritising improvements in data governance, processes and controls. Investor expectations are growing, regulatory requirements and compliance commitments are increasingly rigorous, and greater operational efficiency is needed to protect shrinking margins. Real challenges are on the horizon and managers must select the right tools and capabilities to address them.

Transformatve technologies support existing activities often through incremental improvements to already established and broadly accepted processes and core systems. The adoption of such technologies stems from improving efficiency without radically changing the business model. However, the challenges alternative investment managers face today are putting pressure on core system solutions, giving rise to new thinking which challenges the typical core system-centric only approach. A number of core or satellite solutions working together could create a more robust data management environment. While all surveyed managers believe data management tools will replace existing systems within ten years, breaking away from reliance on a single solution to address multiple challenges requires fund managers to change their data management landscape. Proper data management can address immediate challenges and objectives, but it can also boost stability which in turn lays the foundation for further growth and innovation. So, what begins as a drive to stabilise business activity, develops into a long-term growth ambition.

TECHNOLOGY: NEW CHALLENGES, NEW HORIZONS

Technology is quickly shaping the alternative investment industry. Those seeking to align their technology and business strategies are making the tough choice between transformative and disruptive technologies to help them achieve their objectives.
Data offers, alternative fund managers landscape. To unleash the full potential, indicating a relatively immature space. However, current adoption levels remain low, offering additional value to clients. The acquisition of larger targets is mainly driven by the desire to increase overall market share, as well as gain long-term synergies and relevant technology. As larger players boost market share and become more technology-focused, they will be ideally placed to promote major initiatives in the alternative investment industry, such as data standardisation.

Additionally, since such service providers cover vertically- and horizontally-integrated value chains, they can act as data repositories for their clients. They may become the trusted partner of alternative fund managers, by offering the tools needed to collect, manage and analyse data effectively. Working hand-in-hand with alternative investment managers, service providers may not only improve reporting by being able to cater to ‘what-if’ scenarios, but provide insightful business intelligence. This may result in forward-thinking service providers becoming a driving force in adopting technology in the alternative investment industry.

Broadly speaking, technology is expected to have a significant impact on all activities across the value chain. Amongst adopters of data management tools, currently the main focus is on front office activities. This reflects the need for portfolio managers and investor relations professionals to leverage more and sharper data in order to better support managers’ activities.
ROBOTICS IN FINANCE: A NEW FRONTIER

Automating high-volume, repetitive tasks has become more achievable than ever, freeing finance departments to boost productivity.

In the 1970s and 1980s, the car industry became the first to harness the power of robots. By investing widely in automation, car manufacturers worldwide improved productivity and freed their employees to take on less repetitive tasks while robots worked on vast conveyor-belt type assembly lines. “Lean,” “Six Sigma,” and process re-engineering methodologies were introduced, eventually spreading from car companies to other types of manufacturers such as aerospace. But robotic automation did not until recently go beyond manufacturing, into the realms of office work, removing the need for people to perform some of this environment’s most repetitive tasks.

Now that is changing as robots and automation enter into this realm of solely human activity. Taken together, advances in both computing power and artificial intelligence (AI) have made this possible. But the real game changer has been the integration of robotics into software platforms over the last few years.

Research conducted before the Covid-19 pandemic suggested that robotics and automation were the largest opportunity in a fast-evolving economy. PwC forecasts that global GDP could be up to fourteen per cent higher in 2030 as a result of automation, the equivalent of USD 15.7 trillion. Many of the world’s leading advisory firms predict that ninety-five per cent of blue-chip companies will rush to take advantage of the opportunity by the end of 2020 by either beginning new automation initiatives or scaling up their existing programs.

To put the importance of automation in context, AI and automation are coined by the World Economic Forum as the Fourth Industrial Revolution. Automation is spreading across every sector and has particularly strong potential within both the finance industry as well as companies’ finance departments.

REINVENTING FINANCE DEPARTMENTS

Automation has the potential to revolutionise the productivity of finance departments. The accounts reconciliation process for example, which is a highly manual exercise, involves several people working on various spreadsheets and versions. In what can be a laborious procedure with a significant risk of error. Yet Amazon, the world’s largest online retailer, now closes eighty per cent of its reconciliations in fixed assets automatically with no manual intervention. Along with other forms of automation, this has helped the tech giant to shorten its financial close process from five days to one.

Even football clubs’ finance departments are introducing automation, providing a clear indication of how widespread automation is today. Barcelona-based Spanish football club, RCD Espanyol, recently automated its financial processes with substantial benefits. Increasing productivity by more than twenty per cent, reducing reporting time by fifty per cent, and reducing errors by twenty-five per cent, the team has been able to refocus their efforts.

Regardless of the sector, finance departments are finding that automation has twin benefits – speed and accuracy. And producing more accurate data frees a business to take important decisions with better information and greater confidence.

“Like every wave of innovation, in the end robotics will prepare companies for their next stage of growth, just as happened in the car industry. However, the key to dealing with robophobia is to communicate with all areas of the business, explaining plans for automation and how staff can get involved.”

Danilo McGarry
Head of Automation

Like every wave of innovation, in the end robotics will prepare companies for their next stage of growth, just as happened in the car industry. However, the key to dealing with robophobia is to communicate with all areas of the business, explaining plans for automation and how staff can get involved.”

Danilo McGarry
Head of Automation
Again, a number of studies show the big potential gains. A recent McKinsey study illustrates just how many finance tasks can be automated (see illustration below). The net benefits are now increasingly accepted, with CFOs expecting a forty-three per cent improvement in process speed and efficiency, forty-two per cent fewer errors, and a thirty-five per cent reduction in costs, according to a report from Grant Thornton.

More broadly, three quarters of CFOs agreed that automation is improving efficiency in a study by forecasting firm Oxford Economics.

*It is essential that humans embrace the augmentation that automation brings to our everyday life, especially in the workplace,* says Danilo McGarry, Head of Automation at Alter Domus. “Humans can stop doing the work of machines and be free to focus on what they do best- helping companies think laterally and more strategically, utilising their human ability to connect with one another in order to solve difficult problems more creatively.”

“Now with automation dealing with the repetitive, high volume, mundane tasks that we were never, as humans, equipped to deal with, we can now get on with what we are good at by harnessing the power of humans and machines working side by side. Not only is this shift inevitable, but it’s the only way for companies to remain competitive, as automation fosters speed and accuracy across all areas but especially in the finance department.”

“Alter Domus is making serious investments in automation, which will allow us to do more work more accurately and faster, and ultimately provide a better customer experience through improved quality of service and output,” says McGarry.

**COMUNICATION IS KEY IN THE AGE OF “ROBOPHOBIA”**

Of course, there is rising anxiety that robots and automation will displace humans, leading to high levels of unemployment. “Robophobia”, a fear of robots, is a very real, yet misplaced, phenomenon.

What’s certainly true is that automation will eliminate a lot of manual tasks – up to forty per cent of transactional accounting work in finance departments, according to Accenture’s Finance 2020 report. Similarly, research has shown that automating manual processes that require little subjective judgment, such as data input and output, reconciliation, data-quality management, reporting, and dashboard and business rules, can potentially reduce man hours by as much as eighty per cent.

Yet the most progressive adopters of robotics show the potential for freeing up people for more creative and rewarding work. Amazon recently said it would spend close to USD 700 million to retrain a third of its US workforce (100,000 employees) to perform new tasks as AI and robots assume some of the most repetitive roles. More and more examples are surfacing in the corporate world of how automation is changing the way companies are structured and thus creating new job opportunities.

“While automation may look like a job destroyer, companies are taking the opportunity to invest in training employees in other skills,” says McGarry. “They will also have time to adapt as automation will not happen overnight.”

“Like every wave of innovation, in the end robotics will prepare companies for their next stage of growth, just as happened in the car industry. However, the key to dealing with robophobia is to communicate with all areas of the business, explaining plans for automation and how staff can get involved.”

**AN EXPERIENCED PARTNER IN AUTOMATION**

Open communications should be part of any strategy for transforming the productivity of a business through automation. Implementing such a strategy takes seasoned professionals with strong leadership skills. “To run an automation programme you need people who know what they are doing, otherwise you could easily fall into a situation where automation is not helping but just complicating matters further,” says McGarry.

It often takes a crisis to accelerate waves of innovation such as that made possible by robotics. Covid-19 appears likely to do so, as CFOs seek new efficiencies in a harsh trading environment. Automation seems to be the ultimate weapon of choice in salvaging EBITDA as it can yield quick wins as well as longer term strategic gains.