EXPERT Q&A

Tailored arrangements for insurance companies are among the many complexities facing fund administrators today. Greg Myers and Laurent Fudvoye of Alter Domus explore some of the key trends in a changing market

The growing importance of the insurance SMA

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Q What is the most interesting trend you are seeing at the current time?

Greg Myers: One of the things we've noticed, especially in North America – though I think it bleeds across global service offerings, especially in private debt – is the proliferation of separately managed account arrangements being formed with mid-market managers by insurers. They don't want to be in a comingled fund, but they do want to aggregate all of their portfolio level and performance data into their in-house systems.

That poses interesting challenges on a number of fronts, from a conformity perspective to feeding data at the appropriate frequency with the right flow-through into the internal security master of that insurance company and how you augment that with other information from the manager and at what frequency. It's a developing trend.

Different administrators have their own systems that are different from the management company's which also will be different from the ultimate consumer of that data, the investor. So, it's interesting because there is no singular set of information that's laid out in an optimal way. It will evolve and change and it will be interesting to see how it all works.

Q Insurers are taking a lot of interest in private debt. How difficult is it in general for them to engage with the asset class and get the information they need from it?

GM: Insurance companies have always been involved in corporate lending but often as a limited partner, which involved taking onto their balance sheet a limited partnership interest in an underlying fund rather than a direct holding.

A lot more insurers have started

direct lending platforms where they're actually originating and funding their own transactions and there are others that have fallen in between where they've asked someone that's perhaps a manager of one of their LP interests to give them a large allocation of dealflow but it's proprietary so they're not really paying carry *per se*.

It's their portfolio and account and they're trying to roll it up in an appropriate way in their internal books so they can make the appropriate regulatory filings and monitor the risk and performance by strategy, manager and allocation. They're becoming much more of a data consumer than they have been in the past just because of the varying degrees and ways in which they're engaging with the market.

Q Aside from the complexities of insurance company arrangements, what other issues are you encountering?

Laurent Fudvoye: These days we are not only tracking financial data but also non-financial data, such as that relating to ESG. This is a challenge because sometimes when you are dealing with direct lending players investing in SMEs, these SMEs are not tracking those ESG elements in a routine way, making data collection and reporting more difficult.

Another challenge is that LPs are interested in having uniformity and getting consolidated sets of data across all the funds they are investing into and this across different underlying strategies. Those LPs are sometimes using multiple fund administrators. We therefore see more and more demand to collect data points from other providers, which are then consolidated and integrated to produce specific reporting output.

The data points being slightly different from one asset class to the other, the need for uniformity and to collect the relevant sets of data is key for us as a fund administrator.

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>
> **LAURENT FUDVOYE**

Q What sort of requests are you getting now that you weren't a year or two ago?

GM: In North America a lot of our longstanding managers are now launching either a European sleeve or European structure and they ask us what they have to do in terms of ESG and what is our solution.

It's a learning process because the average asset manager underwriting a borrower doesn't really dig into the carbon footprints of the borrower or its suppliers. That aspect, the non-financial aspect of the borrowing, is still relatively nascent and it's been interesting to help develop some kind of reporting system that makes sense both for them in their underwriting process and for us on the data capture side.

LF: What we are also seeing more and more is the need to have a daily feed from our systems to the asset manager's system including daily cash reconciliation and portfolio reviews, given that the LP or asset manager has many different positions and different strategies. This was not the trend a couple of years ago but now it's something we are offering and seeing in the market.

Q What differences are there between private debt managers' requirements and those in other asset classes?

LF: In terms of cashflow, interest payment tracking and frequency of reporting, I would say private debt is a bit different compared to, let's say, holding a position in private equity for five years where of course you need to make a proper valuation but it's maybe not as complex.

I would say that from the point of view of day-to-day activity there is more interaction between an asset manager and its service provider when it comes to private debt in terms of making sure that proper cash monitoring is performed and all information is collected from the borrower on a regular basis. There is much more interaction on that front.

GM: I would say there are traditionally a lot more moving pieces to a private credit or even a bank loan fund that's got broadly syndicated positions. If you have a fund with 50 loans within it and a leveraged facility, each loan needs to pay at least quarterly for the interest, and has amortisation payments related to it so you're talking about hundreds of transactions. If you add in a leveraged facility that requires its own independent reporting to that leverage provider, that's a whole other suite of reporting.

It often calls for bifurcation of the portfolio with some of it leveraged and some not leveraged and there's the cash movement, original issuance, discount calculations, all sorts of other accretions and related items, and closing costs.

The base case would be private equity where you've got deal costs and then you've got an investment that you simply track and revalue every quarter. With private credit you've got that plus all the underlying cash activity plus the credit monitoring and all the other related transactional volume.

There's just so much more data generated by a credit fund, the reporting and everything else that equates to it, not only for the manager but also for investors. It can get very burdensome for people keeping and storing that information but also for those doing the reporting. ■