FIS

Fund Administration Industry Insights

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Introduction

While mergers and acquisitions continue to consolidate the fund services sector, fund administrators face both operational challenges and opportunities for growth.

With innovative fintech, firms can adapt their operations more effectively to the pressures of managing multi-asset portfolios. And through highly integrated systems, they can also offer their asset management customers a greater range of services, to expand their business and elevate their role.

Read our eBook for insights into a fast-changing market and advice on taking fund administration to the next level.

Outsourcing – What's in it for fund administrators?

As asset managers outsource more work than ever to third-party providers, fund administrators are gaining major opportunities to expand their business and improve their status.

By taking advantage of the latest innovations, leading-edge administrators are already extending their operations and services to meet their customers' requirements. For example, with the right technology, a firm is now perfectly able to produce a real-time online investment book of record (IBOR) view of an asset manager's fund accounting data.

In turn, by taking on such mission-critical responsibilities, fund administrators are broadening the scope of their outsourcing capabilities beyond the back office – and reflecting an important industry trend. For, while asset managers continue to outsource work most heavily in the traditional areas of fund accounting and transfer agency, there is a clear move toward increasing outsourcing in the middle office and investment risk management. >>

Outsourcing – What's in it for fund administrators?

>> Today, only 12 percent of asset managers are outsourcing the lion's share of their middle-office operations, compared to 27 percent who are doing so for fund accounting and 33 percent for transfer agency. But 29 percent cite plans to expand outsourcing of middle-office operations over the next five years.[1]

By providing middle-office services to asset managers, fund administrators themselves can not only grow their income but also elevate their role. With so much fund data flow at their disposal, they now have a premium opportunity to move from being a provider to a fully fledged partner for their customers, with valuable expertise in analytics.

The majority of fund administrators are beginning to recognize the importance of delivering data analytics and segmentation. Nearly half (48 percent) of fund administrators say that asset management clients already routinely request or expect analytics and segmentation services as standard.[2] And to increase both partnership potential and outsourcing possibilities, 56 percent of administrators plan to strengthen their middle-office IT infrastructure in the coming year.[3]

But despite heavy customer demand, more than a quarter (27 percent) also admit they currently offer no data analysis tools at all, while more than a third have no plans to upgrade their tools within the next two years.[4]

And with so much at stake, in terms of both revenue and reputation, can they really afford to wait? ■

As asset managers outsource more work than ever to third-party providers, fund administrators are gaining major opportunities to expand their business and improve their status.

[1] FIS and Longitude Research, The FIS Readiness Report – The Hunt for Growth Across Asset Management, 2017

[2 & 4] Longitude Research, From Coal to Diamonds: 2020 vision – The future for fund administrators, April, 2016

[3] FIS and Longitude Research, The FIS Readiness Report – The Hunt for Growth Across Fund Administration, July, 2017

5 steps to superior middle-office services

By providing middle-office services to asset managers, fund administrators can not only grow their revenue but also elevate their role. With so much fund data flow at their disposal, they have a premium opportunity to move from being a mere provider to a fully fledged partner for their customers, with valuable expertise in analytics.

To capture the middle-office outsourcing market, most administrators will need to make five key changes to their operations, processes and technology landscape.

By successfully aligning your interests with those of your customers, you will be in a stronger position to build mutually beneficial partnerships and increase revenue – even in the face of intensifying competition and pressure on fees. And with the right tools in place, a rewarding new market could be well within your reach.

Are you ready to rise?

Find out more at getinfo@fisglobal.com

1 Create a truly scalable operating model

The demand to service multi-asset funds across a wider variety of regions will require more administrators to adopt "follow-the-sun" operations, ensure 24-hour business continuity across all time zones – and make the investment required for functional teams to handle increasing volumes.

2 Review roles

Make sure you have the skills at your disposal to service new regions or middle-office products. The fund accountant's role, for example, has been radically redefined from actively owning the end-to-end process steps to now being an overseer of functions. The ability to communicate across these functions demands a greater understanding of the causes and impacts of problems and decisions.

3 Improve communication

It's more important than ever for asset managers and their administrators to establish a single source of data and a seamless flow of processes. This requires the middle-office administrator to be able to communicate effectively with the front office – making both robust workflow technology and specialist staff expertise a high priority.

4 Optimize process automation

Efforts to shoehorn solutions into a functional model and a lack of investment in technology have led to many administrators creating offline tools that strain their capacity and resources. Both innovative workflow technology and robotics process automation will be critical to freeing up skilled staff for more challenging roles that deliver more value and can attract higher fees.

5 Increase technology investment

Invest in replacing unscalable systems and offline solutions and developing a more integrated middle-to-back-office platform – collaborating more closely with asset managers and technology providers to build tools, technologies and services alongside one another. Don't just develop solutions unilaterally and wait for customers to purchase them – look to reinforce your role as a trusted adviser.

Breaking down barriers to take on new frontiers – The need for transformation in fund administration

By Tony Warren, Executive Vice President, Strategy and Solutions Management, Institutional and Wholesale, FIS

In times of change and a market full of opportunities, fund administrators are less confident than they could be about achieving growth. As another year dawns, what obstacles are standing in firms' way – and how can administrators adapt their operations more effectively to the new age of multi-asset investing?

A consolidating sector that's growing in scope

An intensive period of consolidation is reshaping the fund administration sector, as mergers and acquisitions continue to bring together different specialisms within single, larger organizations. In 2017, for example, U.S. administrator Northern Trust acquired USB Asset Management's fund services units in both Luxembourg and Switzerland, while Australia's MainstreamBPO made a string of acquisitions around the world, including Trinity Fund Administration and Galileo Fund Services.

However, while its firms may be amalgamating, the industry is also expanding to accommodate a rapidly changing investment environment. First, the demise of defined benefit pension plans, combined with shrinking employer budgets, has driven more individuals to take greater responsibility for their wealth and retirement – creating a new generation of more active investors. Second, years of low and even negative interest rates have taken the search for yield into new asset classes, products and investment strategies.

To meet investors' expectations, many hereto traditional asset managers have extended their product base by offering alternatives such as UCITS and '40 Act funds, or increasingly popular retirement vehicles such as collective investment trusts. Others have moved progressively from plain equities, bonds, futures and options to more complex derivatives, swaps and exotic alternatives, or diversified into hedging, private equity or passive investment strategies. >>

Breaking down barriers to take on new frontiers – The need for transformation in fund administration

» Sovereign wealth funds are also growing through diversification, as governments sell off and privatize more assets to increase their wealth. Saudi Arabia's Public Investment Fund (PIF), for instance, plans to nearly double its assets under management to $400 billion by 2020, by taking a multi-asset investment approach. To increase its financial clout, PIF will structure its investments in six areas: Saudi equity holdings, sector development, real estate and infrastructure, mega projects, international strategic investments and a "diversified pool" across global asset classes.[1]

In short, the scope of mainstream asset management has grown radically, and diversified portfolios are clearly here to stay. So, in turn, fund administrators must now service a greater range of assets – representing both a business opportunity and an operational challenge.

The impact of diversification on fund administration

As fund managers and investors have extended their strategies, multi-asset-class investment and alternative instruments have become the new normal. Over the next few years, 36 percent of asset managers plan to increase their offering of outcome-oriented multi-asset solutions, 27 percent will do the same for liquid alternative strategies, and 26 percent for environmental, social and governance investing strategies.[2]

For the administrator, most of these investment approaches require more maintenance than traditional equities and bonds – creating data flows that are more challenging to manage on a daily basis. Over-the-counter (OTC) derivatives in particular can incorporate a complex combination of underlying assets that can take more time and resources for administrators to support, especially when it comes to net asset value (NAV) calculation and reconciliation.

Under derivatives reform, the electronification of OTC markets may be a looming reality, but the industry continues to rely on manual processing and uploading data from spreadsheets. This creates gaps in data flows between the back and middle offices, further increasing the effort and overhead of administering complex derivatives.

Naturally, derivatives are only part of the diversification story. Private equity, traditionally managed and serviced by separate departments and teams, is becoming more of a mainstream asset class within the asset management community. A new breed of supersized funds are incorporating a higher proportion of private equity, infrastructure and real estate investments into their strategies, locking away illiquid assets where they can to win superior returns for institutional pension funds and even retail fund wrappers. »

[1] NASDAQ, Saudi Arabia's PIF aims to manage over $400 bln in assets by 2020, Oct. 25, 2017

[2] FIS and Longitude Research, The FIS Readiness Report – The Hunt for Growth Across Asset Management, 2017

Breaking down barriers to take on new frontiers – The need for transformation in fund administration

>> Structured debt instruments, such as term loans, revolving loans and mezzanine debt, present another opportunity to improve investment returns in a low-interest rate environment. However, the complex loan arrangements that underpin debt investment strategies not only rely on sophisticated risk management techniques but can also put a manual and fragmented processing environment under significant pressure.

And that brings us to the crux of the matter – are today's administration operations fit for purpose in a fast-changing world?

Why growth opportunities are there for the taking – but only with the right tech

It's fair to say that an influx of new asset and data flows should translate into major growth opportunities for fund administrators. In fact, administrators themselves clearly agree, with 67 percent planning a move into new markets and 37 percent to enter new business lines and products.[3]

But at the same time, only 45 percent are confident that they will actually meet their growth targets. As many as half of administrators are concerned that their technology capabilities are not strong enough to support growth, while more than half (53 percent) are concerned about the strength of their operations function.[4]

The root cause of these worries is clear. Many administrators are not technologically or operationally ready for growth because their assets under administration are dispersed across different departments and systems. In fact, nearly a quarter of asset managers and servicers still operate four to five separate portfolio management and accounting systems.[5] Often they will have added a new solution specifically to deal with a certain asset class or new market, with traditional and alternative assets commonly processed on separate platforms.

This piecemeal approach is understandable, as a more demanding investment market calls for increasingly specialist functionality. But it also introduces a conflict. On the one hand, firms need best-of-breed components to manage new challenges. On the other, they are pursuing higher levels of efficiency and transparency, which can be hard to achieve with disparate solutions from different vendors.

In practical terms, a poorly integrated, multi-vendor environment may mean normalizing or even rekeying data, increasing operational risk and inefficiency. Critically, it also fails to capitalize on the symbiotic relationships that exist between many fund administration processes. >>

[3&4] FIS and Longitude Research, The FIS Readiness Report – The Hunt for Growth Across Fund Administration, 2017

[5] Aite Group, Global Asset Management Study 2014, July 2014

Breaking down barriers to take on new frontiers – The need for transformation in fund administration

>> Break down barriers and bring data together

To fulfill their growth potential, fund administrators need technology that brings their data together, consumes it and then exposes it holistically to tools such as for risk, performance and data analytics. This approach pivots away from firms' tendency to offer cyclical, single-track NAV and custody services. It also flies in the face of traditional administration systems and functions, which have produced data for a single, isolated use and processed it in daily batches or cycles.

Today, modern "super engines" are emerging to remove these usage and time constraints – by generating data in real time and making it consistently multipurpose.

As soon as a trade is executed, the administrator could now potentially capture it, carry out the necessary due diligence and deliver a complete data set to the asset manager through a real-time investment book of record (IBOR). And all of this could happen in minutes rather than as part of a daily cycle.

Furthermore, the same data could be used by the fund administrator to perform a range of additional middle-office services such as risk, performance and compliance. Add robust multi-asset capabilities, and the same administrator could offer a one-stop, third-party service that covers a complete set of traditional, private market and alternative assets.

In other words, innovative fintech now gives administrators the potential to meet all of their customers' fund processing requirements – and more – through a single platform. So, whether they are servicing institutional investment vehicles such as pension funds or retail wrappers, or sovereign wealth funds, they need no longer manage asset types separately in disconnected systems – and, simultaneously, can extend their remit beyond the back office. By breaking down operational barriers between industry verticals and functions in this way, the 21st-century administrator can remove significant obstacles to growth readiness and maximize the opportunities that diversification offers, while meeting asset managers' growing need for both middle-office outsourcing and sophisticated data analytics.

For too long, fragmented legacy systems have held fund administrators back. Now, as the market continues to evolve, transformative technology will be increasingly key to supporting scale, managing complexity and crossing new frontiers in the hunt for growth. ■

Super engines are emerging to remove usage and time constraints – by generating data in real time and making it consistently multipurpose.

Risk market outlook 2018
Time to re-examine risk?

By Dr. Laurence Wormald,
Head of Research and Quants, Asset Management, FIS

After almost a decade of weak inflation and low or even negative interest rates, some of the world's central banks are actively pursuing a return to conventional monetary policy. With macroeconomic change, however, will come tests that may no longer feel familiar. Could 2018 be the year to revise approaches to risk management?

A brief history of risk

For the first time since the global financial crisis, interest rates and inflation are slowly starting to rise. The great quantitative easing experiment, credited with driving up asset prices and saving fragile economies, is gradually winding down. But in the meantime, the world's financial markets have changed significantly.

Towards the end of the last decade, quantitative easing helped emerging markets benefit from what was essentially a kind of carry trade. As central banks focused on buying up bonds, investors were driven to look for yield in growing economies such as China and Brazil. Concerns about overpricing may have slowed down the once rapid flow of funds into emerging economies, but these markets remain a riskier proposition – and greater potential sources of yield – than conventional markets. >>

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>> In fact, across developed economies, it is hard to find much evidence of risk at all. Just a glance, for example, at the supremely straight-lined plot of the S&P 500 over the past two-and-a-half years will tell you that major markets have rarely been less volatile. Central banks, quite simply, have done a sterling job of eliminating economic risk, by both supporting and heavily regulating their too-big-to-fail financial institutions – suppressing their profits but also making them and fellow blue-chip companies a safer investment.

Now, times are changing yet again, raising questions that haven't tested economies – or risk practitioners – for many years.

Back to the old school

Lately, investment managers and risk analysts have barely had to consider how macroeconomic shocks will affect their portfolios. As central banks helped make markets more predictable, certain subjects that used to be key to competent risk management became irrelevant and redundant. For those who study and model the impacts of market events, questions about inflation, interest rates and even liquidity have effectively disappeared from the day-to-day curriculum. So, what happens when risk analysts are examined on these issues once more?

Let's take the case of inflation. Certain stocks and corporate bonds are more sensitive, because of the fundamentals of their businesses, to inflation shocks than others, or will perform better in inflationary scenarios – and investment managers will soon need to use more discretion in their allocation strategies.

It may also be necessary to re-examine approaches to liquidity. With long-only strategies working well across many asset classes in recent years, investors have had less need to be concerned about liquidating their investments. But in a faster-shifting market where funds are reallocated more frequently, we could shortly see more widespread concern about liquidity risk – another concept that hasn't been much tested for a while.

Do your homework

How, then, can risk managers prepare for the return of the old normal?

To continue the examination analogy, there are no recent past papers to look at for guidance on managing macroeconomic shocks. After a period of more predictable questions, the exams are about to get stiffer and cover a greater range of trickier subjects that haven't come up for some time. Just to pass forthcoming tests, risk practitioners will need to get down to some serious homework.

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>> In the context of risk management, doing your homework means being able to use research tools that take you beyond simple reviews of recent history. In other words, risk models will need the ability to really dig into the macro fundamentals that are set to reshape the investment environment – through sophisticated scenario analysis.

Think of scenario analysis as a combination of reading up on the right textbooks and conducting the most appropriate experiments, in advance of the exam. When applied to funds under management, it addresses all the uncertainties that underlying investments face.

The smooth incline of indexes such as the S&P 100 cannot be expected to continue. Rockier times are on their way, and all kinds of macro shocks and "bad news" – from political upheaval to new monetary policies and market events – are set to have a greater impact on a fund's wealth and how it should be allocated across different strategies.

Scenario analysis models the potential impacts of macro shocks at multiple levels, to the financial markets, industry sectors and to individual funds, long, short or hedged. It therefore allows risk managers to understand their assets' exposure to certain risks – and, ultimately, how the value of their funds could fluctuate as a result.

A simple answer to complex questions

With new tests for risk managers will come greater complexity. Economies and financial markets are increasingly interdependent and one shock may lead to another. Hence, rather than just deterministically looking at yield curve, risk management must also focus on how events propagate through different asset classes and markets. But these impacts will be far from uniform, creating fresh challenges for scenario analysis.

Consider this exam-style question: Will your funds benefit from an inflation shock? The answer is far from straightforward. If inflation were to more than double, and interest rates rose too, some companies would struggle to meet their debt obligations. However, although inflation and interest rates are clearly related, certain firms – and funds – may be reasonably insulated against an inflation shock but not a sharp rise in rates.

Alternatively: How could a rise in oil prices affect inflation? Again, there will not be a single outcome. A significant price-per-barrel increase could have a positive growth effect on economies that have been held back by low energy prices, and a deflationary impact on others. There's also the balance between developed and emerging markets to factor in. >>

Risk market outlook 2018
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>> Advanced scenario analysis systems are designed to anticipate and help manage these complex interdependencies, and to investigate the impacts of such shocks. For large banks, this powerful technology can be used for mandatory stress tests against major shocks – the kind of events that affect credit conditions widely, and drive some companies to the wall. For investment managers, it can help take an informed view on less dramatic but still critical market trends, producing results that are easy to digest and will support day-to-day as well as longer-term investment decision-making.

In recent meetings with highly experienced risk managers around the world, most of them in North America, Europe and Asia Pacific have asked the same question – how best can we model the coming inflation, interest rate and liquidity shocks? Here, at least, the answer is simple. Volatility may come and go, but scenario analysis remains the most effective approach to managing its impact.

Can fund administrators help with exam prep?

Naturally, fund managers themselves must take responsibility for their own risk mitigation strategy. However, the best possible starting point for each manager will be a standardized approach to risk reporting, together with the adoption of coherent multi-asset-class risk models and scenario analysis methodologies. And this is where fund administrators can make an essential contribution.

As money flows from one asset class to another in the search for yield, and with the rise in “passive” products such as index-based exchange traded funds, the fund administrator is in a good position to provide effective risk reporting across all asset classes. Armed with such insight, the administrator is also well placed to inform all the stakeholders within an asset management firm how the new/old normal is likely to bear on their performance.

So, instead of a patchwork of partial and incomplete risk views, fund administrators should be able to offer a complete overview of the new risk landscape. In turn, this service can become integral to the relationship of trust which binds managers to their administrator.

The key will be to provide the highest quality of reporting on the inflation- and rates-sensitivity of funds under administration. In so doing, fund administrators can prepare their customers in the best possible way for the new risk examination questions to which regulators and end-investors will need answers in 2018. ■

Link Fund Solutions continues evolution by partnering with FIS

Key facts

1. Link Fund Solutions has chosen FIS' Investment Operations technology suite to replace its core fund administration system.

2. FIS' integrated solutions will help Link Fund Solutions achieve differentiation, reduce costs and support growth.

3. Through its partnership with FIS, Link Fund Solutions is better placed to improve the speed, quality and range of its services.

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Link Fund Solutions continues evolution by partnering with FIS

>> Leading fund services provider Link Fund Solutions Australia, part of the Corporate Markets division of Link Group (ASX: LNK), has extended its relationship with FIS by choosing FIS' Investment Operations technology suite to replace its core fund administration system. This is part of Link Fund Solutions' ongoing investment drive to harness the power of technology to position itself for further global expansion, differentiation and growth.

By partnering with FIS to strengthen its fund operations, Link Fund Solutions in Australia will be better placed to grow assets under administration, reduce risk through automation and enhance focus on customer service. FIS already supports recently acquired Link Asset Services in Europe and the expanded partnership ensures market leading technology for Link Group clients across the globe.

Link Fund Solutions will now substantially expand its cloud-based operations by using FIS' Investment Operations technology suite in Australia for its back-office and middle-office environment. The company will benefit from FIS' integrated solutions for fund accounting and reporting (InvestOne), corporate actions processing (XSP), pricing (Pricing and Data Services), reconciliation (IntelliMatch Operational Control) and automated workflow (Control Center).

With more than $45 billion in AUA, Link Fund Solutions Australia provides a range of fund administration services, including global custody, fund accounting, unit registry and day-to-day middle and back-office support, to around 100 institutional clients.

Link Group's Corporate Markets CEO Paul Gardiner said, "This partnership with FIS continues Link Group's strategic approach of providing technology-enabled solutions to better service our growing global client base, and support efficiency and innovation across our business."

"Link Fund Solutions has always been committed to delivering high quality outsourced solutions," said Andrew Harrison, CEO of Link Fund Solutions. "This new partnership with FIS will further enhance our offering to clients through streamlined processing, improved delivery times and reduced operational risk. With its proven range of fully integrated, best-of-breed solutions and expert services, FIS is uniquely positioned to help Link Fund Solutions differentiate its offering." ■

About Link Fund Solutions Pty Limited
Acquired by Link Group in 2016, for more than 20 years, Link Fund Solutions has been a specialist provider of outsourced middle and back office administration, fund accounting services and custodial services to a range of clients, including fund managers, trustees and listed investment companies. With a proud history built on a reputation for quality solutions and valued partnerships, we now service around 100 clients and have in excess of $45 billion in funds under administration. For more information, please visit: **www.linkfundsolutions.com**

About Link Group (ASX: LNK)
Link Administration Holdings (Link Group) administers financial ownership data and drives user engagement through technology. Underpinned by our investment in technology, people and processes, we deliver comprehensive data and information solutions for companies, large asset owners and trustees across the globe. We are a market-leading provider of technology-enabled administration solutions, continually developing our offerings to expand with our clients' needs.

Our core business, which consists of fund administration and securities registration, is complemented by our expertise in digital solutions and data analytics. Our clients represent all industries and include some of Australia's largest superannuation funds and the world's largest corporations.
For more information, please visit: **www.linkgroup.com**

About FIS

FIS is a global leader in financial services technology, with a focus on retail and institutional banking, payments, asset and wealth management, risk and compliance, consulting, and outsourcing solutions. Through the depth and breadth of our solutions portfolio, global capabilities and domain expertise, FIS serves more than 20,000 clients in over 130 countries. Headquartered in Jacksonville, Fla., FIS employs more than 53,000 people worldwide and holds leadership positions in payment processing, financial software and banking solutions. Providing software, services and outsourcing of the technology that empowers the financial world, FIS is a Fortune 500 company and is a member of Standard & Poor's 500® Index.

For more information about FIS, visit **www.fisglobal.com.**

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