

# Covid-19 signals a new era for fund operations

At a webinar held in September to launch Preqin's 2020 Alternative Assets in Europe report, Sandra Legrand, Alter Domus' Regional Executive Europe, described why she expects a lasting difference. Here we've summarized the key takeaways of her discussion.

While fund raising and deal activity in Europe's alternative assets industry will recover once the pandemic passes, the changes it is bringing to fund operations and technology are likely to last.

## Reacting to the crisis

The fact that the speed and severity of the pandemic tested the operational resilience and the organisational structure of Europe's alternative asset managers comes as little surprise. To its credit, the industry has responded well, as attested to by Sandra's experience with clients. Managers have swiftly implemented new technology to maintain the productivity and effectiveness of employees as they work from home, at the same time as strengthening governance and contact with all of their stakeholders.

But the crisis has prompted many fund managers to reassess their operating models, to revisit outsourcing, to redefine their data strategies and to invest in new technology. "They are doing all of this to ensure they are really well-positioned to keep focus on the investment management activities," Sandra explained. Improved operating models should help to counter some of the biggest challenges reported by fund managers- management of a remote workforce and bolstering risk protection measures.

In a development that is a positive indicator for future governance, the crisis has also led to closer contact between fund boards, managers and portfolio companies. "What we have seen from the beginning of the crisis is very close and frequent contact between the fund managers and the managers of a portfolio's individual assets, as the fund managers try to assess the impact of the crisis as much as possible," she said. "Contact with the board members of the various parties has also become closer, improving governance."



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## Anticipating a 2022 recovery

Looking forward, Sandra finds it hard to predict when Europe' deal-making and fundraising activity will recover to 2019's levels, as today's sources of uncertainty go beyond the pandemic to include Brexit, the US presidential election and mounting US/China frictions. However, she is seeing the seeds of a recovery in deal-making at the time of writing in September, and judges that the fund managers with long track records are ready to launch new funds.

"I would see the beginning of recovery as from this year's final quarter," she noted. "When will the full recovery happen? My guess is either the end of 2021 or more likely 2022."

Just as the economic downturn has triggered a number of high-profile defaults on bank loans, so too has it created investment opportunities. Consequently, Alter Domus has witnessed a significant uptick in special situation and distressed debt fund launches seeking to invest in problem loans at deep discounts.

Investor demand for debt funds is strong, but even more so for managed accounts. “We see many large institutional investors allocating more capital to separately managed accounts,” said Sandra. “Why? Because they want to get their investments into the market quickly. And, usually, they do that with fund managers they trust and they already have a relationship with.” Beyond debt, there is also strong demand for venture capital funds, especially those investing in technology.

### A watershed for operations

What lasting difference will this crisis make? Just like the 2008 Global Financial Crisis, it seems likely that there will be new regulations. But this time Sandra believes that there will be fewer new rules, with their focus on the new methods of remote working and digital communications. There may also be new measures to safeguard liquidity management. “And I think these are just a few examples of where we can expect to see new regulations or updated regulations in the coming years,” she noted.

There is no doubt that the lessons learned have raised questions. “How can we better support the remote workforce? Are we sufficiently equipped to handle another crisis? Is the risk management function robust enough to better anticipate the future risks? And are we also equipped and able to respond with more agility to the needs of our investors?” she asked.

One final point, with implications for fund managers’ operating models: Investors want greater visibility into their investments. “Investors want digital access to their investment performance in real time,” she said. “It’s linked to technology and the data coming from the asset managers.”

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### KEY TAKEAWAYS

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